

A trusted partner



Annual Report
and Accounts
2022



Who we are

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

Our Purpose

To help our customers, colleagues and communities prosper.

Our Values

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



For more information
see pages 14 and 15.



← 08-13

Our business model



↑ 22-25

Market review

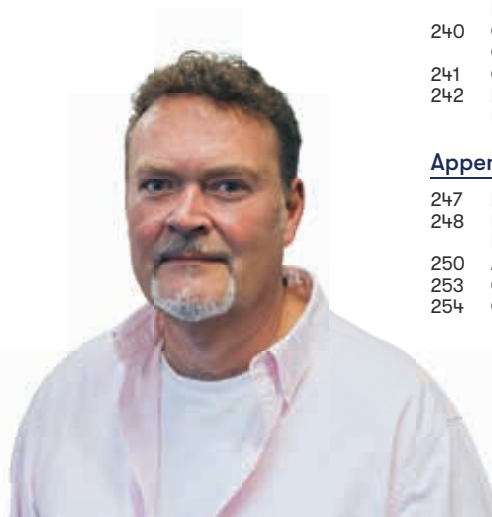
↑ 52-75

Risk review



We delivered record profits whilst proving once again the resilience of our strategy and business model.

Andy Golding CEO



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Highlights

Delivering exceptional returns

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

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

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



For more information see pages 46-51.

Financial KPIs

Gross new lending^A

+29%



Net loan book

+12%



+12%



Common Equity Tier 1 (CET1) ratio

-130bps



Return on equity^A

+1ppt



no change



Non-financial KPIs

Net interest margin^Δ

+25bps



+21bps

Cost to income ratio^Δ

+1ppt



+1ppt

Women in senior management¹

-1ppt

Loan loss ratio^Δ

+15bps



+16bps



Profit before tax

+14%



+13%

Savings customer satisfaction
– Net Promoter Score

-6



-10

Basic EPS^Δ (pence per share)

+19%



+15%

Ordinary dividend^Δ (pence per share)

+17%



2022 special dividend of 11.7p

Reduction in Scope 1 and Scope 2
emissions from 2021²

8.1%

Key:

- Statutory 2022
- Statutory 2021
- Underlying 2022
- Underlying 2021
- Group 2022
- Group 2021

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

1. Employees undertaking roles at Grades A to E.
2. Scope 2 emissions calculated using market-based methodology. 2021 KPI measured reduction versus a 2019 baseline. The Group has now reset its base year to 2022. The KPI uses performance versus 2021 to demonstrate progress made in 2022.

Why invest in OSB Group?

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

Leader in specialist market sub-segments

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

The Private Rented Sector has experienced an expansion in the last 20 years boosted by a lack of affordable housing in the UK and the Group's share of new Buy-to-Let business was c. 7% in 2022. The Group's net loan book grew by 12% in 2022.



For more information
see pages 22-25.

Highly capital-generative business

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

The strong capital position and financial performance in 2022 allows for an additional £150m share repurchase programme to commence in March 2023.

The Board has recommended a final dividend for 2022 of 21.8 pence per share which together with the 2022 interim dividend of 8.7 pence per share, represents a 30% payout ratio. The Board has also announced a £50m special dividend, 11.7 pence per share, in line with the Board's commitment to returning excess capital to shareholders.

At the end of 2022, the Group's CET1 ratio was 18.3% and total capital ratio was 19.7%.



For more information
see page 21.

Exceptional returns driven by attractive margins

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

The underlying RoE for 2022 remained at 24% and statutory RoE was 21%.

Our competitive advantage

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

Following the Combination with Charter Court Financial Services, the Group offers a unique breadth of complementary yet differentiated lending propositions to its customers, ranging from speedy decisions for 'off the peg' solutions from its Precise Mortgages brand, through to structuring unique 'bespoke' solutions through its InterBay brand.



Since its IPO, the Group has consistently generated a market-leading return on equity.

Experienced leadership team

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



For more information
see pages 116-119.

Focus on sustainability

The Group joined the Net Zero Banking Alliance and committed to achieve net zero greenhouse gas emissions by 2050.¹

In 2022, we made progress on the path to achieving the net zero commitment and we undertook many other initiatives, including the first of a range of mortgage products to support the energy efficiency of a property.

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



For more information
see pages 86-114.



Chairman's statement



As I reflect on 2022, I recognise the Group's many successes and achievements as it delivered exceptional results in the face of a challenging macroeconomic backdrop of rising interest rates, inflation and the war in Ukraine. Our tried and tested business model continued to generate attractive returns for our shareholders. We remain focused on our stakeholders and in particular our customers, through investment in the business and continuing to improve how we serve them.

None of this would have been possible without the professionalism, commitment and flexibility of the Group's more than 2,000 colleagues, and I would like to take this opportunity to thank them all.

The Group benefitted from its ability to attract and retain talented individuals, part of the wider strategic focus on strengthening the Group's resilience and sustainability. We are investing in our technology infrastructure to deliver an enhanced experience for our customers, colleagues and our broker partners.

The Board continued to formalise its approach to environmental, social and governance matters during the year, through the development of the Group's ESG Strategy and ESG Operating Framework. These are now embedded across the business and will support us along the path to achieving our target of net zero greenhouse gas emissions by 2050.¹

The Group is also implementing and embedding the FCA's Consumer Duty rules and requirements, ensuring that we further improve our customer outcomes and experience by putting their needs first.

The Board has been debating the appropriate form and timing of capital returns as our strong profitability continues to generate significant levels of capital, adding to the already strong capital position.

I am pleased to announce that following the successful completion of the £100m share repurchase during 2022, a further £150m share repurchase programme will commence on 17 March 2023. In addition, the Board has recommended a final dividend of 21.8 pence per share for 2022, which together with the interim dividend of 8.7 pence per share, represents a total ordinary dividend for the year of 30.5 pence per share (2021: 26.0p). The Board has also announced today a special dividend of £50m, 11.7 pence per share, in line with the Board's commitment to returning excess capital to shareholders.

The Board is confident that the Group's business strategy and proven capital generation capability can support both strong net loan book growth and further capital returns to shareholders, including a progressive dividend per share. The Board remains committed to returning any excess capital to shareholders.

The Board continues to develop, and I am very pleased to welcome our new member, Kal Atwal, who joined in February 2023. She has significant experience as a Non-Executive Director across FTSE 100, FTSE 250 and mutual businesses. Kal joins after a successful career in start-up, scale-up, fintech and digital businesses and will be a valuable addition to the Board.

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

On behalf of the Board and Executive team I would like to thank Mary McNamara and Graham Allatt, both of whom will be retiring from the Board, after nine years' service, at the Annual General Meeting in May. Both have chaired committees, made invaluable contributions and been part of the OSB journey from the time of its IPO. We wish them both the very best.

We remain confident that our proven and robust underwriting procedures will limit the impact that a weaker macroeconomic environment may have on our lending portfolio. I am mindful that cost of living and borrowing pressures may impact a number of our customers, and we are ready to provide appropriate support if required to deliver the best outcomes for them.

We entered 2023 with a strong level of confidence in the resilience of the Group's business model and ability to deliver attractive returns across the cycle. We continue to invest in the Group and its capabilities, identifying opportunities to further digitise our business, and we will be ready to take advantage of opportunities once market conditions improve. I look to the future with optimism.

David Weymouth
Chairman

16 March 2023

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We have a family of specialist lending brands targeting selected sub-segments of the mortgage market which are underserved by large UK banking institutions.

Overview

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Our business model

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

To achieve our Purpose, we operate in a sustainable way with Environmental, Social and Governance matters at the heart of our business. We have a strong governance framework and we recognise the needs and differences of our stakeholders.

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.

Colleagues

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

Infrastructure

We benefit from cost and efficiency advantages provided by our wholly-owned 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 proven capability to generate capital through profitability. The Board is focused on capital management across the cycle and delivering strong total shareholder returns.

What we do

Specialist mortgage lending

Our key strengths:

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

Strategic priorities:

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

Sophisticated funding platforms

Our key strengths:

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

Strategic priorities:

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

Unique operating model

Our key strengths:

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

Strategic priorities:

- Continue to leverage our unique and cost-efficient operating model
- Leverage deep credit expertise and data analytics
- Develop and invest in an efficient, scalable and resilient digital infrastructure to meet the changing needs of our customers
- Reduce the environmental impact of our operations

1. Includes £50m special dividend, equivalent to 11.7 pence per share.
2. OSB customer NPS score relates to Kent Reliance savings customers; CCFS customer NPS relates to Charter Savings Bank customers; OSB broker NPS relates to Kent Reliance brokers and CCFS broker NPS relates to Precise Mortgage brokers.
3. Retention is defined as average maturing fixed contractual retail deposits that remain with the Bank on their maturity date.

Outcomes and value creation

For shareholders

Statutory basic EPS	Total dividend per share ¹
90.8p	42.2p

For savings customers

OSB savings customer NPS ²	OSB customer retention ³
+64	94%
CCFS savings customer NPS ²	CCFS customer retention ³
+61	88%

For intermediaries

OSB broker NPS ²	CCFS broker NPS ²
+37	+39

For employees

Women in senior management roles ⁴	Number of Group employees promoted in 2022
31%	318

For the environment

Reduction in Scope 1 and Scope 2 emissions from 2021⁵

8.1%

For our communities

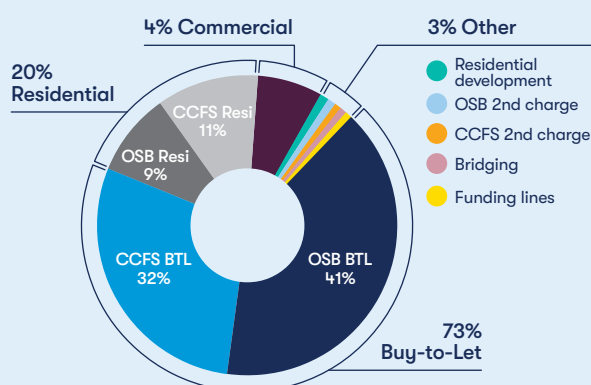
Group sponsorships and donations
over £220k

Statutory net loans to customers

£23.6bn
2021: £21.1bn

Read more on
pages 10 and 11.

Gross loans



Statutory retail deposits

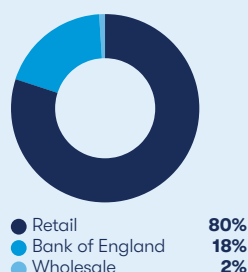
£19.8bn
2021: £17.5bn

Read more on
page 12.

Securitisations since 2013 across OSB and CCFS

22
worth
£11.1bn
2021: 21 securitisations worth over £9.8bn

Group's funding channels as at 31 December 2022



Statutory cost to income ratio

27%
2021: 26%

Read more on
page 13.

Colleagues employed at OSB India as at 31 December 2022

663
2021: 571

4. Employees undertaking roles at Grades A to E.

5. Scope 2 emissions calculated using market-based methodology. 2021 KPI measured reduction versus a 2019 baseline. The Group has now reset its base year to 2022. The KPI uses performance versus 2021 to demonstrate progress made in 2022.

Our business model explained

Specialist mortgage lending

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



Statutory gross loan book

£13.2bn

2021: £12.1bn

Organic originations

£2.8bn

2021: £2.4bn

Statutory net interest income

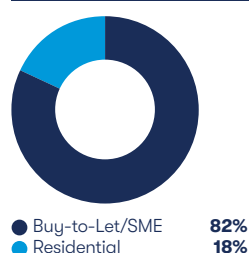
£460.7m

2021: £414.8m



Read more on
pages 32-36.

OSB segment statutory net loans



OneSavings Bank segment

Through our brands we tailor our lending proposition to the specific needs of our borrowers. Under our Kent Reliance and InterBay brands all of our loans are underwritten by experienced and skilled underwriters, supported by technology to reduce the administrative burden on underwriters and mortgage intermediaries. We refer to scorecards and bureau data to support our skilled underwriter loan

assessments. We consider each loan on its own merits, responding quickly and flexibly to offer the best solution for each of our customers. No case is too complex for us, and for those borrowers with more tailored or larger borrowing requirements, our Transactional Credit Committee meets three times each week, demonstrating our responsiveness to customer needs.

Buy-to-Let/SME sub-segments

Buy-to-Let

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

Commercial mortgages

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

Residential development

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

Funding lines

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

Asset finance

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

Residential sub-segment

First charge

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

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

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



Underlying gross loan book

£10.4bn

2021: £9.0bn

Organic originations

£3.0bn

2021: £2.2bn

Underlying net interest income

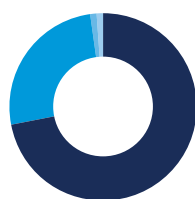
£308.4m

2021: £235.7m



Read more on
pages 38-41.

CCFS segment underlying net loans



● Buy-to-Let 72%
 ● Residential 26%
 ● Bridging 1%
 ● Second charge 1%

Charter Court Financial Services segment

Our Precise Mortgages brand uses an automated underwriting platform to manage mortgage applications and to deliver a rapid decision in principle, based on rigorous lending policy rules and credit scores. The platform is underpinned by extensive underwriting expertise, enabling identification of new niches and determining appropriate lending parameters.

It allows for consistent underwriting within the Group's risk appetite. Quick response times help the Group to compete for the 'first look' at credit opportunities, while a robust manual verification process further strengthens the disciplined approach to credit risk.

Buy-to-Let

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

Residential

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

Bridging

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

Second charge

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

Our business model explained continued

Sophisticated funding platforms

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



Statutory retail deposits

£19.8bn

2021: £17.5bn

Securitisations

22

securitisations since 2013, across OSB and CCFS, worth

£11.1bn

2021: 21 securitisations worth over £9.8bn



Read more on
page 42.

Retail savings

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

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

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

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

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

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

Our securitisation platforms

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

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

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

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

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

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

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

Unique operating model

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



Colleagues employed at OSB India

663

2021: 571

OSBI regretted attrition rate

24%

2021: 17%

Group colleagues

2,021

2021: 1,782

Women in senior management roles¹

31%

2021: 32%

Reduction in Scope 1 and Scope 2 emissions from 2021²

8.1%

Electricity purchased in the UK from renewable tariffs

100%



Read more on
pages 91-104.

Customer service

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

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

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

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

OSB India

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

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

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

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

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

ESG

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

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

In 2022, we made progress on our path to achieve our commitment to net zero greenhouse gas emissions by 2050.³ We also launched our first of a range of mortgage products to improve the energy efficiency of a property.

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

1. Colleagues undertaking roles at Grades A to E.
2. Scope 2 emissions calculated using market-based methodology. 2021 KPI measured reduction versus a 2019 baseline. The Group has now reset its base year to 2022. The KPI uses performance versus 2021 to demonstrate progress made in 2022.
3. Net zero is defined as a reduction in Scope 1, 2, and 3 emissions to zero or to a residual level that is consistent with reaching net zero emissions at the global or sector level in eligible 1.5°C aligned pathways.

Our culture

Together we prosper

At OSB Group we are working hard to create a positive, collaborative and supportive environment.

Our Purpose

To help our customers, colleagues and communities to prosper.

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

Our Vision

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

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

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

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



“

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

Our Values

Our Values are the principles that support our Purpose.

Stronger together

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

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.

Stewardship

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

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.

Respect others

We treat 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.



For more information see pages 108-112.

Relationship with stakeholders

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

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

We outline below how OSB Group and its Directors engaged with key stakeholders, and in doing so, discharged their duties under section 172 of the Companies Act 2006. For more information on the activities of the Board and its Committees, see pages 122-163 in the Corporate Governance Report.

The following matters, which were identified as affecting our stakeholders, were of particular interest to the Board in 2022:

- increased volatility in global markets, alongside interest rate rises, the rise in cost of living and cost of borrowing, and their impact on our customers' behaviours, financial health and forbearance needs
- visibility of the customer experience through customer satisfaction scores and deep dives on how customers are treated
- the impact of the rising cost of living on our employees
- the Group's environmental ambitions and initiatives

Colleagues

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

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

How the Board has engaged with colleagues

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

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

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

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

 For more detail on employee initiatives in the year, see the Colleagues section on pages 109-112.

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

 Further information on OurVoice can be found in the Directors' Report on pages 164 and 165.

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

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

Customers

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

Outcomes following engagement

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

UK Best Companies Survey

Outstanding company to work for
in 2023

'Great Place to Work' 2022

Win
6th year in a row by OSB India

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

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

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

How the Board has engaged with customers

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

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

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

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

Outcomes following engagement with customers

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



Further information about our customers can be found in the Customer section on pages 108 and 109.

Savings NPS for Kent Reliance

+64

2021: +70

Savings NPS for Charter Savings Bank

+61

2021: +71

Relationship with stakeholders continued

Intermediaries

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

How the Board has engaged with intermediaries

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

Towards the end of 2022, research was commissioned with the aim of supporting our brokers and landlords with improving the sustainability of their investment properties. A number of key findings were identified which included the creation of a Landlord Leaders community to bring brokers, landlords and other industry members together. The Board received updates and reviewed the progress of this initiative. Further information on this can be found on page 29.

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

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

Outcomes following engagement with intermediaries

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

Group's Sales teams attended

330
intermediary events

Shareholders

Our approach to investor engagement has remained straightforward as we favour an open dialogue. Active engagement with our shareholders occurred throughout the year with the Investor Relations team meeting 116 individual investors via virtual one-to-one meetings, industry conferences and roadshows.

How the Board has engaged with shareholders

The Board ensures that all shareholders have equal access to information through regulatory announcements, general meetings and publications on our website. The Board's primary engagement with investors comes through the Group's CEO and Chief Financial Officer (CFO), who meet with investors and sell-side analysts

and present the Group's results to the market. The Board receives regular updates from the Investor Relations function, which include investor feedback, analysts' recommendations and market views.

The most frequent theme raised by investors in 2022 was how and when the Board planned to return any excess capital to shareholders and expectations regarding future dividends. The Board welcomed the engagement from shareholders and considered their feedback when discussing potential capital distribution and shareholder returns.

Towards the end of the year, investors' focus turned to the impact of higher interest rates on landlord economics. The CEO and CFO were able to provide relevant context to address these concerns, describing the timing benefit that portfolio landlords derive from holding multiple fixed rate mortgages,

the headroom created by house price appreciation in recent years, high interest coverage ratios and the strong demand in the rental market supporting rising rents. It was also recognised that the Group was well prepared to offer appropriate support to customers should it be required.

Outcomes following engagement with shareholders

- the Group completed a £100m share repurchase programme during the year and has announced a further £150m repurchase programme for 2023.

Engagement with shareholders

116
individual investors met

Suppliers

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

How the Board engages with suppliers

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

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

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

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

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

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

ESG is being embedded into every aspect of our business and part of doing so is to ensure that our suppliers share similar values and aspirations to our own. During 2022, our suppliers and business partners were asked to complete a questionnaire in order for us to understand how they are addressing topics such as climate change, diversity, equity and inclusion and modern slavery, and to identify areas of focus in the future. We understand that organisations will be at various stages of their own ESG and sustainability journey and we are committed to encouraging and supporting our suppliers with their transition to an ESG strategy that aligns to the Group's ambitions.

Outcomes following engagement with suppliers

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

Supplier payments

95%
of invoices paid within 30 days

Regulators

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

How the Board engages with regulators

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

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

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

Outcomes following engagement

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

Relationship with stakeholders continued

Communities

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

How the Board engages with communities

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

Outcomes following engagement with communities

- the total amount donated to charity partners and good causes by the Group and colleagues in the year was over £220k. Further details can be found on pages 113 and 114.

Group's sponsorships and donations

over
£220k

Environment

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

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

The Board is responsible for encouraging and overseeing an environmentally friendly culture and ensuring that the business is ready to respond to the growing impact of climate change on the Group's activities in line with its Stewardship value. Further details can be found in the Environment section on pages 91-107.

Electricity purchased in the UK from renewable tariffs

100%

Section 172 Statement

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

The preceding pages 16-20 demonstrate how the Board has engaged with the Group's key stakeholders (customers, intermediaries, colleagues, shareholders, suppliers, regulators and the local communities in which we are located). Examples of strategic decisions which have impacted the Group's key stakeholders are set out below.

Pages 16-20 and those that follow, describe how Directors complied with the requirements of section 172 during the year.

Decision-making

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

Key strategic decisions in the year

Share repurchase programme

The Board recognises the importance of delivering against the Group's stated intention to provide attractive and sustainable returns to its shareholders.

In 2022, the Board approved the commencement of a £100m share repurchase programme following consideration of shareholder expectations in relation to capital management. During the year, over 20m ordinary shares were repurchased and cancelled in accordance with the terms of the programme and on 21 November 2022, it was announced to the market that the programme had completed.

The Board remains committed to returning excess capital to its shareholders and believes that such strategies will enable the Group to create sustainable, long-term value for all stakeholders. Following successful completion of the £100m share repurchase programme, the Board has announced that a further £150m share repurchase programme will commence on 17 March 2023.

Employee remuneration

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

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

The Board recognises the ongoing challenges faced by employees in the current economic environment. In January 2023, the Group Remuneration and People Committee discussed and approved the payment of two further cost of living payments of £600 each for all qualifying UK employees.

Landlord Leaders

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

Customer experience

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

Market review

Meeting market demand

Despite geopolitical and macroeconomic events that took place in 2022, the housing and mortgage market remained resilient.

UK Buy-to-Let gross advances

£56bn



Source: UK Finance, Feb 2023

UK average house price inflation

9.8%



Source: ONS, Feb 2023

The UK housing and mortgage market

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

Inflation gathered pace following the invasion of Ukraine, exacerbating supply chain issues and leading to large increases in energy and food prices. Data from the Office of National Statistics estimated that prices had seen a year on year increase of 10.5% at the end of December 2022, down slightly from a peak of 11.1% at the end of October.¹

The Bank of England implemented eight successive increases in the base rate in 2022 to reduce inflation towards its 2.0% target. Overall, the base rate rose to 3.5% in December 2022 from 0.25% in December 2021.²

Mortgage interest rates increased significantly over the course of 2022, with rising cost of funds for lenders and volatile swap spreads. According to the Bank of England, the average rate on a new two-year fixed rate mortgage at 75% loan to value rose from 1.64% in January 2022 to 5.43% in December 2022, an increase of +3.79%.³

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

Overall, the number of residential property transactions in the UK fell by 14% to 1.3m in 2022 from a record high of 1.5m in 2021, however activity levels in 2021 were inflated by the Stamp Duty Land Tax holiday which saw a large number of property purchases brought forward to benefit from lower transactional costs. Beyond this year-on-year comparison, 2022 saw more property transactions than any other year since 2007.⁴



UK gross mortgage lending increased by 4% to £322bn in 2022, reflecting a resilient market that was buoyed by rising property prices, with average house prices increasing by 9.8% in 2022, stimulated by high levels of demand and a lack of supply.⁵

The UK savings market

2022 marked the end to the 'accidental savings' brought about by pandemic lockdowns, as the rising cost of living saw many customers withdrawing from their savings, or not being able to add to them.

There was more competition in the savings market as providers passed on a proportion of the base rate rises to savers via attractively priced savings products, despite the significant delays in doing so during the first half of the year. The Bank of England reported that savings balances in the UK grew by £67bn from £2,135.3bn at the start of the year to £2,202.4bn in December 2022.⁶

There were also more providers and more savings accounts on offer in the year, with 1,690 savings products promoted in December 2022 compared to 1,646 in December 2021.⁷

According to the Office of National Statistics, the household savings ratio that peaked at 26.8% in 2020, as a result of 'accidental savings', reduced to 9.0% by the fourth quarter of 2022.⁸

The base rate rises introduced by the Bank of England led to higher rates across all types of savings accounts. By the end of 2022, fixed rate bonds had increased by 293bps over the year.⁹

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



The UK mortgage market and climate change

It has been estimated that privately owned residential properties represent 15% of total carbon emissions in the UK and it is acknowledged that there are significant barriers to implementing energy efficiency improvements.¹⁰ The UK Government's focus on achieving its net zero goals has highlighted the need to improve the energy efficiency of UK housing stock.

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

- Improving the Energy Performance of Privately Rented Homes in England and Wales closed in January 2021. The outcome is widely expected to introduce a minimum requirement to ensure that all rental properties achieve an EPC (Energy Performance Certificate) rating of C or

higher from 2028. It is also expected to increase the current required works cap (the maximum amount that is expected to be paid to improve the property's EPC rating) from £3,500 to £10,000, before exemptions can be applied.

- Improving Home Energy Performance through Lenders closed in February 2021. The outcome is expected to impose a requirement on all lenders to report on the EPC of their loan portfolio, along with a commitment to show annual improvements towards an average rating of C or higher.

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

Market review continued

The Group's lending segments

Buy-to-Let

According to UK Finance, Buy-to-Let gross advances reached £55.7bn in 2022, a 17% increase from £47.4bn in 2021. This was supported by strong refinancing activity in the year, with Buy-to-Let remortgages increasing by 33% to £37.0bn¹¹ as the early wave of five-year fixed rate products taken post the PRA's changes to the underwriting standards reached the end of their initial term.

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

Tenant demand remained strong, with RICS reporting that demand was still rising at the time of its December report, with supply remaining weak as evidenced by a decline in landlord instructions coming to market during that month.¹³ This imbalance between demand and supply continued to exert upwards pressure on rents in support of the fundamentals underpinning the Private Rented Sector. Rightmove reported that the average asking rent increased by 15.7% in Greater London during 2022 and rose by 9.7% across the rest of the country.¹⁴

Residential

According to UK Finance, total Residential loans to home owners reached £251bn in 2022, a minor decrease from £255bn in 2021. However, this stability in overall lending volumes masked a shift in the type of business written, with a buoyant refinancing market compensating for a declining purchase market during the year.¹⁵

Purchase completions decreased by 9% to £193bn in 2022 (2021: £213bn) as the prior year benefitted from a spike in purchase completions while the stamp duty holiday was in effect. Despite this, annual purchase completions were still considerably higher than the pre-pandemic period in 2019 (£158bn). Remortgage completions increased by 30% to £107bn (2021: £83bn) as borrowers sought to lock in to the best deals before mortgage affordability deteriorated and rates increased further, with remortgages representing 36% of the market total (2021: 28%).¹⁵

Commercial

Throughout the first half of the year, there was a strong sense of confidence in commercial property, supported by improving valuations and rising rents. In the first quarter capital values increased by 3.9% and by a further 3.0% in the second quarter, with rents rising 1.5% and 1.0% respectively.¹⁶ However, wider geopolitical and macroeconomic challenges began to impact in late summer, reversing the value growth recorded in the first half, although some property types were affected more significantly than others.

Retail rents remained broadly static in 2022 according to CBRE, with some insulation from further declines provided by pandemic-induced price corrections throughout 2020 and 2021.¹⁶ Mixed-use asset classes such as semi-commercial property, which offer a diverse income stream underpinned by residential lettings, remained attractive to investors. This property type demonstrated more resilience due to the residential rentals outperforming expectations. Overall, CBRE reported that capital values for 'all retail' decreased by 8.1% during the year whilst rents increased by approximately 0.7%.¹⁶

During 2022, all commercial segments saw a 10% increase in demand since 2021. The volume of transactions in commercial property investment reached £50.4bn in 2022, just 8% below the five-year average.¹⁶



Residential development

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

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

Notes

1. ONS, Consumer price inflation, UK: Dec 2022
2. BoE, Interest rates and Bank Rate, Dec 2022
3. BoE, 2 year (75% LTV) fixed rate mortgage to households (IUMB34), Dec 2022
4. HMRC, Monthly property transactions, Dec 2022
5. Land Registry, UK House Price Index summary: Dec 2022
6. BoE, Monthly Amounts Outstanding of Monetary Financial Institutions' Sterling Retail Deposits from Private Sector, Dec 2021- Dec 2022
7. Moneyfacts, Treasury Reports, Dec 2021-Dec 2022
8. ONS, Households' saving ratio, Q4,2022
9. BoE, Table CFM26IE, Dec 2021- Dec 2022
10. LENDERS Project – Core Report July 2017
11. UK Finance, BTL mortgages outstanding and gross lending, Feb 2023
12. BVA BDRC, Landlords Panel Research, Q4 2022
13. RICS, UK Residential Market Survey, Dec 2022
14. Rightmove, Rental Price Tracker, Q4 2022
15. UK Finance, New mortgages and affordability, Feb 2023
16. CBRE, UK Monthly Index Snapshot Dec 2022, Jan 2023

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Tenant demand remained strong, with RICS reporting that demand was still rising at the time of its December report with supply remaining weak

Chief Executive Officer's statement



I am extremely proud of the outstanding results that OSB Group delivered in 2022. The Group's strategy, business model and high quality customer franchises continued to prove resilient in a difficult macroeconomic environment, as pandemic-related risks eased, but were replaced by risks arising from political instability, the war in Ukraine, as well as the increasing cost of living and borrowing. Throughout this period of volatility we have maintained close dialogue with our customers and intermediaries to ensure we remain a trusted partner in the market segments we serve.

Outstanding results in 2022

We delivered on the guidance set out at the start of 2022 and further consolidated our position as a leading specialist lender in the UK. Strong demand for the Group's lending products delivered underlying and statutory net loan book growth of 12% in the year to £23.5bn and £23.6bn, respectively (31 December 2021: £20.9bn and £21.1bn).

I am particularly proud of our consistent and sector-leading returns, with an underlying return on equity of 24% for 2022, unchanged from the prior year. Statutory return on equity improved to 21% (2021: 20%).

I am delighted that the Group delivered a record underlying pre-tax profit of £591.1m in 2022, up 13% from £522.2m in 2021, representing an underlying basic earnings per share of 99.6 pence (2021: 86.7 pence). On a statutory basis, profit before tax

increased to £531.5m and basic earnings per share was 90.8 pence (2021: £464.6m and 76.0 pence, respectively).

The underlying and statutory net interest margins improved to 303bps and 278bps respectively, benefitting from base rate rises during the year (2021: 282bps and 253bps, respectively).

The Group maintained its focus on cost discipline and efficiency. Underlying and statutory cost to income ratios increased marginally, as previously guided, to 25% and 27% respectively (2021: 24% and 26%), although benefitting from higher fair value gains on financial instruments. The underlying management expense ratio increased to 80bps (2021: 70bps) and the statutory management expense ratio was 81bps (2021: 71bps). This reflected the anticipated return to a more normalised level

of post-pandemic expenditure, inflationary headwinds and planned investment in the business, which we expect to continue in 2023, including refreshing and upgrading our technology infrastructure following the successful integration of OSB with CCFS.

The credit performance of the Group's loan book remained strong in 2022, reflecting our underwriting expertise and a robust rental market.

The Group maintains a very strong capital position and proven capital generation capability through profitability, with a CET1 ratio of 18.3% as at 31 December 2022 (31 December 2021: 19.6%). This enabled the Group to deliver strong growth and shareholder distributions in the form of both dividends and share buybacks. The Board has recommended a full year ordinary dividend of 30.5 pence per share representing a payout ratio of 30% of underlying earnings attributable to ordinary shareholders. The Board has also announced a special dividend of £50m, 11.7 pence per share, and a new £150m share repurchase programme to commence on 17 March 2023.

These results were only delivered with the support of my talented colleagues and I thank them all for their efforts.

The lending franchise performed strongly

Strong demand for the Group's mortgages across our core Buy-to-Let and Residential sub-segments helped organic originations reach £5.8bn in the year, an increase of 29% from £4.5bn in 2021. I am pleased that our renewed focus on commercial lending saw originations more than triple in that sub-segment to £279m.

Underlying return on equity

24%

2021: 24%

Statutory return on equity

21%

2021: 20%

We entered the second half of 2022 with a very strong pipeline and elevated levels of completions, as borrowers sought to lock in attractive mortgage rates ahead of anticipated future rate rises. We also experienced an increase in retention levels as we took action to retain high quality mortgage customers.

The Group supported its customers in navigating the disruption caused by September's mini-budget, which led to a spike in mortgage interest rates and the withdrawal of products from the market fuelled by swap spread volatility. Throughout that time, we were honouring not only the offered pipeline, but also the pre-offer pipeline, as we focused on maintaining our stable presence in the market. This response was recognised particularly by professional Buy-to-Let landlords and mortgage intermediaries.

I am pleased that the volatility in swap spreads reduced by the end of the year, leading to product price reductions which improved affordability for borrowers, especially in light of house price appreciation and rent increases over the last few years.

We continued to demonstrate our leadership and commitment to the Buy-to-Let sector through the publication of the Landlord Leaders report in November. This research highlighted the continuing trend towards professionalisation of the sector, with 45% of professional landlords committed to growing their businesses and investing in their properties, a trend that OSB Group is well placed to serve.

Credit and risk management demonstrated underlying resilience

The high quality of the Group's loan book was demonstrated by a consistently strong credit performance, with balances over three months in arrears remaining stable at just 1.1% of the loan book at the end of December (31 December 2021: 1.1%). However, we recognise the potential for the higher cost of living and interest rate environment to have an impact on affordability for some of our borrowers or their tenants, and we conducted detailed analysis to understand which customers may be most affected. This analysis was an important input into our 2022 IFRS 9 loan loss provision post-model adjustments and sizing our operational resources should some borrowers require additional assistance.

The Group recorded an impairment charge of £30.7m on an underlying basis, which represented an underlying loan loss ratio of 14bps for the year (2021: credit of £4.9m and -2bps, respectively). The impairment charge reflected the worsening economic outlook at the end of 2022, including the potential impact of higher cost of living and borrowing on affordability. The statutory impairment charge was £29.8m, equivalent to a loan loss ratio of 13bps (2021: credit of £4.4m and -2bps, respectively).

The weighted average loan to value (LTV) of the Group's loan book decreased to 60% as at 31 December 2022 from 62% at the end of 2021, supported by house price appreciation. The weighted average LTV of new business written by the Group increased to 71% from 69% in 2021 and interest coverage ratios remained strong at 207% for OSB and 191% for CCFS.

Multi-channel funding model

Retail deposits remained the primary source of funding for the Group and the deposit book grew by 13% to £19.8bn in 2022 (31 December 2021: £17.5bn) as we priced our savings products competitively following the base rate rises.

We opened over 191,000 new savings accounts in the year, more than twice the prior year level, and retention rates remained very high; 94% for maturing fixed rate bonds and ISAs at Kent Reliance and 88% for Charter Savings Bank. We maintained a very strong focus on customer service combined with transparent and fair savings products. The very strong demand we saw in the year had some temporary impact on our service response times and performance levels which was reflected in the strong but slightly lower Net Promoter Scores for the year of +64 for Kent Reliance and +61 for Charter Savings Bank. I am pleased that process enhancements we implemented during the year have had a positive effect and are being reflected in current scores.

In August 2022 we completed a fully retained c. £1.3bn securitisation of Buy-to-Let mortgages under our Canterbury programme to further optimise collateral placed with the Bank of England and market counterparties. Drawings under the Term Funding Scheme for SMEs remained at £4.2bn as at 31 December 2022 and the Group intends to commence the initial repayment of these funds in early 2024. We will continue to opportunistically access the wholesale markets when conditions are favourable as they offer the Group optionality and diversification of funding.

Chief Executive Officer's statement continued

Ordinary dividend payout ratio

30%

2021: 30%

Total dividend*, pence per share

42.2p

2021: 26.0p

* Includes £50m special dividend, equivalent to 11.7 pence per share

Capital management

The Group has a proven capital generation capability through profitability and this enabled the Group to deliver strong growth and shareholder distributions in the form of both dividends and share buybacks. The Group has a very strong capital position, with a CET1 ratio of 18.3% as at 31 December 2022 (31 December 2021: 19.6%), and is targeting a CET1 ratio of 14%, once the capital stack has been optimised fully over the next couple of years, subject to market conditions, through planned Tier 2 and MREL qualifying debt issuance.

The Board has recommended a final dividend of 21.8 pence per share, which together with the interim dividend of 8.7 pence per share, results in an ordinary dividend for the year of 30.5 pence per share. The ordinary dividend payout ratio of 30% of underlying earnings is in line with the prior year payout ratio and our stated desire to deliver a progressive dividend per share. In addition, given the strong capital position of the Group, the Board has announced a special dividend of £50m, 11.7 pence per share. When combined with the recommended ordinary dividend this represents a total dividend for 2022 of 42.2 pence per share and a 41% payout ratio. The Board remains committed to returning excess capital to shareholders and has today announced a new £150m share repurchase programme to commence on 17 March 2023. When combined with the ordinary and special dividends, this represents a total return to shareholders of £332m and demonstrates the Board's intention to use multiple levers to deliver shareholder returns.

We note the PRA's recently published consultation paper (CP) on the implementation of Basel 3.1. We will be responding to that paper and await confirmation of the final rules, which we expect to be available by the end of 2023. We have estimated the impact on the 31 December 2022 CET1 ratio to be a reduction of up to 2% points, should the proposed rules be implemented as drafted in the CP and prior to the Group receiving Internal Ratings-Based (IRB) accreditation.

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

The Board is confident that the Group's proven business strategy and capital generation capability will continue to support both strong net loan book growth and further capital returns to shareholders, including a progressive dividend per share. The Board remains committed to returning excess capital to shareholders.

ESG

We made good progress in continuing to embed our ESG framework across the Group during 2022, with regular meetings of the ESG segment of the Group Executive Committee and ESG reporting to the Board. I am proud that we reduced our own greenhouse gas emissions by 8.1% in the year, benefitting from a range of initiatives implemented throughout the Group.

I am also particularly pleased that this year we reached a milestone of 2,000 colleagues. We have been hiring talented individuals across the Group, demonstrating our commitment to customers, and ensuring the resilience of the business for the future, placing us in an advantageous position for when the market returns to healthy growth. We continue to develop OSB Group as a diverse and inclusive organisation and we renewed our commitment to having 33% of UK senior management positions filled by women by the end of 2023. We are making progress to achieve this target.

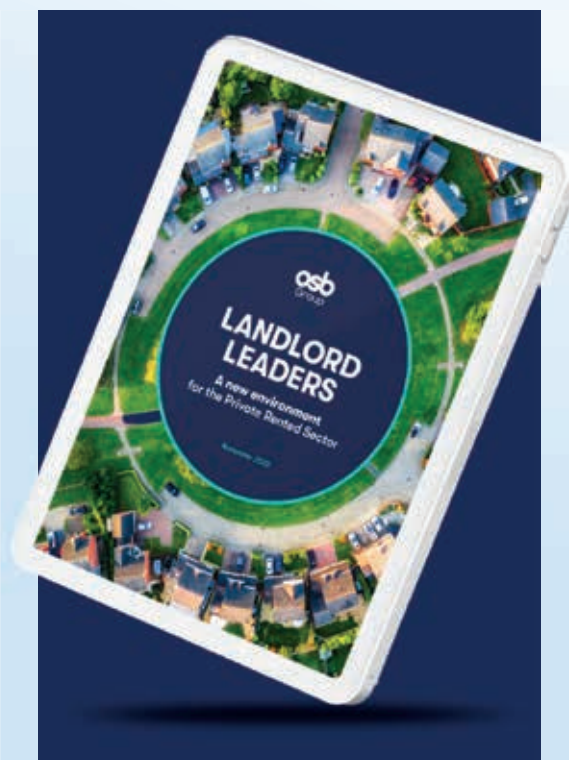
Landlord Leaders – A new environment for the Private Rented Sector



The shift to a more environmentally-friendly housing stock won't be fixed by single products with green labels nor by one-off property improvements. The solutions to the challenges ahead lie in a holistic, cross-industry approach, focused on improving the lived experiences of tenants and the impact that housing has on both society and the environment.

In 2022, we set out to understand the changing shape of the Private Rented Sector through an ESG lens to help shape our strategy, support our broker partners and deliver the support our landlord clients need today and looking forward.

Jon Hall, Group Managing Director, Mortgages and Savings



Looking forward

Over the course of the last three years, we have successfully delivered on our integration plans and our teams are now benefitting from working on a number of common technology platforms. We have now turned our attention towards identifying opportunities to further digitise our business operations, to deliver additional efficiencies and invest in the Group to ensure it remains well-positioned to meet the evolving needs of our customers, brokers and wider stakeholders.

The Group remains well capitalised, with strong liquidity and a high quality loan book and customer franchises. We have supported our customers and colleagues who all face the realities of the increasing cost of living and rising interest rates, and we will continue to focus on those who require most assistance.

The Group has a proven track record of delivering strong results with a clear strategy and risk management framework. We have consistently demonstrated our resilience, which allows us to look to the future with optimism.

UK Finance is forecasting that the overall mortgage market will be subdued in 2023, with an overall 15% year-on-year reduction in gross mortgage lending and a particular reduction in expected purchase activity. However, remortgaging is expected to outperform purchasing activity, supported by an increased level of fixed rate mortgages due to end during the year. The Buy-to-Let segment is also predicted to see a reduction in lending following a strong 2022. Whilst part-time landlords may be more sellers than buyers in the year ahead, professional landlords, who comprise the majority of the Group's lending, remain active buyers and are looking favourably at opportunities supported by continued strong tenant demand and rental growth. Affordability challenges will be evident in all lending segments resulting from the combined effects of inflation and higher interest rates. This is particularly the case for first time buyers in the residential segment and also for amateur landlords. However, professional multi-property landlords have benefitted from increases in rental yields and strong tenant demand, and the Group's interest coverage ratios at origination remained very high during the year at 207% for OSB and 191% for CCFS.

We remain cognisant of the uncertain macroeconomic outlook and the potential impact of the higher cost of living and borrowing on the mortgage market and affordability, however we are building a healthy pipeline of new business and have a proven track record of retaining customers, attracting new business and working with high quality borrowers. Based on current application volumes, we are targeting underlying net loan book growth of c. 5% for 2023. The underlying NIM for 2023 is expected to be broadly flat to 2022, after the expected impact of planned Tier 2 and MREL qualifying debt issuance, subject to market conditions. We expect our underlying cost to income ratio to increase to c. 29% in 2023, due to the significant fair value gains from hedging activities in 2022, continuing inflationary headwinds and the full-year impact of hiring last year and further planned investment in the business.

Andy Golding
Chief Executive Officer

Strategic framework

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 propositions.

	Priorities	Our goals	2022
Specialist mortgage lending	Be a leading specialist lender in our chosen market sub-segments	Originate loans at attractive margins in our chosen market sub-segments – Target market sub-segments which offer attractive returns on a risk-adjusted basis – Identify incremental, non-organic business – Invest in a highly responsive, customer-focused culture – Innovate to secure sustainable long-term market leadership – Provide solutions and leadership for environmental, legislative and social changes impacting our borrowers and their properties	– Organic originations were £5.8bn, up 29% from £4.5bn in 2021 due to strong demand in our core sub-segments – Completions were very strong in the second half with the Group's stable and consistent proposition proving popular as the underlying macroeconomy became more difficult – Originations improved in the Commercial sub-segment as the Group relaunched products under the InterBay brand – Second charge products under the Precise brand were withdrawn for new borrowers
	Focus on automated and bespoke manual underwriting	High-quality decisions protecting the business – Use deep credit expertise to deliver high-quality lending decisions – Provide a differentiated underwriting approach based on the needs and characteristics of our customers; offering both an automated approach and a skilled manual underwriting capability and in-house real estate expertise – Deliver a quality, differentiated service informed by comprehensive market feedback and research – Deliver clear, accurate and efficient decisions recognised by intermediaries for their quality and fairness	– The OSB Transactional Credit Committee met three times a week to assist with more complex and larger new mortgage applications and larger portfolio relationships – Maintained high underwriting standards notably in response to the increase in completions in the second half of 2022
	Further deepen relationships and reputation for delivery with intermediaries	Increase partner engagement in response to demand – Access to specialist products developed by listening to intermediary partners – Be accessible and available to intermediaries – Offer complementary propositions for lending brands across the Group – Gain intermediary recognition for delivering sustainable propositions – Deliver bespoke solutions to meet intermediary and customer needs	– Widened access to the Group's specialist products as we leveraged our complementary brand propositions – Enhanced the structure of the Sales team to increase support to key market sub-segments – Enhanced telephone intermediary resource to complement our face-to-face service – Launched Landlord Leaders programme, supporting landlords in developing a sustainable Private Rented Sector
Sophisticated funding platforms	Maintain stable, high-quality, diversified funding platforms	Expertise in funding options – Maintain resilient and diversified funding platforms to support future growth and ensure that liquidity requirements are met through the economic cycle and cost of funds is optimised – Be primarily funded through attracting and retaining a loyal retail savings customer base – Deliver propositions offering transparent, straightforward savings products, providing long-term value combined with excellent service levels – Maintain a sophisticated securitisation funding programme and balance sheet management capability	– Opened over 191,000 new savings accounts across both Banks in 2022, more than double that in 2021 – Achieved 94% customer retention for Kent Reliance and 88% for Charter Savings Bank – Received multiple awards for savings products, including ISA Provider of the Year for CSB and Best Cash ISA Provider from Yourmoney.com Personal Finance Awards for Kent Reliance – Completed a fully retained £1.3bn securitisation of Buy-to-Let mortgages under the Canterbury Finance programme
Unique operating model	Leverage our unique and cost-efficient operating model	Best-in-class customer service – Have customer service at the heart of everything we do – Maintain centres of excellence across OSB's and CCFS' existing locations in Chatham, Wolverhampton and in India – Extend activity in OSB India (OSBI) to develop high-quality areas of excellence – Deliver cost efficiencies through excellent process design and management – Deliver technology-enabled flexible and resilient operating processes	– Maintain strong savings customer NPS of +64 for Kent Reliance and +61 for Charter Savings Bank whilst managing eight base rate changes and more than doubling account opening – Continued to develop deep credit know-how through strong data analytical capabilities – Increased support in OSBI reaching 663 employees at the end of 2022 – Demonstrated outstanding operational resilience and flexibility

Looking forward

- Maintain our strong credit and return requirements and assess the attractiveness of growth opportunities in our current market sub-segments
- Deploy scale and resources on organic lending opportunities
- Identify new market sub-segments with high returns on a risk-adjusted basis
- Leverage our proven track record for portfolio acquisitions to deliver incremental non-organic growth

Key risks

- Political and economic uncertainty affecting long-term demand for specialist mortgages and appetite from professional landlords to grow their portfolios
- Potential regulatory changes including legislative focus on Buy-to-Let and investment to meet environmental regulation
- New specialist lenders entering the market

KPIs

Organic originations

£5.8bn
2021: £4.5bn

- Use 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
- Invest in technology solutions to support deep underwriting expertise enabling faster decision making and processing
- Use enhanced data insight and analysis of the combined OSB and CCFS data sets and analytic capabilities

- Changing regulations for underwriting
- More complex underwriting requirements
- Difficulty in recruiting experienced colleagues
- Increasing intermediary demands
- Demands of the ever-changing technology

Statutory loan loss ratio

13bps
2021: -2bps

- Continue to build direct relationships with intermediaries
- Leverage best practices across the combined Group to maintain and further enhance our service performance to brokers
- Increase the breadth of sales support to intermediaries during the application process
- Continue Landlord Leaders programme providing market leading guidance and support to landlords

- Loss of key broker relationships
- More complex underwriting requirements slowing the process
- Speed of investment in technology solutions to ensure that the Group can keep pace with market demands
- Competitive pressures altering with changing macroeconomic conditions leading to peaks and troughs affecting service levels

OSB broker NPS

+37
2021: +55

CCFS broker NPS

+39
2021: +42

- 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
- Increase investment in technology to further enhance customer service and servicing capabilities

- Increased competition for retail funds as interest rates rise
- Increased customer expectation for technology-based accounts
- Volatility of capital markets on demand and price
- Increased burden of regulatory compliance, for example, Open Banking (which currently does not apply to the Group)
- Competition in wholesale and retail markets as banks repay their Term Funding Scheme with additional incentives for SMEs drawings

22 securitisations since
2013 across the Group
worth

£11.1bn

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

- Harder to achieve continuous service improvement as the Group grows
- Increasing costs in India and inflationary headwinds in the UK
- Increasing complexity from compliance with changing regulation
- Maintaining operational resilience as the Group grows
- Increasing costs of investing in technology as advances increase

Statutory cost to income ratio

27%
2021: 26%



For more information on risks
see pages 52-75.



For more information on KPIs
see pages 44 and 45.

Segments review

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

OneSavings Bank (OSB) segment



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

Contribution to profit

For year ended 31 December 2022	BTL/SME £m	Residential £m	Total £m
Net interest income	383.1	77.6	460.7
Other income	7.1	1.8	8.9
Total income	390.2	79.4	469.6
Impairment of financial assets	(23.5)	1.2	(22.3)
Contribution to profit	366.7	80.6	447.3
For year ended 31 December 2021			
Net interest income	340.5	74.3	414.8
Other income	7.2	1.5	8.7
Total income	347.7	75.8	423.5
Impairment of financial assets	(6.2)	2.7	(3.5)
Contribution to profit	341.5	78.5	420.0

Loans and advances to customers

As at 31 December 2022	BTL/SME £m	Residential £m	Total £m
Gross loans and advances to customers	10,920.0	2,324.7	13,244.7
Expected credit losses	(95.2)	(8.0)	(103.2)
Net loans and advances to customers	10,824.8	2,316.7	13,141.5
Risk-weighted assets	5,258.8	1,033.7	6,292.5
As at 31 December 2021			
Gross loans and advances to customers	9,936.1	2,121.2	12,057.3
Expected credit losses	(72.0)	(10.2)	(82.2)
Net loans and advances to customers	9,864.1	2,111.0	11,975.1
Risk-weighted assets	4,614.1	957.6	5,571.7

Segments review continued

OSB segment continued

Buy-to-Let/SME sub-segment

Gross loan book

£10,920.0m

2021: £9,936.1m

+10%

Net interest income

£383.1m

2021: £340.5m

+13%

Contribution to profit

£366.7m

2021: £341.5m

+7%

Loans and advances to customers

	31-Dec-2022 £m	31-Dec-2021 £m
Buy-to-Let	9,755.0	8,867.7
Commercial	881.3	794.4
Residential development	184.5	120.7
Funding lines	99.2	153.3
Gross loans and advances to customers	10,920.0	9,936.1
Expected credit losses	(95.2)	(72.0)
Net loans and advances to customers	10,824.8	9,864.1

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

The Buy-to-Let/SME net loan book increased by 10% to £10,824.8m in 2022, supported by organic originations of £2,283.8m, which were 27% higher than £1,804.7m in 2021.

Buy-to-Let/SME net interest income increased by 13% to £383.1m from £340.5m in 2021, reflecting growth in the loan book and the beneficial impact of base rate rises, due primarily to delays in the market passing base rate rises on to savers in full. This sub-segment also benefitted from net effective interest rate (EIR) reset gain of £20.0m (2021: £24.9m). The gain was primarily due to higher than expected redemptions in the fixed period of Buy-to-Let mortgages, as borrowers sought to lock in rates early in a period of rapidly rising rates, as well as higher anticipated income in the reversion period for commercial mortgages.

This sub-segment also benefitted from £7.1m of other income from the Group's hedging activities (2021: £7.2m) and recorded an impairment charge of £23.5m (2021: £6.2m). The impairment charge was due to the more severe forward-looking macroeconomic scenarios adopted by the Group, post model adjustments to account for rising cost of living and borrowing concerns, partially offset by releases of pandemic-related provisions and the favourable effect of house price appreciation in the year. Overall, the Buy-to-Let/SME segment made a contribution to profit of £366.7m, up 7% compared with £341.5m in 2021.

The Group remained highly focused on the risk assessment of new lending, as demonstrated by the average loan to value (LTV) for Buy-to-Let/SME originations of 73%, unchanged from 2021.¹ The average book LTV in the Buy-to-Let/SME segment reduced to 63% (31 December 2021: 65%)¹ benefitting from house price appreciation with only 3.2% of loans exceeding 90% LTV (31 December 2021: 2.5%).



Buy-to-Let

The Buy-to-Let gross loan book increased by 10% to £9,755.0m at the end of December 2022 (31 December 2021: £8,867.7m), benefitting from increased refinance activity. Originations in this segment were £1,804.6m in 2022, up 22% from £1,477.7m in the prior year.

The PRA implemented new underwriting standards for Buy-to-Let mortgages at the start of 2017, which introduced affordability stress testing for mortgages fixed for less than five years, triggering a shift towards five-year fixed rate products. The early wave of these five-year fixed rate mortgages reached the end of their initial term in 2022, leading to an increase in refinance activity. The proportion of Kent Reliance Buy-to-Let completions due to refinancing activity increased to 61% from 54% in 2021. The proportion due to purchases reduced as the prior year benefitted from a spike in purchase activity due to the stamp duty holiday. Five-year fixed rate mortgages continued to be popular in 2022 due to the expectation of further base rate rises and represented 70% of Kent Reliance completions (2021: 62%).

Professional, multi-property landlords continued to add to their portfolios and optimise their businesses from a tax perspective and represented 86% of completions by value for the Kent Reliance brand in 2022 (2021: 82%). Kent Reliance mortgage applications that came from landlords borrowing via a limited company represented 78% (2021: 73%).

Research conducted by BVA BDRC on behalf of the Group showed that the proportion of landlords planning to purchase new properties fell slightly during the year. However, of those planning to acquire more properties, the proportion planning to do so within a limited company ownership structure increased, especially amongst landlords with portfolios of six or more properties, signalling continued professionalisation of Buy-to-Let landlords.

OSB continued to focus on retention under its Choices retention programme, with 72% of existing borrowers choosing a new product with us within three months of their initial rate ending (2021: 71%).

The weighted average LTV of the Buy-to-Let book as at 31 December 2022 was 62% with an average loan size of £255k (31 December 2021: 64% and £250k). The weighted average interest coverage ratio for Buy-to-Let originations during 2022 was 207% (2021: 199%).

Commercial

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

Organic originations more than triple in 2022 to £278.7m supporting growth in the gross loan book of 11% to £881.3m as at 31 December 2022 from £794.4m in the prior year. InterBay experienced increased levels of interest and applications in 2022 as pandemic-related criteria restrictions were removed, and new refurbishment products were relaunched in April.

The weighted average LTV of the commercial book remained low at 69% and the average loan size was £375k in 2022 (31 December 2021: 69% and £380k).

InterBay Asset Finance, which predominantly targets UK SMEs and small corporates financing business critical assets, achieved a record year of lending volumes. Average deal size increased and customer credit covenants improved as businesses continued to recover from the pandemic. The gross carrying amount under finance leases increased by 40% to £163.2m as at 31 December 2022 (31 December 2021: £116.2m).

Residential development

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

The residential development finance gross loan book at the end of 2022 was £184.5m, with a further £162.2m committed (31 December 2021: £120.7m and £188.0m, respectively). Total approved limits were £502.6m, exceeding drawn and committed funds due to the revolving nature of the facility where construction is phased and facilities are redrawn as sales on the initially developed properties occur (31 December 2021: £500.3m). The rates of sale experienced by Heritable's developer customers increased during the year, leading to high levels of loan repayments.

At the end of 2022, Heritable had commitments to finance the development of 2,140 residential units, the majority of which are houses located outside of central London. Heritable continues to take an exacting approach to approving funding for new customers given the macroeconomic uncertainty.

Funding lines

OSB continued to provide secured funding lines to non-bank lenders which operate in certain high-yielding, specialist sub-segments, primarily secured against property-related mortgages. Total credit approved limits as at the end of 2022 were £274.0m with total loans outstanding of £99.2m (31 December 2021: £450.0m and £153.3m, respectively).

During the year, a cautious risk approach was maintained. Five property-related funding lines were closed and no new facilities were extended, as the Group chose to focus on servicing existing borrowers.

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

Segments review continued

OSB segment continued

Residential sub-segment

Gross loan book

£2,324.7m

2021: £2,121.2m

+10%

Net interest income

£77.6m

2021: £74.3m

+4%

Contribution to profit

£80.6m

2021: £78.5m

+3%

Loans and advances to customers

	31-Dec-2022 £m	31-Dec-2021 £m
First charge	2,152.9	1,895.9
Second charge	171.8	224.7
Funding lines	–	0.6
Gross loans and advances to customers	2,324.7	2,121.2
Expected credit losses	(8.0)	(10.2)
Net loans and advances to customers	2,316.7	2,111.0

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

The Residential sub-segment net loan book grew by 10% to £2,316.7m as at 31 December 2022 (31 December 2021: £2,111.0m) with organic originations of £575.9m during the year (2021: £558.6m).

Net interest income in the Residential sub-segment increased by 4% to £77.6m (2021: £74.3m) largely due to the growth in the loan book and the beneficial impact of base rate rises, due primarily to delays in the market passing base rate rises on to savers in full. This sub-segment recognised a £1.6m net EIR loss due to cash underperformance versus modelled assumptions on the second charge acquired books (2021: £7.5m gain).

Other income of £1.8m (2021: £1.5m) was recognised from the Group's hedging activities and an impairment credit of £1.2m (2021: £2.7m) due to strong house price performance in the year, partially offset by more severe forward-looking macroeconomic scenarios adopted by the Group and post model adjustments to account for rising cost of living and borrowing concerns. Overall, contribution to profit from this segment increased by 3% to £80.6m compared with £78.5m in 2021.

The average book LTV reduced to 45% (31 December 2021: 48%)¹ with only 0.8% of loans by value with LTVs exceeding 90% (31 December 2021: 0.8%). The average LTV of new residential origination during 2022 increased to 64% (2021: 50%)¹ as a result of a smaller proportion of shared ownership originations than in the prior year, (which complete at lower LTVs) and an increase in higher LTV owner-occupied originations.

First charge

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

The first charge gross loan book increased 14% in the period to £2,152.9m from £1,895.9m at the end of 2021, as the Group relaunched its residential proposition under the Kent Reliance brand introducing a new range of products for complex prime borrowers in May.

Second charge

The OSB second charge mortgage book is in run-off and managed by Precise Mortgages. The total gross loans were £171.8m at the end of 2022 (31 December 2021: £224.7m).

Funding lines

As at the end of 2022, OSB provided no secured funding lines with the final exposure repaid in the year (31 December 2021: £0.6m).

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

“

We have introduced the first of a range of products for landlords wishing to improve the energy efficiency of their properties.

Overview

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Charter Court Financial Services (CCFS) segment

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

Contribution to profit

For year ended 31 December 2022	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other ¹ £m	Total underlying £m	Acquisition- related items ² £m	Total statutory £m
Net interest income	206.0	96.0	5.0	5.9	(4.5)	308.4	(59.2)	249.2
Other income	–	–	–	–	46.2	46.2	10.4	56.6
Total income	206.0	96.0	5.0	5.9	41.7	354.6	(48.8)	305.8
Impairment of financial assets	(9.5)	1.2	(0.2)	0.1	–	(8.4)	0.9	(7.5)
Contribution to profit	196.5	97.2	4.8	6.0	41.7	346.2	(47.9)	298.3

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

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

Loans and advances to customers

As at 31 December 2022	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	7,468.8	2,671.3	149.7	111.9	14.6	10,416.3	81.7	10,498.0
Expected credit losses	(23.5)	(3.8)	(0.5)	(0.2)	–	(28.0)	1.2	(26.8)
Net loans and advances to customers	7,445.3	2,667.5	149.2	111.7	14.6	10,388.3	82.9	10,471.2
Risk-weighted assets	2,927.1	1,107.3	70.9	45.4	5.5	4,156.2	46.0	4,202.2

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

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

Segments review continued

CCFS segment continued

Gross loan book¹

£10,416.3m

2021: £8,981.4m

+16%

Net interest income¹

£308.4m

2021: £235.7m

+31%

Contribution to profit¹

£346.2m

2021: £264.1m

+31%

1. Underlying

Underlying loans and advances to customers

	31-Dec-2022 £m	31-Dec-2021 £m
Buy-to-Let	7,468.8	6,301.9
Residential	2,671.3	2,451.8
Bridging	149.7	56.3
Second charge	111.9	153.7
Other ¹	14.6	17.7
Gross loans and advances to customers	10,416.3	8,981.4
Expected credit losses	(28.0)	(19.6)
Net loans and advances to customers	10,388.3	8,961.8

1. Other relates to acquired loan portfolios.

CCFS targets specialist mortgage market sub-segments with a focus on specialist Buy-to-Let mortgages secured on residential property held for investment purposes by both non-professional and professional landlords. It also provides specialist residential mortgages to owner-occupiers, secured against residential properties, including those unsupported by the high street banks. In addition, it provides short-term bridging, secured against residential property in both the regulated and unregulated sectors.

The CCFS underlying net loan book grew by 16% to £10,388.3m at the end of 2022 (31 December 2021: £8,961.8m) supported by organic originations of £2,969.4m, which increased by 37% from £2,160.2m of new business written in 2021.

CCFS Buy-to-Let sub-segment

During 2022 CCFS' organic originations in the Buy-to-Let sub-segment through the Precise Mortgages brand increased by 35% to £1,998.7m (2021: £1,482.3m) supporting growth of 19% in the underlying gross Buy-to-Let loan book in the year to £7,468.8m from £6,301.9m at the end of 2021.

Underlying net interest income in this sub-segment increased by 36% to £206.0m compared with £151.0m in the prior year, reflecting growth in the loan book and an improved net interest margin due to the base rate rises. There were delays, especially in the first half of the year, in the market passing base rate rises on to savers in full. In addition, as rates rose, mortgage interest income benefitted from higher than expected reversionary income following the end of the fixed product term. This benefit was partially offset by an expectation that customers would spend less time on the higher reversionary rate before refinancing, leading to net underlying EIR reset loss of £37.5m (2021: £14.7m).

This sub-segment recorded an impairment charge of £9.5m (2021: £4.3m credit) largely due to more severe forward-looking macroeconomic scenarios adopted by Group and post model adjustments to account for rising cost of living and borrowing concerns, partially offset by the release of pandemic-related provisions and the favourable effect of house price appreciation in the year. On an underlying basis, Buy-to-Let made a contribution to profit of £196.5m in 2022, up 27% (2021: £155.3m).

The PRA implemented new underwriting standards for Buy-to-Let mortgages at the start of 2017, which introduced affordability stress testing for mortgages fixed for less than five years, triggering a shift towards five-year fixed rate products. The early wave of these five-year fixed rate mortgages reached the end of their initial term in 2022, leading to an increase in refinance activity in the market. Remortgages represented 50% of completions under the Precise Mortgages brand in 2022 (2021: 39%) with purchases reducing as a percentage of the total, as the prior year benefitted from a spike in purchase activity due to the stamp duty holiday. Longer term mortgages continued to be favoured by landlords and five-year fixed rate products accounted for 74% of completions, an increase from 64% recorded during 2021.

In addition, borrowing via a limited company made up 65% of Buy-to-Let completions for the Precise Mortgages brand in 2022 (2021: 69%) and loans for specialist property types, including houses of multiple occupation and multi-unit properties, represented 21% of completions in this sub-segment (2021: 26%).

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



company structure, continuing an upward trend that has been observed over a number of years.

Precise Mortgages remained the highest ranked specialist lending brand for Buy-to-Let mortgages based on unprompted willingness to recommend in the BVA BDRC's Project Mercury survey in Q4 2022.

The weighted average LTV of the loan book in this segment decreased to 66% benefitting from house price appreciation (31 December 2021: 68%). The new lending average LTV was 73% with an average loan size of £191k (2021: 74% and £192k, respectively). The weighted average interest coverage ratio for Buy-to-Let origination was 191% in 2022 (2021: 188%).

On a statutory basis, the Buy-to-Let sub-segment made a contribution to profit of £154.8m in 2022 (2021: £109.5m).

CCFS Residential sub-segment

The underlying gross loan book in CCFS' Residential sub-segment reached £2,671.3m in 2022, an increase of 9% from £2,451.8m as at 31 December 2021 and organic originations increased 34% to £749.4m in 2022 (2021: £558.0m).

Underlying net interest income increased to £96.0m (2021: £81.3m) and reflected growth in the loan book and an improved net interest margin, due to the base rate rises and delays in these being passed on to retail savers in full, partially offset by an underlying EIR reset loss of £4.0m (2021: £nil). The EIR reset loss was due to an expectation that borrowers would spend less time on the higher reversionary rate at the end of their fixed term.

The Residential sub-segment benefitting from an impairment credit of £1.2m (2021: £2.3m) due to strong house price appreciation in the year, partially offset by more severe forward-looking macroeconomic scenarios adopted by the Group and post model adjustments to account for rising cost of living and borrowing concerns.

Overall, on an underlying basis, the Residential sub-segment made a contribution to profit of £97.2m, up by 16% compared with £83.6m in 2021.

The Group continued to benefit from CCFS' expertise, with a strong focus on first time buyers, self-employed individuals and those with minor adverse credit records. The Help

to Buy scheme closed to new applications in October 2022, with completions for new purchases required by 31 March 2023 and represented 19% of completions in this sub-segment in the year (2021: 44%).

The average loan size in this sub-segment was £147k (31 December 2021: £136k) with an average LTV for new lending unchanged from prior year at 66% and a book LTV of 57% which benefitted from house price appreciation in the year (31 December 2021: 59%).

On a statutory basis, the Residential sub-segment made a contribution to profit of £81.9m (2021: £67.1m).

CCFS Bridging sub-segment

The Group continued to improve its bridging offering and in April 2022 relaunched and rebranded its refurbishment product criteria. Short-term bridging originations nearly doubled in the year to £217.5m (2021: £109.1m) and as a result the gross loan book in this sub-segment increased to £149.7m as at 31 December 2022 (31 December 2021: £56.3m).

Underlying net interest income remained broadly flat at £5.0m (2021: £5.2m), and the impairment charge was £0.2m (2021: £1.4m credit) largely due to balance sheet growth. The bridging sub-segment made a contribution to profit of £4.8m in 2022 on an underlying basis compared with £6.6m in 2021.

On a statutory basis, the bridging sub-segment made a contribution to profit of £4.2m (2021: £6.4m).

CCFS Second charge sub-segment

The second charge gross loan book reduced to £111.9m compared with £153.7m as at 31 December 2021, as the second charge products under Precise Mortgages brand were withdrawn in August 2022.

Underlying net interest income in the second charge sub-segment reduced to £5.9m (2021: £6.7m) and the contribution to profit reduced to £6.0m (2021: £7.1m) after an impairment credit of £0.1m (2021: £0.4m) largely due to the reduction in the size of the loan book.

On a statutory basis, the contribution to profit from the second charge sub-segment was £5.2m (2021: £5.7m).

Wholesale funding review

Securitisation is central to the Group's liability management strategy, as well as a key funding source, with £11.1bn of issuance since December 2013 across CCFS and OSB.

In addition to providing cost efficient funding, the Group uses securitisations to provide efficient access to commercial and central bank repo facilities.

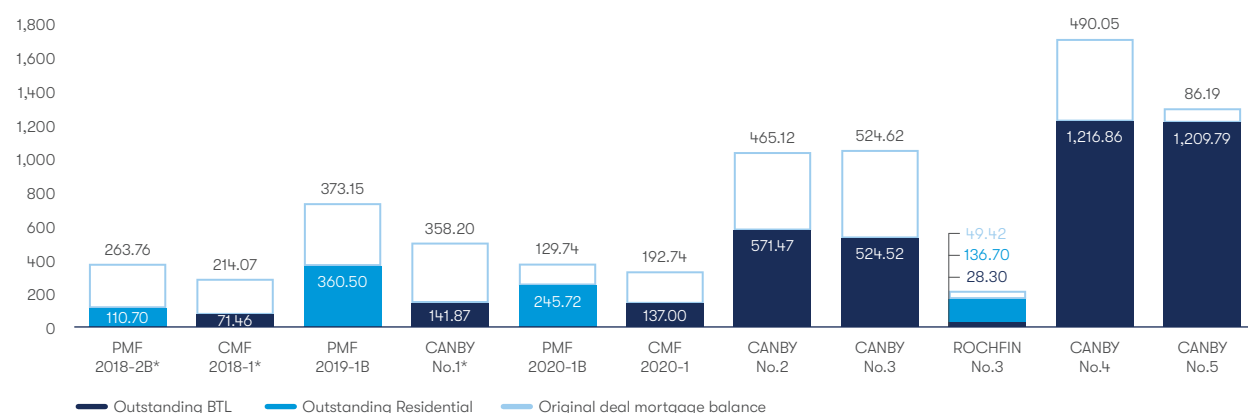
The Group's strategy is to be fleet-of-foot and dynamic rather than deterministic with its securitisation issuance plans, enabling it to maximise the opportunity of a strong market with repeat issuances and use other options when the market is not favourable.

The Group issued its second largest securitisation, Canterbury No. 5, in August 2022, which was a fully retained transaction. It securitised c. £1.3bn of mortgage loans and provided the Group with c. £1.1bn of AAA rated senior bonds which can be used as collateral in commercial and central bank repo facilities, or be sold into the market for liquidity purposes.

The Canterbury No. 5 transaction also forms part of a broader strategy to increase the Group's wholesale funding options and, in particular, to increase its encumbrance efficiency.

The Group maintained its drawings under the Term Funding for SMEs, which at the end of 2022 totalled £4.2bn. These borrowings provide four-year funding at a cost of Bank Base Rate. Drawings under Indexed Long-Term Repo were £301m as at 31 December 2022 (2021: £nil).

Group's active issuances to 31 December 2022 (£m)



	PMF 2018-2B*	CMF 2018-1*	PMF 2019-1B*	CANBY No.1*	PMF 2020-1B	CMF 2020-1	CANBY No.2	CANBY No.3	ROCHFEN No.3*	CANBY No.4	CANBY No.5
Number of accounts 3+ months in arrears	1	22	6	11	2	11	11	12	134	26	3
Losses to date (£k)	0	0	8	0	0	0	0	0	324	0	0
Weighted average mortgage interest rate	6.37%	7.26%	4.77%	5.70%	3.94%	5.43%	4.13%	4.12%	6.44%	4.17%	3.78%
Senior note spread (over LIBOR)	0.68%	0.47%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Senior note spread (over SONIA)	n/a	n/a	0.93%	1.17%	0.93%	0.60%	0.95%	1.00%	0.70%	0.65%	1.30%
Weighted average margin at closing	0.77%	0.55%	1.27%	1.45%	1.13%	0.66%	1.14%	1.33%	0.86%	0.86%	1.15%

* Group derecognition deal.

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

“

The Group issued its second largest securitisation, Canterbury No. 5, in August 2022.

Overview

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Key performance indicators

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

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

Underlying results for 2022 and 2021 exclude exceptional items, integration costs and other acquisition-related items. For a reconciliation of statutory results to underlying results, see page 51.

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

Key:

- Statutory 2022
- Statutory 2021
- Underlying 2022
- Underlying 2021

Loan loss ratio^A

+15bps



+16bps



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.

2022 performance

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

Basic EPS^A (pence per share)

+19%



15%



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.

2022 performance

Statutory basic EPS improved to 90.8 pence per share and underlying basic EPS improved to 99.6 pence per share, both benefitting from higher profitability in the year.

Gross new lending^A

+29%



Definition

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

2022 performance

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

Ordinary dividend per share^A (pence per share)

+17%



2022 Special dividend of 11.7p

Definition

Dividend per share is defined as the sum of the recommended final dividend per share and any interim dividend per share for the year.

2022 performance

The Board has recommended a final dividend for 2022 of 21.8 pence per share, which together with the 2022 interim dividend of 8.7 pence represents 30% of underlying profit attributable to ordinary shareholders. The Board has also announced a special dividend of £50.3m, 11.7 pence per share. For calculation of the final dividend, see the Appendix.

Net interest margin (NIM)^A**+25bps****+21bps****Definition**

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

2022 performance

Both statutory and underlying NIM improved in 2022, primarily due to the benefit of delays in the market passing on base rate rises to savers in full, especially in the first half of the year, and higher expected reversionary income, partially offset by an expectation that customers will refinance earlier.

Return on equity^A**+1ppt****no change****Definition**

Return on equity is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on non-controlling interest securities, gross of tax, as a percentage of a 13-point average of shareholders' equity (excluding £150m of AT1 securities and £60m of non-controlling interest securities).

2022 performance

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

Cost to income ratio^A**+1ppt****+1ppt****Definition**

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

2022 performance

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

CRD IV Common Equity – Tier 1 capital ratio**-130bps****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.

2022 performance

The CET1 ratio remained strong, although reduced marginally as capital generation from profitability in the year was offset by loan book growth, dividends and the impact of the £100m share repurchase programme completed in 2022.

Management expense ratio^A**+10bps****+10bps****Definition**

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

2022 performance

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

Savings customer satisfaction – Net Promoter Score**-6****-10****Definition**

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

2022 performance

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

Financial review

Review of the Group's performance presented on a statutory basis for 2022 and 2021.

Summary Profit or Loss	Group 31-Dec-2022 £m	Group 31-Dec 2021 £m
Net interest income	709.9	587.6
Net fair value gain on financial instruments	58.9	29.5
Gain on sale of financial instruments	–	4.0
Other operating income	6.6	7.9
Administrative expenses	(207.8)	(166.5)
Provisions	1.6	(0.2)
Impairment of financial assets	(29.8)	4.4
Impairment of intangible assets	–	3.1
Integration costs	(7.9)	(5.0)
Exceptional items	–	(0.2)
Profit before tax	531.5	464.6
Profit after tax	410.0	345.3

Key ratios Δ		
Net interest margin	278bps	253bps
Cost to income ratio	27%	26%
Management expense ratio	81bps	71bps
Loan loss ratio	13bps	-2bps
Return on equity	21%	20%
Basic earnings per share, pence	90.8	76.0
Ordinary dividend per share, pence	30.5	26.0
Special dividend per share, pence	11.7	–

Extracts from the Statement of Financial Position	£m	£m
Loans and advances to customers	23,612.7	21,080.3
Retail deposits	19,755.8	17,526.4
Total assets	27,566.7	24,531.9

Key ratios		
Common equity tier 1 ratio	18.3%	19.6%
Total capital ratio	19.7%	21.2%
Leverage ratio ¹	8.4%	7.9%

1. In line with the latest UK Leverage Ratio Framework, which came into effect on 1 January 2022, the leverage ratio now excludes claims on central banks. As at 31 December 2021, the ratio would have been 8.9% on a like for like basis



For definitions of key ratios, see Key performance indicators on pages 44 and 45, for more detail on the calculation of key ratios, see the Appendix on pages 250-252.

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 profit

The Group's statutory profit before tax increased by 14% to £531.5m (2021: £464.6m) after exceptional items, integration costs and other acquisition-related items of £59.6m¹ (2021: £57.6m). The increase was primarily due to growth in the loan book, an improved net interest margin and net fair value gain on financial instruments resulting from rising swap rates, partially offset by higher administration costs and an impairment charge compared to an impairment credit in 2021.

Statutory profit after tax was £410.0m in 2022, an increase of 19% from £345.3m in the prior year, and included after-tax exceptional items, integration costs and other acquisition-related items of £38.7m¹ (2021: £47.8m).

The Group's effective tax rate reduced to 23.1%² compared to 25.7% in the prior year, primarily due to a reduction in the deferred tax provision following the enactment of the expected decrease in the bank surcharge from 8% to 3% from April 2023.

Statutory return on equity for 2022 improved to 21% (2021: 20%) reflecting the increase in profitability in the year.

Statutory basic earnings per share increased to 90.8 pence (2021: 76.0 pence), in line with the increase in profit after taxation.

Net interest income

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

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

Net fair value gain on financial instruments

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

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

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

Gain on sale of financial instruments

There were no sales of financial instruments in 2022.

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

Other operating income

Statutory other operating income of £6.6m (2021: £7.9m) mainly comprised CCFS' commissions and servicing fees, including those from servicing securitised loans that have been derecognised from the Group's balance sheet.

Administrative expenses

Statutory administrative expenses increased by 25% to £207.8m in 2022 (2021: £166.5m), due primarily to spend returning to a more normalised level post pandemic, inflationary headwinds and planned investment in the business, including refreshing and upgrading our technology infrastructure post-integration.

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

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

Impairment of financial assets

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

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

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

Impairment of intangible assets

There were no intangible asset impairments in 2022.

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

Integration costs

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

Exceptional items

There were no exceptional costs in 2022.

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

Dividend

The Board has recommended a final dividend of 21.8 pence per share for 2022, which together with the interim dividend of 8.7 pence per share, represents 30% of underlying profit attributable to ordinary shareholders. The Board has also announced a special dividend of £50.3m, 11.7 pence per share (2021: nil). See the Appendix for the calculation of the 2022 final dividend.

The recommended final dividend is subject to approval at the AGM on 11 May 2023. The final and special dividends will be paid on 17 May 2023, with an ex-dividend date of 23 March 2023 and a record date of 24 March 2023.

Balance sheet growth

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

Total assets also grew by 12% to £27,566.7m (31 December 2021: £24,531.9m), largely due to the growth in loans and advances to customers and an increase in liquid assets.

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

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

Liquidity

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

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

Financial review continued

As at 31 December 2022, OSB had £1,494.1m and CCFS had £1,522.8m of HQLA (31 December 2021: £1,322.8m and £1,318.0m, respectively).

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

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

Capital

The Group's capital position remained strong, with a CET1 ratio of 18.3% and a total capital ratio of 19.7% as at the end of 2022 (31 December 2021: 19.6% and 21.2%, respectively). Both ratios reflected strong capital generation from profitability in the year offset by loan book growth, foreseeable and paid dividends and the impact of the £100m share repurchase programme completed in 2022.

The Group had a leverage ratio of 8.4%³ as at 31 December 2022 (31 December 2021: 7.9%). The combined Group had a Pillar 2a requirement of 1.27% (2021: 1.27%) of risk-weighted assets (excluding a static integration add-on of £19.5m) as at 31 December 2022.

Summary Consolidated Statement of Cash Flows

	Group 31-Dec-2022 £m	Restated ¹ Group 31-Dec-2021 £m
Profit before tax	531.5	464.6
Net cash generated/(used in):		
Operating activities	428.5	(346.3)
Investing activities	63.2	80.6
Financing activities	(184.3)	631.8
Net increase in cash and cash equivalents	307.4	366.1
Cash and cash equivalents at the beginning of the period	2,736.7	2,370.6
Cash and cash equivalents at the end of the period	3,044.1	2,736.7

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

Cash flow statement

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

In 2022, loans and advances to customers increased by £2,563.1m, primarily funded by £2,229.4m of deposits from retail customers. The Group received £434.3m of cash collateral on derivative exposures and paid £137.5m of initial margin, reflecting new derivatives during the year. Cash used from financing activities of £184.3m included £300.9m drawings under the ILTR scheme offset by £193.6m repayment of debt securities, £102.0m share repurchases, £133.1m dividend payments and £45.3m interest on financing liabilities. Total drawings under the Bank of England's TFSME scheme remained unchanged at £4.2bn. Cash generated from investing activities was £63.2m.

In 2021, loans and advances to customers increased by £1,844.0m during the year, partially funded by £923.3m of deposits from retail customers and a decrease in loans and advances to credit institutions (primarily the Bank of England call account) of £167.4m. Additional funding was provided by cash generated from financing activities of £631.8m⁴ and included £634.4m of net drawings under the Bank of England's TFS and TFSME schemes and £36.1m of net proceeds from securitisation of mortgages during the year. Cash generated from investing activities was £80.6m.

1. See the reconciliation of statutory to underlying results on page 51.
2. Effective tax rate excludes £1.2m of adjustments relating to earlier years.
3. In line with the latest UK Leverage Ratio Framework which came into effect on 1 January 2022, the leverage ratio now excludes claims on central banks. As at 31 December 2021, the ratio would have been 8.9% on a like for like basis.
4. Restated, see note 1 b) in the Group's Consolidated Financial Statements for further information.

Review of the Group's performance presented on an underlying basis for 2022 and 2021.

Summary Profit or Loss	Group 31-Dec-2022 £m	Group 31-Dec-2021 £m
Net interest income	769.1	650.5
Net fair value gain on financial instruments	48.5	18.5
Gain on sale of financial instruments	–	2.3
Other operating income	6.6	7.9
Administrative expenses	(204.0)	(161.7)
Provisions	1.6	(0.2)
Impairment of financial assets	(30.7)	4.9
Profit before tax	591.1	522.2
Profit after tax	448.7	393.1

Key ratios Δ		
Net interest margin	303bps	282bps
Cost to income ratio	25%	24%
Management expense ratio	80bps	70bps
Loan loss ratio	14bps	-2bps
Return on equity	24%	24%
Basic earnings per share, pence	99.6	86.7

Extracts from the Statement of Financial Position	£m	£m
Loans and advances to customers	23,529.8	20,936.9
Retail deposits	19,755.2	17,524.8
Total assets	27,487.6	24,403.6

 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](#).

Underlying profit

The Group's underlying profit before tax increased by 13% to £591.1m from £522.2m in 2021. The increase was primarily due to growth in the loan book, an improved net interest margin and net fair value gain on financial instruments resulting from rising swap rates, partially offset by higher administration costs and an impairment charge compared to an impairment credit in 2021.

Underlying profit after tax was £448.7m, up 14% (2021: £393.1m), broadly in line with the increase in profit before tax. The Group's effective tax rate on an underlying basis reduced to 24.3%¹ for 2022 (2021: 24.7%).

On an underlying basis, return on equity for 2022 was 24%, unchanged from the prior year.

The underlying basic earnings per share increased to 99.6 pence (2021: 86.7 pence), due to the increase in profit after tax.

Net interest income

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

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

Alternative performance measures

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

Underlying results for 2022 and 2021 exclude exceptional items, integration costs and other acquisition-related items.

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



For more information on APMs and the reconciliation between APMs and the statutory equivalents, see the [Appendix on pages 250-252](#).

Net fair value gain on financial instruments

Underlying net fair value gain on financial instruments was £48.5m in 2022 (2021: £18.5m) and included a gain on unmatched swaps of £57.1m (2021: £10.3m) following the significant rise in swap prices in the fourth quarter and a loss of £8.1m (2021: £2.4m gain) from hedge ineffectiveness.

The Group also recorded a £1.2m gain (2021: £5.4m) from the amortisation of hedge accounting inception adjustments and a loss of £1.7m (2021: £0.4m gain) from other items.

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

Financial review continued

Gain on sale of financial instruments

There were no sales of financial instruments in 2022.

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

Other operating income

On an underlying basis, other operating income was £6.6m in 2022 (2021: £7.9m) and mainly comprised CCFS' commissions and servicing fees, including those from servicing securitised loans that have been derecognised from the Group's balance sheet.

Administrative expenses

Underlying administrative expenses were up 26% to £204.0m in 2022 (2021: £161.7m), due primarily to spend returning to a more normalised level post pandemic, inflationary headwinds and planned investment in the business, including refreshing and upgrading our technology infrastructure post-integration.

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

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

Impairment of financial assets

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

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

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

Balance sheet growth

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

Total underlying assets grew by 13% to £27,487.6m (31 December 2021: £24,403.6m), largely due to the growth in loans and advances to customers and an increase in liquid assets.

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

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

1. Effective tax rate excludes £1.2m of adjustments relating to earlier years.

Reconciliation of statutory to underlying results

	FY 2022			FY 2021		
	Statutory results £m	Reverse acquisition-related and exceptional items £m	Underlying results £m	Statutory results £m	Reverse acquisition-related and exceptional items £m	Underlying results £m
Net interest income	709.9	59.2 ¹	769.1	587.6	62.9	650.5
Net fair value gain on financial instruments	58.9	(10.4) ²	48.5	29.5	(11.0)	18.5
Gain on sale of financial instruments	–	–	–	4.0	(1.7) ³	2.3
Other operating income	6.6	–	6.6	7.9	–	7.9
Total income	775.4	48.8	824.2	629.0	50.2	679.2
Administrative expenses	(207.8)	3.8 ⁴	(204.0)	(166.5)	4.8	(161.7)
Provisions	1.6	–	1.6	(0.2)	–	(0.2)
Impairment of financial assets	(29.8)	(0.9) ⁵	(30.7)	4.4	0.5	4.9
Impairment of intangible assets	–	–	–	3.1	(3.1) ⁶	–
Integration costs	(7.9)	7.9 ⁷	–	(5.0)	5.0	–
Exceptional items	–	–	–	(0.2)	0.2 ⁸	–
Profit before tax	531.5	59.6	591.1	464.6	57.6	522.2
Profit after tax	410.0	38.7	448.7	345.3	47.8	393.1
Summary Balance Sheet						
Loans and advances to customers	23,612.7	(82.9) ⁹	23,529.8	21,080.3	(143.4)	20,936.9
Other financial assets	3,878.1	9.1 ¹⁰	3,887.2	3,382.3	22.0	3,404.3
Other non-financial assets	75.9	(5.3) ¹¹	70.6	69.3	(6.9)	62.4
Total assets	27,566.7	(79.1)	27,487.6	24,531.9	(128.3)	24,403.6
Amounts owed to retail depositors	19,755.8	(0.6) ¹²	19,755.2	17,526.4	(1.6)	17,524.8
Other financial liabilities	5,548.5	0.8 ¹³	5,549.3	4,908.7	2.3	4,911.0
Other non-financial liabilities	61.4	(30.2) ¹⁴	31.2	72.4	(45.0)	27.4
Total liabilities	25,365.7	(30.0)	25,335.7	22,507.5	(44.3)	22,463.2
Net assets	2,201.0	(49.1)	2,151.9	2,024.4	(84.0)	1,940.4

Notes to the reconciliation of statutory to underlying results table:

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

Risk review

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

Executive summary

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

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

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

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

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

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

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

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

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

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

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

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

Significant investment continues to be made across the Group's risk management capabilities and resources, to ensure that all categories of risk continue to be managed effectively. An independent third-party review was undertaken during the year which indicated that the Group's risk management framework was well-designed and embedded to support the Group's current and future strategic plans. The review's recommended actions confirmed management's existing

plans and will drive further enhancements ensuring that the Group continues to meet emerging regulatory expectations, whilst supporting shareholder returns via the management of financial risks.

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

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

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

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

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

Priority areas for 2023

A significant level of uncertainty remains around the UK economic outlook and the operating environment for 2023 and beyond. Therefore, continued close monitoring of the Group's risk profile and operating effectiveness remains a key priority for the Risk and Compliance function. Other priorities include:

- Continue to leverage the Group's Enterprise Risk Management Framework and existing capabilities to actively identify, assess and manage risks in line with approved risk appetite.
- Leverage enhancements made across the Group's portfolio analytical capabilities, including the implementation of an enhanced stress testing capability to improve risk-based pricing, balance sheet management, capital planning and stress testing.
- Make continued progress in obtaining IRB accreditation and further leverage capabilities within wider risk management disciplines such as IFRS 9 Expected Credit Loss (ECL) calculations, underwriting, existing customer management and collections to drive portfolio performance benefits and improvements in shareholder returns.
- Implement and embed the FCA's Consumer Duty rules and requirements, via 5 key pillars of activity, to ensure that the Group complies with the new Consumer Principle, cross-cutting rules and the four Consumer Duty outcomes by 31 July 2023 for new and existing products and 31 July 2024 for closed products.
- Continue to strengthen engagement and support with the first line of defence to enhance conduct, regulatory and financial crime risk awareness and key preventative and detective controls.
- Further enhance and embed the Group's resolution framework, including testing valuation and funding in resolution capabilities and testing interactions between other resolution barriers.
- Maintain oversight of capital management including the impact of MREL, Basel 3.1 and IRB.
- Continue the optimisation of funding strategy and enhancement of sensitivity analysis around key liquidity drivers.

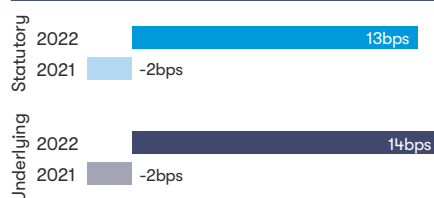
Risk review continued

Key risk performance 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.

Loan loss ratio^A

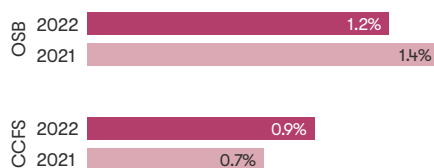


2022 performance

Statutory and underlying loan loss ratios increased in the year as the Group adopted more severe forward-looking macroeconomic scenarios as well as post model adjustments to account for rising cost of living and cost of borrowing concerns.

Loan book growth and changes in the observed risk profile also added to the charge, offset by a release of pandemic-related post model adjustments and modelling enhancements.

3 or more months' arrears



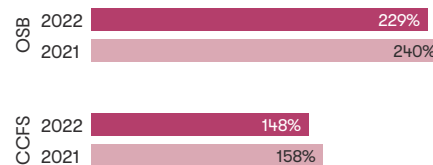
2022 performance

The Group's ratio of balances which are greater than three months in arrears remained stable at 1.1% (2021: 1.1%).

Across the OSB bank entity, an improvement in arrears was observed from 1.4% in 2021 to 1.2% in 2022. Both the Residential and Buy-to-Let segments of the portfolio improved during the year.

CCFS arrears growth, from 0.7% to 0.9%, was observed on both the Residential and Buy-to-Let portfolios, with both experiencing a similar percentage change in three months in arrears balances as the portfolio continues to mature.

Liquidity coverage ratio



2022 performance

Liquidity ratios reduced during 2022, but remained well above internal and regulatory requirements. The reduction was driven by a strong mortgage pipeline and increased derivative margin requirements as a result of swap volatility during the year.

CRD IV fully-loaded Common Equity – Tier 1 capital ratio



Total capital ratio



2022 performance

The Group's capital position remained strong, with a CET1 ratio of 18.3% and a total capital ratio of 19.7% as at the end of 2022 (31 December 2021: 19.6% and 21.2%, respectively). This enabled the Group to deliver strong growth and shareholder returns.

Enterprise Risk Management Framework

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

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

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

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

The key modules of the ERMF structure are as follows:

1 Risk principles and culture

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

2 Risk strategy and appetite

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

3 Risk assessment and control

The Group is committed to building a safe and secure banking operation via an integrated and effective enterprise strategic risk management framework.

4 Risk definitions and categorisation

The Group sets out its principal risks that represent the primary risks to which the Group is exposed.

5 Risk analytics

The Group uses quantitative analysis and statistical modelling to help improve its business decisions.

6 Stress testing and scenario development

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

7 Risk data and information technology

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

8 Risk Management Framework's policies and procedures

Risk frameworks, policies and supporting documentation outline the process by which risk is effectively managed and governed within the Group.

9 Risk management information and reporting

The Group established a comprehensive suite of risk Management Information (MI) and reports covering all principal risk types.

10 Risk governance and function organisation

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

11 Use and embedding

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

 Further detail on these modules is set out in the [Group's Pillar 3 disclosures](#).

The following diagram outlines the core components of the ERMF and the organisational arrangements to ensure that the Group operates in accordance with the requirements of the ERMF.

Enterprise Risk Management Framework (ERMF)

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

Risk review continued

Group organisational structure

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

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

Risk appetite

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

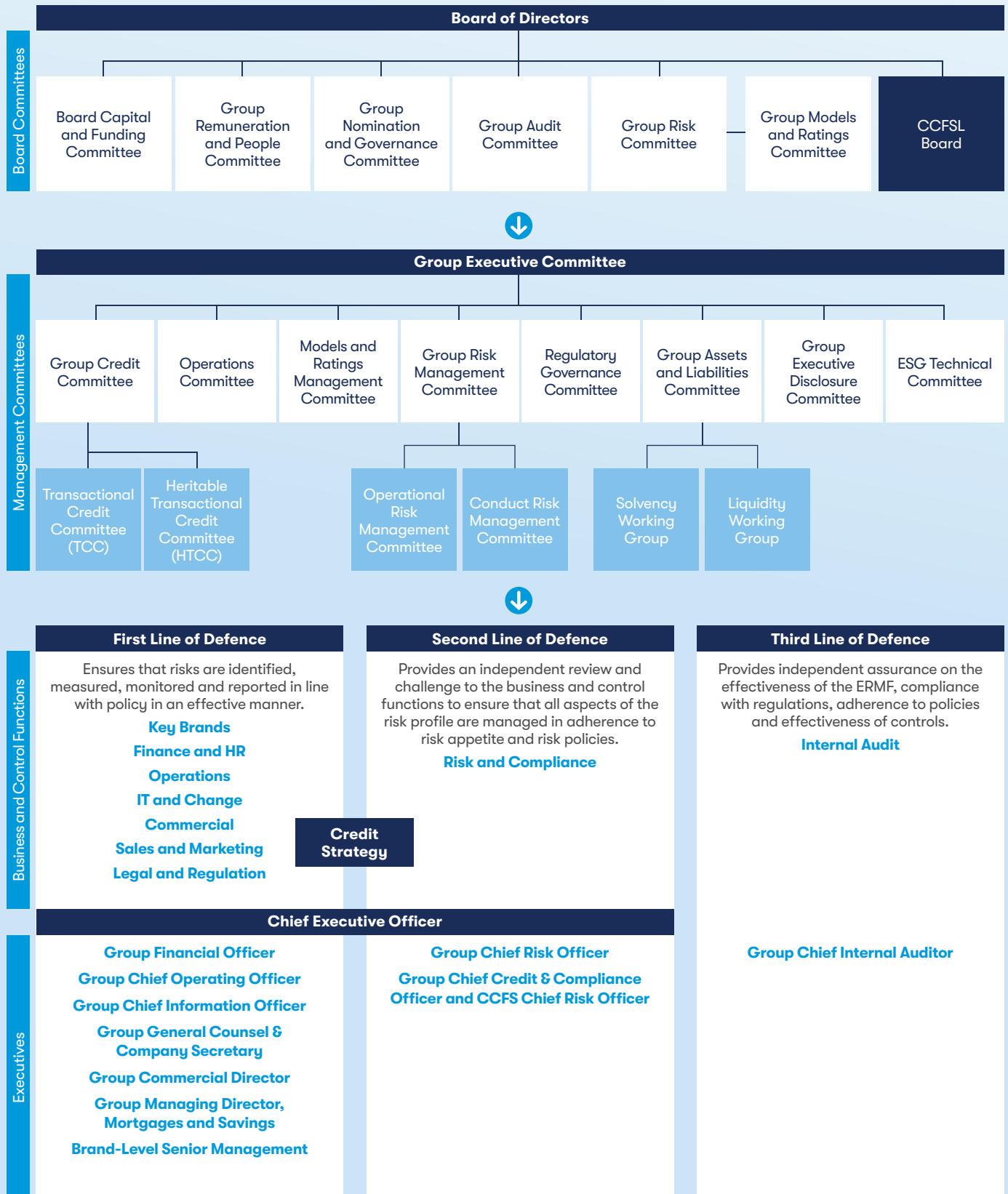
The risk appetite is calibrated to reflect the Group's strategic objectives, business operating plans, as well as external economic, business and regulatory constraints. In particular, the risk appetite is calibrated to ensure that the Group continues to deliver against its strategic objectives and operates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

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

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



Structure of the Group



Management of climate change risk

There was further embedding of the Group's approach to climate risk during 2022, with the Climate Risk Management Framework and ESG governance structures now established.

The Group is exposed to the following climate related risks:

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

Approach to analysing climate risk on the loan book

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

a) Climate scenarios considered

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

Emissions scenario

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

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

b) Climate risk perils considered

The following three physical perils of climate change were assessed:

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

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

For flood and subsidence, the likelihood took the form of a probability that a flood or subsidence event would occur over the next 10 years. For coastal erosion the distance of the property to the coast line is provided by scenario and decade.

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

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

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

– Flood risk

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

– Subsidence

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

– Coastal erosion

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

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

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

c) Energy Performance Certificate profile

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

Value at Risk assessment

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

Climate change scenarios

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

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

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



Methodology – physical risks

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

Methodology – transitional risks

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

d) Analysis outcome

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

e) Planned enhancements during 2023

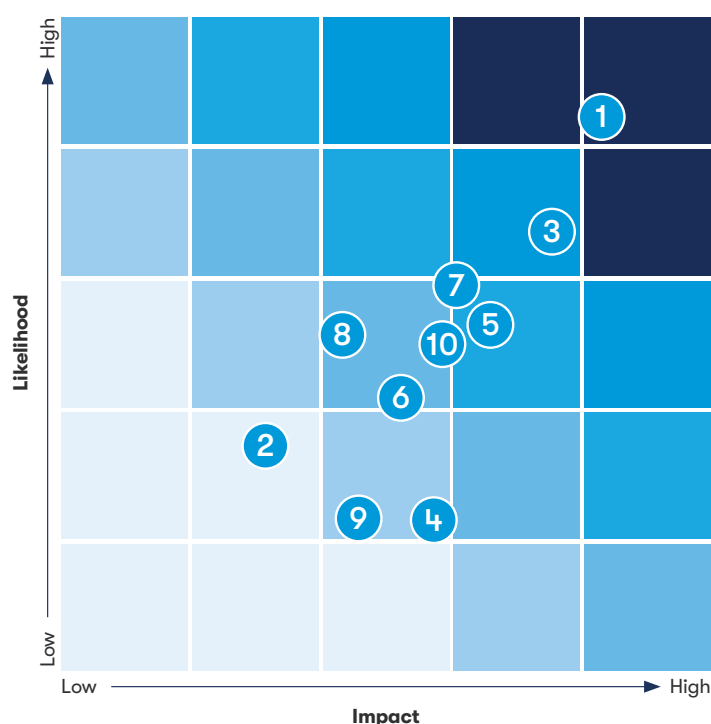
In the future, the Group's climate risk data and scenario analysis capabilities will continue to be enhanced.

Principal risks and uncertainties

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

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

Current assessment of principal risks



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

1 Strategic and business risk

The risk to the Group's earnings and profitability arising from its strategic decisions, change in business conditions, improper implementation of decisions or lack of responsiveness to industry changes.

Risk appetite statement

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

1.1 Performance against targets

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

Mitigation

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

Direction

↑ Increased

The Group delivered strong performance against targets during 2022 despite the continued impact of inflation, increasing interest rates and the conflict in Ukraine. The ongoing macroeconomic uncertainty and its potential impact on net interest margin, affordability levels and house prices present an increased risk to the Group's performance in 2023.

1.2 Economic environment

The economic environment in the UK is an important factor impacting the strategic and business risk profile.

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

Mitigation

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

Direction

↑ Increased

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

1.3 Competition risk

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

Mitigation

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

Direction

→ Unchanged

The current economic outlook may limit the number of competitors shifting their focus to the Group's key market sub-segments.

2 Reputational risk

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

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

Risk appetite statement

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

2.1 Deterioration of reputation

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

Mitigation

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

Direction

↑ Increased

The challenging macroeconomic environment in 2022 resulted in significant shifts within both the UK's lending and savings markets. This has brought about the need for all banks to become increasingly agile with products offered in order to ensure that all core targets continued to be met. Operational scalability and efficiency challenges have impacted the Group's reputational risk profile.

Principal risks and uncertainties continued

3 Credit risk

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

Risk appetite statement

The Group seeks to maintain a high-quality lending portfolio that generates adequate returns under normal and stressed conditions. The portfolio is actively managed to operate within set criteria and limits based on profit volatility focusing on key sectors, recoverable values and affordability and exposure levels.

The Group aims to continue to generate sufficient income and control credit losses to a level such that it remains profitable even when subjected to a credit portfolio stress of a 1 in 20 intensity stress scenario.

3.1 Individual borrower defaults

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

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

Mitigation

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

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

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

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

Direction

↑ Increased

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

3.2 Macroeconomic downturn

A broad deterioration in the UK economy would adversely impact both the ability of borrowers to repay loans and the value of the Group's security. Credit losses would impact the Group's lending portfolios, even if individual impacts were to be small, the aggregate impact on the Group could be significant.

Mitigation

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

Direction

↑ Increased

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

3.3 Wholesale credit risk

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

Mitigation

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

Direction

→ Unchanged

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

4 Market risk

Potential loss due to changes in market prices or values.

Risk appetite statement

The Group actively manages market risk arising from structural interest rate positions.

The Group does not seek to take a significant interest rate position or a directional view on interest rates and it limits its mismatched and basis risk exposures.

4.1 Interest rate risk

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

Mitigation

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

Direction

➔ **Unchanged**

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

4.2 Basis risk

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

Mitigation

The Group did not require active management of basis risk in 2022 due to its balance sheet structure.

Direction

⬇ **Decreased**

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

Principal risks and uncertainties continued

5 Liquidity and funding risk

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

Risk appetite statement

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

5.1 Retail funding stress

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

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

Mitigation

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

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

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

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

Direction

↑ Increased

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

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

5.2 Wholesale funding stress

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

Mitigation

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

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

Direction

→ Unchanged

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

5.3 Refinancing of TFSME

Current Term Funding Scheme for Small and Medium-sized Enterprises (TFSME) borrowing by the Group remained at £4.2bn at the end of 2022, with a refinancing concentration scheduled for October 2025.

Mitigation

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

Direction

→ Unchanged

TFSME borrowing remained unchanged during the year; however, the current funding plan to refinance TFSME requires significant securitisation issuance. These markets have seen increased volatility during 2022, which could continue into 2023 so additional refinancing options are being considered.

6 Solvency risk

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

Risk appetite statement

The Group seeks to ensure that it is able to meet its Board-level capital buffer requirements under a severe but plausible stress scenario. The solvency risk appetite is informed by the Group's prudential requirements and strategic and financial objectives.

We manage our capital resources in a manner which avoids excessive leverage and allows us flexibility in raising capital.

6.1 Deterioration of capital ratios

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

The regulatory capital regime is subject to change and could lead to increases in the level and quality of capital that the Group needs to hold to meet regulatory requirements. In particular, we note the PRA's recently published consultation paper (CP) on the implementation of Basel 3.1.

Mitigation

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

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

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

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

Direction

↑ Increased

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

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

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

Principal risks and uncertainties continued

7 Operational risk

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

Risk appetite statement

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

7.1 IT security (including cyber risk)

The risks resulting from a failure to protect the Group's systems and the data within them. This includes both internal and external threats.

Mitigation

The Group programme of IT and cyber improvements continued with the aim of enhancing its protection against IT security threats, deploying a series of tools designed to identify and prevent network/system intrusions. This is further supported by documented and tested procedures intended to ensure the effective response to a security breach.

Direction

➔ **Unchanged**

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

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

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

7.2 Data quality and completeness

The risks resulting from data being either inaccurate or incomplete.

Mitigation

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

Direction

➔ **Unchanged**

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

7.3 Change management

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

Mitigation

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

Direction

⬆ **Increased**

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

7.4 IT failure

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

Mitigation

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

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

Direction

➔ **Unchanged**

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

8 Conduct risk

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

Risk appetite statement

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

8.1 Conduct risk	
The risk that the Group fails to meet its expectations with respect to conduct risk.	
Mitigation The Group’s culture is clearly defined and monitored via its Purpose, Vision and Values driven behaviours. The Group has a strategic commitment to provide simple, customer-focused products. In addition, a Product Governance framework is established to oversee both the origination of new products and to revisit the ongoing suitability of the existing product suite. The Group has an embedded Conduct Risk Management Framework which clearly define roles and responsibilities for conduct risk management and oversight across the Group’s three lines of defence.	Direction ⬆ Increased The conduct risk level increased due to macroeconomic uncertainty. Some customers, particularly those who are vulnerable, may experience financial difficulty as a result of the rising cost of living and cost of borrowing. Volatile lending and savings markets led to unprecedented high volumes of new business adversely impacting customer service level agreements and leading to increased complaints and reputational risk. Conduct losses have remained stable with no breaches of risk appetite reported during the last 12 months.

Principal risks and uncertainties continued

9 Regulatory risk

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

Risk appetite statement

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

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

9.1 Prudential regulatory changes

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

Mitigation

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

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

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

Direction

➔ **Unchanged**

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

9.2 Conduct regulation

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

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

Mitigation

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

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

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

Direction

⬆ **Increased**

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

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

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

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

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

10 Financial crime risk

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

Risk appetite statement

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

10.1 Financial crime risk

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

Mitigation

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

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

The Group reacted swiftly to the events in Ukraine and the regular updates released in relation to the Russia and Belarus financial sanctions regimes. The Group has negligible exposure to the affected jurisdictions and no exposure to any specific individual or entity contained within the revised sanctions listings.

The Group's programme of cyber improvements continued with the aim of enhancing its protection against IT security threats, deploying a series of tools designed to identify and prevent network/system intrusions. The Group's Financial Crime team will support the Information Security Team, where appropriate, to ensure that there are robust and effective controls in place and sufficient training and awareness for all colleagues.

Direction

➔ Unchanged

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

The Group has processes in place to allow it to operate effectively when employees work from home and manage the cyber risks related to working remotely. Whilst IT security risks continue to evolve, the level of maturity of the Group's controls and defences has significantly increased, supported by dedicated IT security experts.

10.2 Fraud risk

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

Mitigation

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

These controls are further supported by documented policies and procedures that are managed by experienced employees in a dedicated Financial Crime function.

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

Direction

⬆ Increased

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

Principal risks and uncertainties continued

Emerging risks

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

Emerging risk	Description	Mitigation
Political and macro-economic uncertainty	The Group's lending activity is predominantly focused in the United Kingdom (with a legacy back-book of mortgages in the Channel Islands) and, as such, will be impacted by any risks emerging from changes in the macroeconomic environment. Rising inflation and interest rates pose risks to the Group's loan portfolio performance.	The Group has mature and robust monitoring processes and via various stress testing activities (i.e. ad hoc, risk appetite and Internal Capital Adequacy Assessment Process (ICAAP)) understands how the Group performs over a variety of macroeconomic stress scenarios and has developed a suite of early warning indicators, which are closely monitored to identify changes in the economic environment. The Board and management review detailed portfolio reports to identify any changes in the Group's risk profile.
Climate change	As the focus on climate change intensifies, both the physical risks and the transitional risks associated with climate change continue to grow. Climate change risks include: - Physical risks which relate to specific weather events, such as storms and flooding, or to longer-term shifts in the climate, such as rising sea levels. These risks could include adverse movements in the value of certain properties that are in coastal and low-lying areas, or located in areas prone to increased subsidence and heave. - Transitional risks may arise from the adjustment towards a low-carbon economy, such as tightening energy efficiency standards for domestic and commercial buildings. These risks could include a potential adverse movement in the value of properties requiring substantial updates to meet future energy performance requirements. - Reputational risk arising from a failure to meet changing societal, investor or regulatory demands.	During 2022, the Group further embedded its approach to climate risk management, which included the development of a climate risk appetite, and making enhancements to its Task Force on Climate-Related Financial Disclosures (TCFD). The Group's Chief Risk Officer has designated senior management responsibility for the management of climate change risk.
Model risk	The risk of financial loss, adverse regulatory outcomes, reputational damage or customer detriment resulting from deficiencies in the development, application or ongoing operation of models and ratings systems. The Group also notes changes in industry best practice with respect to model risk management including a PRA consultation paper containing proposed expectations regarding banks' management of model risk.	The Group has well-established model risk governance arrangements in place, with Board and Executive Committees in place to ensure robust oversight of the Group's model risk profile. Dedicated resources are in place to ensure that model governance arrangements continue to meet any changes in industry and regulatory expectations.
Regulatory change	The Group remains subject to high levels of regulatory oversight and an extensive and broad ranging regulatory change agenda, including meeting the requirements of the Resolvability Assessment Framework and Operational Continuity in Resolution. The Group is therefore required to respond to prudential and conduct-related regulatory changes, taking part in thematic reviews, as required. There is also residual uncertainty in relation to the regulatory landscape post the United Kingdom's exit from the European Union.	The Group has established horizon scanning capabilities, coupled with dedicated prudential and conduct regulatory experts in place to ensure the Group manages future regulatory changes effectively. The Group also has strong relationships with regulatory bodies, and via membership of UK Finance, inputs into upcoming regulatory consultations.

Risk review

Risk profile performance overview

Credit risk

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

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

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

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

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

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

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

Expected Credit Losses (ECL)

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

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

- a. Macroeconomic outlook
 - positive House Price Index (HPI) movements and continued low unemployment were observed throughout 2022, however, the outlook deteriorated throughout the year due to the war between Russia and Ukraine and the fallout from the mini budget. The economic outlook at the end of 2022 was driven by rising interest rates, higher than target inflation and most notably a decrease in house prices. The change in economic outlook contributed £11.6m of impairment charge in 2022, whilst the improvement in house prices drove a release of £10.3m.
- b. Model and staging enhancements
 - enhancements were made to the Group's underlying models to ensure that estimates continued to reflect actual credit profile performance. Most notably, the Group's enhancements to models, as part of the IFRS programme, were incorporated into the Group's IFRS 9 framework. In addition, the Group enhanced its Significant Increase in Credit Risk (SICR) framework to adopt a default risk trigger, sensitive to the economic outlook. The cumulative impact of these modelling and staging enhancements was an £8.3m release for 2022.
- c. Post-model adjustments
 - the Group adopted a number of post-model adjustments to account for external risks that were not sufficiently addressed in the model and staging framework. The most significant were adjustments made to the stage 2 approach to account for rising cost of living and borrowing concerns due to the sharp increase in interest rates and the historically high inflation. In total, the post-model adjustments contributed £13.3m of impairment charge in 2022.

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

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

Impairment coverage levels were strengthened due to both the observed cost of living and cost of borrowing drivers, and the renewed uncertainty surrounding the macroeconomic outlook, with coverage levels approaching those held at the peak of the pandemic. The Group's Risk function conducted top-down analysis, assessing portfolio-specific risks, which confirmed the appropriateness of provision levels after taking into account the post-model adjustments.

Risk review continued

Coverage ratios table

	Gross carrying amount £m	Expected credit losses £m	Coverage ratio %
As at 31 December 2022			
Stage 1	18,722.3	7.2	0.04%
Stage 2	4,417.1	50.9	1.15%
Stage 3 (+ POCI)	588.7	71.9	12.21%
Total	23,728.1	130.0	0.55%
As at 31 December 2021			
Stage 1	18,188.4	12.1	0.07%
Stage 2	2,413.6	25.0	1.04%
Stage 3 (+ POCI)	562.1	64.4	11.46%
Total	21,164.1	101.5	0.48%

Macroeconomic scenarios

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

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

i. How macroeconomic variables and scenarios are selected

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

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

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

ii. How macroeconomic scenarios are utilised within ECL calculations

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

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

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

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

iii. Macroeconomic scenario governance

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

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

iv. Changes made during 2022

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

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

The Board reflected on the ongoing appropriateness of probabilities attached to the suite of IFRS 9 scenarios as the macroeconomic outlook evolved throughout the year. Scenarios were adjusted to a symmetrical probability, where the upside and downside scenarios carry equal weightings, as a result of separate post-model adjustments being raised to ensure that the current IFRS 9 framework adequately provisioned the underlying portfolio risk.

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

Forecast macroeconomic variables over a five-year period

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

Forbearance

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

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

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

- Temporary switch to interest only: a temporary account change to assist customers through periods of financial difficulty where the contractual monthly payment is reduced to the amount of interest owed in the month for the duration of the account change. Any arrears existing at the commencement of the arrangement are retained.
- Interest rate reduction: the Group may, in certain circumstances, where the borrower meets the required eligibility criteria, transfer the mortgage to a lower contractual rate. Where this is a formal contractual change, the borrower will be requested to obtain independent financial advice as part of the process.

- Loan term extension: a permanent account change for customers in financial distress where the overall term of the mortgage is extended, resulting in a lower contractual monthly payment.
- Payment holiday: a temporary account change to assist customers through periods of financial difficulty where capital and interest accruals during the payment holiday period are repaid from the end of the payment holiday over the remaining term. Any arrears existing at the commencement of the arrangement are retained.
- Voluntary-assisted sale: a period of time is given to allow borrowers to sell the property and arrears accrue based on the contractual monthly payment.
- Reduced monthly payments: a temporary arrangement for customers in financial distress. For example, a short-term arrangement to pay less than the contractual monthly payment. Arrears continue to accrue based on the contractual monthly payment.
- Capitalisation of interest: arrears are added to the loan balance and are repaid over the remaining term of the facility or at maturity for interest only products. A new payment is calculated, which will be higher than the previous payment.
- Full or partial debt forgiveness: where appropriate, the Group will consider writing-off part of the debt. This may occur where the borrower has an agreed sale and there will be a shortfall in the amount required to redeem the Group's

- charge, in which case repayment of the shortfall may be agreed over a period of time, subject to an affordability assessment; or where possession has been taken by the Group, and on the subsequent sale where there has been a shortfall loss.
- Arrangement to pay: where an arrangement is made with the borrower to repay an amount above the contractual monthly payment, which will repay arrears over a period of time.
- Promise to pay: where an arrangement is made with the borrower to defer payment or pay a lump sum at a later date.
- Bridging loans which are more than 30 days past their maturity date. Repayment is rescheduled to receive a balloon or bullet payment at the end of the term extension, where the institution can duly demonstrate future cash-flow availability.

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

Fair value of collateral methodology

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

Solvency risk

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

Solvency risk is a function of balance sheet growth, profitability, access to capital markets and regulatory changes. The Group actively monitors all key drivers of solvency risk and takes prompt action to maintain its solvency ratios at acceptable levels. The Board and management also assess solvency when reviewing the Group's business plans and inorganic growth opportunities. The Group's fully-loaded CET1 and total capital ratios under CRD IV reduced to 18.3% and 19.7%, respectively as at 31 December 2022 (31 December 2021: 19.6% and 21.2%, respectively). The Group's leverage ratio was 8.4% as at 31 December 2022 (31 December 2021: 7.9%).

Risk review continued

Liquidity and funding risk

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

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

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

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

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

Each Bank's risk appetite is based on internal stress tests that cover a range of scenarios and time periods and therefore are a more severe measure of resilience to a liquidity event than the standalone liquidity coverage ratio (LCR). As at 31 December 2022, OSB had a liquidity coverage ratio of 229% (2021: 240%) and CCFS 148% (2021: 158%), and the Group LCR was 185%, all significantly above regulatory requirements.

Market risk

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

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

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

Operational risk

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

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

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

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

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

Regulatory and compliance risk

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

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

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

Conduct risk

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

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

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

Financial crime risk

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

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

Strategic and business risk

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

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

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

Reputational risk

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

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

osb
Group

OUR
PURPOSE

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

OUR
VISION

To be the most trusted number one through
choice through service, relationships and
community

Viability statement

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

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

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

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

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

The Banks within the Group are authorised by the PRA, and regulated by the FCA and the PRA; and the Group undertakes regular analysis of its risk profile and assumptions. It has a robust set of policies, procedures and systems to undertake a comprehensive assessment of all the principal risks and uncertainties to which it is exposed on a current and forward-looking basis (as described in the Principal risks and uncertainties on pages 60-70).

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

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

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

A broad range of stress scenarios are analysed considering the potential impacts to changes in HPI, unemployment, inflation and interest rates over a range of severity scenarios. 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 assessing long term viability, the Directors have assumed that the Group will be able to issue MREL instruments to meet its MREL requirements or, if required, obtain a 'flexible add-on' extension to the MREL requirements of up to two years. The Board assessed the uncertainty around the quantum and phasing of MREL issuance resulting from the ongoing Basel 3.1 consultation and the timing of the Group's IRB accreditation, whilst being cognisant of the outlined criteria which must be met to apply for the 'flexible add-on' relating to (i) where a market dislocation impacts capital markets issuance conditions, or (ii) whether the institution's business model faces idiosyncratic challenges which justify an extension. Obtaining a 'flexible add on' would be subject to review and approval by the Bank of England.

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

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

The ongoing monitoring of all principal risks and uncertainties that could impact the operating and financial plan, together with the use of stress testing to ensure that the Group could survive a severe but plausible stress, enables the Board to reasonably

assess the viability of the business model over a three-year period.

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

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

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

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

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

- enhancing stress testing capabilities through more focused assessment of vulnerable cohorts of its lending portfolio supported by increased granularity of monitoring and risk reporting
- increasing the diversification of its funding profile, supported by enhanced assessment of funding and liquidity risk profiles
- enhancing the assessment of operational resilience through the ongoing review of priority business functions, including supporting infrastructure and dependencies through a simulated business continuity exercise.

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

Non-financial information statement

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

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

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
Environmental matters			
Our Environmental Policy embodies our Stewardship value, outlining our commitment to taking responsibility for the environment. The policy commits to respecting the environment, minimising environmental impact and maintaining resilience to environmental risks and impacts and helping to limit the speed of climate change and resource depletion. The policy articulates the Group's ambition to achieve net zero value chain greenhouse gas emissions by no later than 2050 in line with the ambitions of the Paris Climate Accord 2015.	The Environmental Policy was reviewed by the Environmental Working Group, ESG Technical Committee and ESG Committee and approved by the Board. Importantly the policy scope was expanded to explicitly include operations within OSB India and the Group's alignment to the Paris Climate Accord ambitions. The policy focuses on: – meeting or exceeding all applicable legal and regulatory environmental obligations, stakeholders' expectations and obligations; – aligning with the Paris Climate Accord ambitions of achieving net zero value chain greenhouse gas emissions no later than 2050; – aligning policy objectives with the Group's commitments to the Net Zero Banking Alliance, Partnership for Carbon Accounting Financials and the Science Based Targets initiative.	The focus of actions in 2022 has been on establishing the Group's carbon reduction plans in order to deliver on the commitments set out within the Policy. Key highlights for the year include: – defining the Group's high level carbon reduction plan towards net zero direct emissions by 2030; – initiating work on defining the Group's climate transition plan for financed emissions (Scope 3, category 15); – approval of the Group's Climate Risk Management Framework; – completing a materiality assessment of emission sources associated with Scope 3 categories 1-14 of the greenhouse gas protocol; – continuing to procure electricity from renewable energy tariffs where the Group is responsible for utilities procurement; – completing feasibility studies on the installation of solar panels to owned real estate in the UK; – increasing the number of electric vehicle charging points across our UK real estate; – increasing management information reporting including climate risk, utilities consumption and carbon emissions; – key greenhouse gas metrics subject to independent assurance; and – completing environmental initiatives in the UK and India to raise awareness of environmental issues.	See pages 91-107.
Our Environmental, Social and Governance (ESG) Metrics Policy sets out the non-financial performance indicators which include ethical, sustainability and corporate governance considerations that are reported to relevant Committees. These metrics have been determined to be important to the Group's stakeholders and ESG strategy and commitments.	The ESG Metrics Policy is reviewed by the ESG team and approved by the Group Audit Committee. Non-financial metrics are subject to the ESG metrics lifecycle and principles of the Group's Data Quality Policy. This is monitored by the ESG team on a monthly basis. Functional providers of information and data are responsible for the management and reporting of the ESG metrics. Second line review and monitoring is provided by Risk and Compliance. Internal Audit provide a third line review and challenge on an annual basis.	Through the compilation and reporting of non-financial metrics, performance towards achieving the Group's ESG strategy and commitments and management of risk is monitored. The ESG Technical Committee review and challenge the reported metrics. Suitability of metrics is reviewed annually and updates presented through the governance process for approval. Accuracy of reported metrics is a risk that is managed through data quality processes and controls.	See pages 88-114.

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
Employee matters			
Our Group Flexible Working Policy sets out a range of flexible working arrangements and the approach that the Group will take in reviewing formal Flexible Working Requests from employees. Our Group Homeworking Policy is applicable to all UK employees and provides clarity in respect of the Group's approach regarding formal homeworking arrangements (i.e. following a Flexible Working Request being agreed), informal arrangements and enforced arrangements (e.g. COVID-19).	The Group Flexible Working Policy was initially drafted by HR Management and reviewed by the Group's Legal and Company Secretariat function. It was most recently updated and approved by the Group Executive Committee in August 2022. A similar process, as outlined above, was followed for the Group Homeworking Policy which, in line with policy review requirements, was last updated and subsequently approved by the Group Executive Committee in May 2022.	We seek to accommodate, where possible, all requests for flexible working, with the majority of requests being agreed. The Group Homeworking Policy contains an attestation for those working from home (formally, informally and on an enforced basis), with this requiring employees who work from home to confirm that they are aware of and can appropriately mitigate risks presented by working from home in respect of data protection, information security and health and safety.	See page 112.
Our Group Diversity, Equity and Inclusion Policy sets out the Group's commitment to promoting equality of opportunity, providing an inclusive workplace and eliminating any unfair treatment or unlawful discrimination.	In order to ensure appropriate Board oversight of matters relating to diversity and inclusion, updates are regularly provided to the Group Remuneration and People Committee. In addition, the Group General Counsel and Company Secretary, who is the Executive responsible for diversity and inclusion, issues regular updates to all employees in order to drive awareness of ongoing internal initiatives and progress relating to diversity and inclusion. The current version of the Group Diversity, Equity and Inclusion Policy has been reviewed in line with the governance and approval processes detailed above and will be subject to a detailed review by the Group's newly appointed Diversity, Equity and Inclusion Specialist.	Our Group-wide Diversity and Inclusion Working Group has progressed a number of initiatives and activities, some of which supported gender-related focus areas, such as progressing towards our published Women in Finance Charter target and reducing our gender pay gap. The Diversity and Inclusion Working Group has ensured a far broader focus on other areas of diversity, which will be further enhanced given the appointment of a Diversity, Equity and Inclusion Specialist. In 2022 we commenced the process of collating diversity data from our UK employee base across the broad range of diversity categories which align with regulatory guidance. This will enable us to build a picture of the diverse nature of our workforce and understand areas of underrepresentation.	See pages 111 and 112.
Our Group Whistleblowing Policy – Raising a Concern aims to encourage all employees, and others who have serious concerns about wrongdoing in the workplace, to raise their concerns at the earliest opportunity. The Group's whistleblowing arrangements endeavour to manage whistleblowing cases fairly, consistently and in a way which protects individual whistleblowers.	A Whistleblowing Report is presented to the Group Audit Committee on a regular basis, whilst the Annual Whistleblowing Report is presented to the Board. The Chair of the Group Audit Committee is the designated Whistleblowers' Champion.	The Group Audit Committee is responsible for overseeing the effective operation of the policy; this aims to mitigate the risk of undetected wrongdoing and unwanted exposure for the Group.	Group Audit Committee Report, see pages 133-138.

Non-financial information statement continued

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
Employee matters continued			
Our Group Health and Safety Policy outlines our approach and responsibilities under statutory legislation. We recognise our duty and responsibility and the Health and Safety Policy ensures that the Group complies with legislation to protect its employees and customers, and provides a suitable and safe environment for employees, customers and anyone affected by the Group's operations.	The Group adopts a robust approach to ensuring compliance with its internal policies and all legislative requirements. A range of controls are in place and tested regularly to ensure their effectiveness. All controls are subject to independent oversight. The Health and Safety Working Group meets twice per annum to review the objectives of the Health and Safety Policy. Any relevant matters arising from these meetings are reported to Operational Risk. An accountable Executive is responsible for the Health and Safety Policy and a third party adviser reviews it annually prior to it being approved by the Board.	Health and safety statistics are provided on a dashboard shared monthly with the Board along with an annual Health and Safety Report. Risk assessments are completed across the Group annually. Annual health and safety training is completed by all employees. Health and Safety awareness in the workplace has increased with updates provided on the Group intranet to reduce the possibility of injury to employees and customers.	
Social matters			
Our Modern Slavery Statement and Vendor Code of Conduct and Ethics outlines the measures we have taken to combat the risks of modern slavery and human trafficking in our businesses and supply chains.	The Modern Slavery Statement is updated in line with the requirements. In addition, as part of an annual review, the Group has updated both of its Vendor Codes of Conduct and Ethics. The UK Vendor Code of Conduct and Ethics (UK VCCE) is issued at the start of any new vendor relationship and on an annual basis to existing categorised and identified vendors. The UK Code includes provisions on the Group's Values, Diversity and Inclusion and Human Rights. It also provides details of breach reporting procedures. OSB India also has a Vendor Code of Conduct which receives external assurances from Indian qualified legal professionals and issued for all new third parties and annually to all existing arrangements in India. We perform relevant checks via the Organisation for Economic Co-operation and Development (OECD) Watch at the onboarding stage and, where required, as part of our ongoing due diligence checks. In addition, we continue to ensure that our standard contractual terms include references to modern slavery, where relevant. The Group remains cognisant of policies potentially impacted by modern slavery and human trafficking and continues to ensure that modern slavery is referenced, where appropriate. All employees are required to complete mandatory training to raise awareness with additional targeted training provided to our Branch Network in recognition of their face-to-face interactions with our customers.	The greatest modern slavery risks to the Group are its supply chain, its Indian operations and employment processes. To sufficiently mitigate the risks, our Vendor Management team includes specific testing of key controls within the Vendor Management Risk Assessment Matrix in line with the Vendor Management Framework. The Group ensures that appropriate contractual wording is included in its recruitment-related contractual documentation where appropriate. The Group also ensures that suppliers are paid in sufficiently reasonable timescales. There are breach reporting procedures in place and there were no reportable incidents in this financial year.	Strategic Report, see page 19.

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
Social matters continued			
Our Group Vendor Management and Outsourcing Policy sets out the core requirements which we must meet and provides a structure to efficiently manage potential and contracted third party relationships ensuring the right level of engagement and due diligence, in compliance with our regulatory obligations.	All third parties are classified according to the nature of the services provided and the associated risk. Due diligence relating to issues such as data security, financial stability, legal and reputational risks is undertaken when onboarding, monitoring and exiting all third parties. The monthly Vendor Management Committee reviews compliance with our Group Vendor Management and Outsourcing Policy and the performance of our key third parties. There is regular reporting to the Group Risk Committee and an annual assurance update is provided to the Board.	We recognise the importance of building strong relationships and governance with our third parties and of the possible reputational risk this can impose. We actively monitor our third parties to ensure that they are adhering to our requirements and standards, so that we can in turn meet our obligations to stakeholders.	Strategic Report, see page 19.
Our Lending Policy sets out the parameters within which we are willing to lend money responsibly within our set criteria and credit risk appetite.	All changes to the Lending Policy require approval from the Group Credit Committee, with material changes escalated to the Group Risk Committee. As a second line of defence, the Credit Quality Assurance process monitors adherence to the policy through a risk-based sampling approach. System parameters and underwriting processes act as an additional control to ensure that lending parameters are not breached. The affordability approach is calibrated to ensure the recent cost of living changes are reflected in the assessment of a customer's creditworthiness. The Group applies interest rate stress tests to ensure that customers will still be able to afford their mortgages during a rising interest rates market environment. In line with policy, the Compliance function conducts risk-based second line assurance reviews across the Group to test regulatory adherence and customer outcomes, in accordance with its annual Compliance Assurance Plan.	The Group Risk Committee challenges how the Lending Policy is applied to ensure that the right outcomes are achieved. The credit risk appetite of the Group provides a benchmark against pre-agreed trigger limits and therefore is a measure of the overall performance of the Lending Policy. Non-adherence to the credit risk appetite could lead to business being written outside the agreed risk appetite. The recent rise in the cost of certain commodities (e.g. energy and fuel) has been reflected within the Group's assessment of customers' affordability. The interest rate stress tests have been formally reviewed to ensure that the Group continues to lend responsibly during this volatile rate environment.	See page 21.

Non-financial information statement continued

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
Social matters continued			
Our Group Complaint Handling Policy outlines, at a high level, our regulatory expectations for complaint handling from a customer-centric perspective.	We investigate complaints competently, diligently and impartially, supported by appropriately trained employees. Our complaints processes are designed to be easily accessible by all customers and ensure that those in vulnerable circumstances experience the same opportunities to complain and a service that is tailored to individual needs. Root cause analysis is used to identify and solve underlying issues rather than apply quick fixes. Complaint performance forms part of the management information provided to Management Committees and to the Board. Analysis of complaints outcomes and potential business and customer impact is an integral part of the Group's processes. In line with policy, the Compliance function conducts risk-based second line assurance reviews across the Group to test regulatory adherence and customer outcomes, in accordance with its annual Compliance Assurance Plan.	Complaints are also a component of Executive bonus scheme metrics affecting remuneration outcomes. Complaints may be an early warning of not treating customers fairly, which has regulatory consequences for the Group.	See page 108.
Our Group Customer Vulnerability Policy sets the standards and approach for the identification and treatment of vulnerable customers and provides guidance to all areas of the Group to ensure that vulnerable customers consistently receive fair outcomes.	Regular case study reviews through the Vulnerable Customer Review Committee ensure that best practice processes across the different customer journeys are monitored and shared with representatives from differing customer-facing and second line functions. In line with policy, the Compliance function conducts risk-based second line assurance reviews across the Group to test regulatory adherence and customer outcomes, in accordance with its annual Compliance Assurance Plan.	An enhanced training programme has been developed to focus on more complex customer scenarios including identifying vulnerable customers and how best to serve them and their changing needs. There is a potential impact to our reputation and regulatory risks for not treating customers fairly. Customer complaint data shows that there were no systemic issues in vulnerability processes and outcomes for the year.	See page 108.
Our Group Data Protection Policy ensures that there are adequate policies and procedures in place to enable compliance with the UK General Data Protection Regulation (GDPR) and the Data Protection Act 2018; and sets out the necessary steps that should be taken when processing personal data.	The Group Data Protection Officer reports twice each year, to the Group Executive Committee and the Board, regarding compliance with legal requirements and the Data Protection Policy and reports on any data incidents and data subject access requests.	The privacy and security of personal information is respected and protected. We regard sound privacy practices as a key element of corporate governance and accountability. Non-compliance would expose the Group to the potential breach of UK GDPR provisions and fines.	See page 108.

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
Social matters continued			
Our Group Arrears Management and Forbearance Policy ensures that we address the need for internal systems and processes to treat customers in financial difficulties fairly, including being proactive with customers who display characteristics of being on the cusp of financial difficulty.	As the second line of defence, the Credit Quality Assurance process monitors adherence to the policy through a risk-based sampling approach. Due consideration has been given to the implications of customers reverting from fixed rates to a variable rate in the face of the rising interest rate market environment. In line with policy, the Compliance function conducts risk-based second line assurance reviews across the Group to test regulatory adherence and customer outcomes in accordance with its annual Compliance Assurance Plan.	Our arrears rates are monitored through the Group Credit Committee on a monthly basis to ensure senior management oversight of arrears trends. There is credit risk associated with credit losses following the ineffective management of customer accounts. The existing forbearance and collection toolkit and mandates have been reviewed to ensure that the sufficient level of support is available to customers experiencing financial difficulties due to increased mortgage payments.	See page 108.
Our Anti-Bribery and Corruption Policy outlines our stance to conduct all of our business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all of our business dealings and relationships. The purpose of the policy is to provide employees, contractors and third party service providers with clear guidelines to ensure that we conduct our activity in an ethical and appropriate manner including complying with the laws and regulations of each jurisdiction in which we operate. The policy forms an integral part of the Group Financial Crime Risk Management Framework.	The policy is subject to an annual review process with approval provided by the Group Audit Committee. Anti-Bribery and Corruption training forms part of the wider Financial Crime training package that is mandatory for each employee to complete on an annual basis. In addition, the requirements set out in the Anti-Bribery and Corruption Policy are incorporated into the Group's Vendor Management and Outsourcing Policy. Gifts, hospitality and donations are closely monitored through a log maintained by the Group Financial Crime function in accordance with our associated policy and procedures.	No material issues or breaches have arisen from the Group's adherence to the existing Anti-Bribery and Corruption Policy and processes. We recognise that there may be instances where an employee may be exposed to the risk of bribery or corruption and, as result, provide numerous channels in which an employee can report such an event, including via the whistleblowing process. During the tender process for a new supplier, all employees involved in the process must ensure compliance with the Anti-Bribery and Corruption Policy and requirements. This approach also applies to the Conflicts of Interest Policy.	See page 136.
Our Conflicts of Interest Policy aims to identify, maintain and operate effective organisational and administrative arrangements to identify and take all reasonable steps in order to avoid conflicts where possible.	The policy is subject to an annual review process with approval provided by the Group Executive Committee. Conflicts of Interest training forms part of the wider Financial Crime training package that is mandatory for each employee to complete on an annual basis. Conflicts of interest disclosures are typically made as part of the recruitment process, as part of the annual attestation process and/or when there is a change to circumstances, such as a new potential conflict arising. In addition, conflicts of interest requirements are incorporated into the Group's Vendor Management and Outsourcing Policy. Group Compliance maintains the conflicts of interest register, which is reviewed quarterly by the Group Conduct Risk Management Committee and escalated to the Group Risk Management Committee, as required. In addition, the Group Nomination and Governance Committee annually reviews Executive and Director conflicts.	No material issues or breaches have arisen from the Group's adherence to the existing Conflicts of Interest Policy and processes. As a financial services provider, we face the risk of actual and potential conflicts of interest periodically. We recognise that there may be instances where conflicts of interest are unavoidable and that a conflict may exist even if no unethical or improper act or outcome results from it. Where it is not possible to avoid a potential conflict of interest, we are committed to ensuring that any conflicts of interest that arise are managed fairly and in the best interests of our customers.	Corporate Governance Report, see page 126.

Non-financial information statement continued

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
Social matters continued			
Our Fraud Policy outlines our duty to comply with prevailing legal and regulatory requirements and to have appropriate systems and controls in place to mitigate the risk of fraud. This includes ensuring that appropriate monitoring and escalation procedures are in place and are operating effectively. Our strategy for managing fraud risk is to adopt a zero-tolerance approach towards any form of fraud; however, we accept that incidents of fraud will occur as a result of doing business. The purpose of the policy and supporting procedures is to provide a consistent approach throughout the Group to the prevention, detection and investigation of fraud. The policy forms an integral part of the Group Financial Crime Framework.	The policy is subject to an annual review with approval provided by the Group Audit Committee. Fraud awareness training forms part of the wider Financial Crime training package that is mandatory for each employee to complete on an annual basis. External stakeholders, customers, clients and relevant third parties are made aware of our robust stance towards fraud management through literature or similar communication channels. All potential fraud incidents are investigated by a dedicated Group Financial Crime team that is specifically trained in identifying and reporting fraudulent behaviour. The Group will seek to recover all losses arising from fraud-related activities and to take necessary action, as appropriate. The Group Conduct Risk Management Committee, Group Operational Risk Management Committee, Group Risk Management Committee and Group Risk Committee regularly review and monitor fraud reporting.	As a financial services provider, we recognise that we are inherently exposed to the risk of fraud and that losses may occur as a result of doing business. In order to deter, detect and disrupt those who would seek to use the Group to facilitate any form of financial crime we have appropriate systems and controls in place. Key risk and performance indicators are agreed by senior management and reviewed on a regular basis. Management information on fraud-related activity is presented on a regular basis to senior management in order to provide visibility of our fraud exposure and any associated loss.	Group Audit Committee Report, see page 136.
Our Anti-Money Laundering and Counter Terrorist Financing Policy seeks to explain the responsibility of senior managers, the Money Laundering and Reporting Officer (MLRO) and all employees. The policy requires that the highest ethical standards are met and requires all employees to act with integrity at all times. We have no appetite for breaching legislation or regulation regarding anti-money laundering or counter terrorist financing. The policy provides a consistent approach to the deterrence and detection of those suspected of laundering the proceeds of crime or those involved in the funding of terrorism and the relevant disclosure to the necessary authorities. The policy forms an integral part of the Group Financial Crime Risk Management Framework.	The policy is subject to an annual review with approval provided by the Group Audit Committee. Anti-money laundering and counter terrorist financing forms part of the wider Financial Crime training package that is mandatory for each employee to complete on an annual basis. We have documented processes and procedures in place to identify the Group's customers prior to entering into a relationship. Systems and controls have been adopted to identify and report activity deemed to be suspicious. All suspicious activity is investigated by a dedicated Group Financial Crime team who are specifically trained in identifying and reporting suspicious behaviour.	No material issues or breaches have arisen from the Group's adherence to the existing Anti-Money Laundering and Counter Terrorist Financing Policy and processes. As a financial services provider, the Group recognises that it is inherently exposed to the risk of financial crime. Key risk and performance indicators are agreed by senior management and reviewed on a regular basis. Management information on financial crime-related activity is presented to senior management in order to provide visibility of our exposure to financial crime.	Group Audit Committee Report, see page 136.

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
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Social matters continued

Our Group Operational Resilience Policy

documents the approach and expectations of the Group in establishing and enhancing its levels of resilience and recognises Operational Resilience as a key area of focus for the Group.

The implementation and ongoing compliance with the requirements of this Policy is achieved through the Group's existing governance arrangements and overseen by the Group Operational Resilience function.

The policy references how the Group complies with all relevant UK regulatory requirements (e.g. the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA)) and aligns to industry good practice and standards. This includes the March 2021 published FCA and PRA policies on Operational Resilience. These policies require all firms to adopt a proactive approach to preventing a disruption to its services, whilst also ensuring that sufficient planning and testing is established in order to respond effectively to a disruptive incident.

The Group continues to make progress in implementing the requirements of the two regulatory policies.

The Group's response throughout the COVID-19 pandemic was proportionate and pragmatic, and was designed to consider both the needs of our colleagues and our customers and the services we provide. The widespread and prolonged period of the pandemic required the Group to adapt its approach reflecting both the local challenges of our business and the historical legacy differences in respect of governance; however, where a common Group-wide approach was required, it was applied. Whilst COVID-19 brought operational resilience into sharp focus, we recognise there are a number of threats that will not be as slow to impact or as prolonged and we plan for these against a range of severe but plausible scenarios.

In the event of a disruptive incident, the Group is well-placed to respond and deliver our Important Business Services. By assessing the level of risk our businesses face when exposed to a range of possible scenarios, developing the appropriate plans and then testing those plans; the Group is well positioned to respond to disruptive events.

The Group continues to invest in improving its infrastructure and is committed to delivering a number of enhancements in 2023 and beyond, with the aim of re-engineering how technology enables services provided by the Group.

Enhancing Operational Resilience remains a key consideration when setting the change management agenda.

The Group continues to maintain strong relationships with our key third parties and validates that they are able to recover services in line with our expectations and standards.

See page 66.

Description of the business model

A description of the business model is set out on pages 8-13 and includes non-financial KPIs relating to broker and customer satisfaction scores, customer retention, Greenhouse gas emissions, sponsorship and donations and women in senior management roles.

Principal risks and uncertainties

A description of the principal risks and uncertainties is set out on pages 60-70.

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

Jason Elphick

Group General Counsel and Company Secretary

16 March 2023

ESG overview

Environmental, Social and Governance (ESG) matters are not just about measuring a business's sustainability, through strong governance and risk-based frameworks. They are about our social purpose and stewardship, doing the right thing for our employees, customers, communities and our planet, working in collaboration, as we seek to combat the current economic and climate change headwinds.

During 2022, building on our strong ESG foundations, we developed a Strategy and a set of ESG Principles that seek to strike the right balance between risk and opportunity. We developed and implemented an ESG Operating Framework and Lifecycle that ensure we focus on, and capture the areas of stakeholder materiality and we linked our ESG performance to the Executive and Senior Management remuneration. Our ESG Strategy and ESG Operating Framework have not only served to embed ESG and climate risk into our business strategy, financial planning and risk management frameworks but have also allowed us to identify opportunities, where stakeholder value can be created.

Through aligning our ESG strategic direction, opportunities and initiatives, to our Purpose, Vision, and Values, the Group delivered a number of stakeholder led initiatives that included:

- Landlord Leaders thought leadership, education and awareness campaign
- optional energy efficiency mortgage products that aim to incentivise, enable and reward our customers
- various initiatives, operational processes and practices that support our customers, communities and employees through the current cost of living crisis
- reduction in our Scope 1 and Scope 2 emissions intensity ratio versus 2021
- supply chain collaboration to ensure ESG values are aligned, and
- various community and charity led initiatives.

Through active engagement and collaboration we seek to continue leading change by leveraging our colleague networks and our external partnerships to support the delivery of our environmental and social purpose. 2023 will see the launch of different products and partnerships to help our customers, and the creation of a collective manifesto for change. We are keen to lead the way and are seeking to collaborate with others within the industry to join us in driving positive and tangible change.

We are proud of the progress we have made on ESG but there is more to do to tackle the important challenges, we and our stakeholders face. We continue to rely on a wider set of regulatory and legal policy changes alongside developments in technology in order to meet our targets.





Together we prosper

We are committed to delivering our Purpose and a sustainable future for our customers, colleagues and communities.

From reducing the carbon emissions of our operations, supply chains and lending activities, to the impact we have on the people we affect directly and indirectly everyday.

Governance

We are committed to operating responsibly, ethically and transparently, delivering sustainable value for all our stakeholders

- 88 Operating Framework
- 89 Materiality assessment
- 90 Strategy and ambition
- 90 Governance
- 90 Decision-making

Environment

We are committed to environmental stewardship and delivering a positive impact on the environment, accelerating the transition to a low carbon economy and achieving net zero across our value chain by 2050

- 92 Progress
- 93 Management
- 94 Reducing the emissions from OSB Group buildings
- 96 Defining the Group's climate transition plan for financed emissions
- 97 Developing our understanding of Scope 3 upstream and downstream emissions
- 98 GHG emissions
- 99 GHG emissions table
- 100 TCFD

Social

We are committed to having a positive human and social impact on the lives of the customers, colleagues and in communities we work with and affect

- 108 Customers
- 109 Colleagues
- 113 Communities

Governance matters

The Group's Board recognises its responsibility for providing oversight of the Group's ESG Strategy and for setting the vision on how we conduct business, enhance stakeholder value and fulfil our regulatory obligations.

A Board-approved ESG Strategy supports the proportionate management of ESG risk and delivery of our strategic opportunities and initiatives aimed to positively impact our stakeholders.

The Board has overseen the development and approval of the following areas of governance:

- ESG Strategy
- ESG Operating Framework
- ESG Risk and Opportunity Analysis (non-financial)
- ESG balanced scorecard which measures performance against internal ESG targets
- ESG performance linked to Executive and Senior Management remuneration, see Remuneration Report on page 142
- ESG Metrics Policy
- Climate Risk Management Framework
- Membership and alliance to industry groups for climate change and diversity and inclusion.

ESG Operating Framework

The purpose of the ESG Operating Framework is to summarise the key components of the Group's ESG structures and management processes including:

- ESG governance mechanisms and responsibilities
- The ESG annual lifecycle:
 - Identification of risks and opportunities
 - Assessment of impact to the business and importance to stakeholders
 - Prioritisation of opportunities
 - Metrics identified to measure and monitor progress
 - ESG strategy definition in line with the Group's annual planning processes
- The Group's strategic ESG commitments
- ESG operating management principles
- ESG team roles and responsibilities in conjunction with other business lines within the Group.

Within the ESG Operating Framework the following strategic commitments have been established to guide our strategy, resource allocation, metrics, targets and reporting:

Colleagues

We will retain, recruit and train the best talent, enabling all employees to maximise their ambition. We will seek to embed a diverse and inclusive culture the Group is proud of, and to achieve our Purpose and Vision

Net zero

The Group's environmental ambitions and transition plan will align to the Paris Accord on climate change, achieving carbon net zero across our operational emissions by 2030 and total emissions by 2050

Customers

We will be inclusive for our customers, ensuring that the social mobility of our customers is not compromised through our products or decisions

Communities

A strategic and coordinated programme to support our communities and wider social economic environment through collaborations, partnerships and volunteering with focus on UK and India housing projects

Supply and value chain

We will encourage and support our supply and value chain with their transition to an ESG strategy that aligns to the Group's ambitions

Materiality assessment

ESG risk and opportunity materiality assessment

The Group matured its approach to the identification and assessment of non-financial risks and opportunities in 2022, by undertaking a materiality assessment. The process allows the Group to ensure that focus is maintained in the areas most important to our stakeholders and where impact and value can be created, furthering progress towards our Purpose and ESG commitments. For more information on the Group's stakeholders see page 16.

Identifying topics for assessment

48 topics were identified as relevant to the Group from a range of macroeconomic, industry and organisational inputs. These topics are grouped under 18 themes that bring relevance to the Group and its activities. Our approach to establishing material ESG topics will be refined during 2023 to align with those set by the International Sustainability Standards Board (ISSB).

The assessment identified a number of topics, such as cyber security, financial crime, conduct and compliance that are important to stakeholders, but fall within existing business responsibilities and management where there will be continued and ongoing focus.

Criteria were determined to inform the assessment of risks and opportunities. Risk was considered in line with the Group's Enterprise Risk Management Framework and opportunity was determined upon potential growth or reduction in cost, delivery of competitive advantage or alignment to Purpose, Vision and Values and ESG principles. Where available, quantitative data was used to inform the assessment.



Governance matters continued

ESG strategy and ambition

Informed by the materiality analysis and in the context of the activities the Group undertakes, three strategic pillars and supporting opportunities and initiatives have been defined under which we can focus our resources, decision making and reporting to deliver positive stakeholder value.

Our opportunities deliver progress towards one or more of the three strategic pillars and contribute towards one or more UN Sustainable Development Goals.

ESG governance

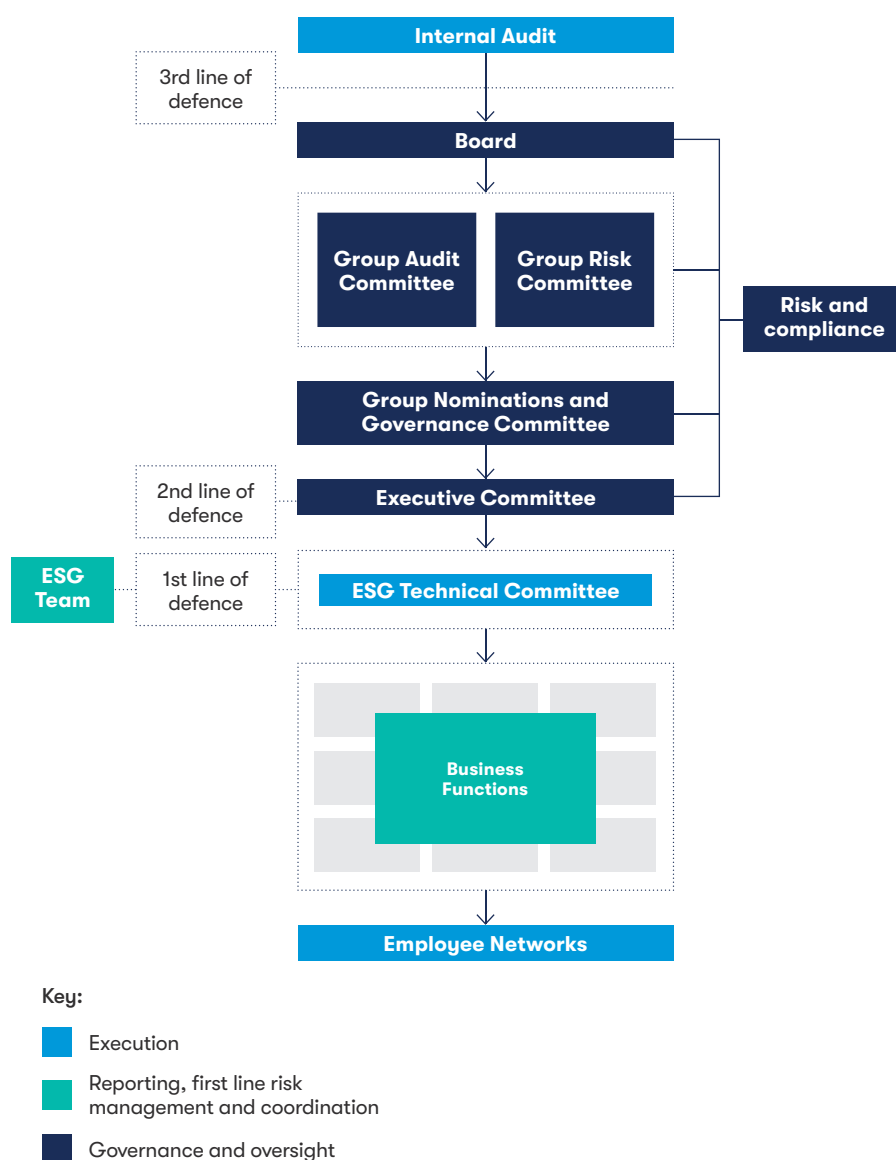
In March 2022, the Group established the ESG Technical Committee, incorporating the Climate Risk Committee and ESG Steering Committee both established in 2021. The ESG Technical Committee is a management committee reporting to the Group Executive Committee.

The Committee is responsible for directing and organising the Group's day to day approach to ESG. This includes focus on the social and governance objectives, as well as environmental matters, including climate risk. The Committee monitors the Group's progress in identifying and managing risks and opportunities in all of these areas.

ESG decision making

All Committee and Board papers now include a mandatory section dedicated to the assessment of Environmental, Social and Governance impact. Those submitting papers are required to reflect on contribution towards the Group's ESG Principles and the UN Sustainable Development Goals.

The Group's assessment of ESG priorities and subsequent disclosures (with the exception of TCFD) are currently voluntary and cover topics identified as relevant and those we believe are of interest to our stakeholders. We adapted our approach to non-financial (ESG) materiality to suit the topics, and disclosures, and aligned them to our Purpose, Vision and Values. In the future, data and information may need to be recalculated and restated as standards and frameworks are adopted and implemented and as the Group's maturity in these areas increases. To this end, the Group has engaged with the Financial Reporting Council – Financial reporting lab, Materiality project.



Environmental matters

Climate change and its impact remain the most pressing challenge facing our planet.

In March 2022, the Group announced our ambition to tackle the operational emissions from our office and branch buildings and the more challenging emissions associated with the properties we lend on (financed emissions). The commitment was supported by two targets that guide our actions:

- 1) Committing to net zero for our operational emissions¹ by 2030
- 2) Committing to net zero for financed emissions by 2050

Our approach to mitigating climate change and delivering on the opportunities this presents is in line with our Purpose and Values.

In recognition of the importance placed on addressing climate change, Just Transition is a pillar of our ESG strategy. The Group's Transition Plan will set out our interim and long-term targets and the actions we will take over the short and medium term. We expect to publish our detailed transition plan in 2024.

The Group's Landlord Leaders report was an important milestone in climate transition planning and delivery that places, customers, tenants and brokers at the heart of the discussion, not only in terms of environmental consideration but also, delivering fair and equitable social and economic prosperity.

In 2022, we gained a deeper understanding of our complete emissions inventory.² This work informed our approach to better measurement and target setting, identified the specific areas to focus on and increased the transparency with which we can inform our stakeholders of progress.

Recognising that no business can achieve net zero on their own and that collaborative support is required from key stakeholders across industry and policy makers, the Group joined and actively participated in a number of collaborative and sector specific initiatives giving the opportunity to remain informed and to have a voice in the development and implementation of regulation, frameworks and guidance.

1. Scope 1 and Scope 2 emissions.
2. In line with Greenhouse Gas Protocol.



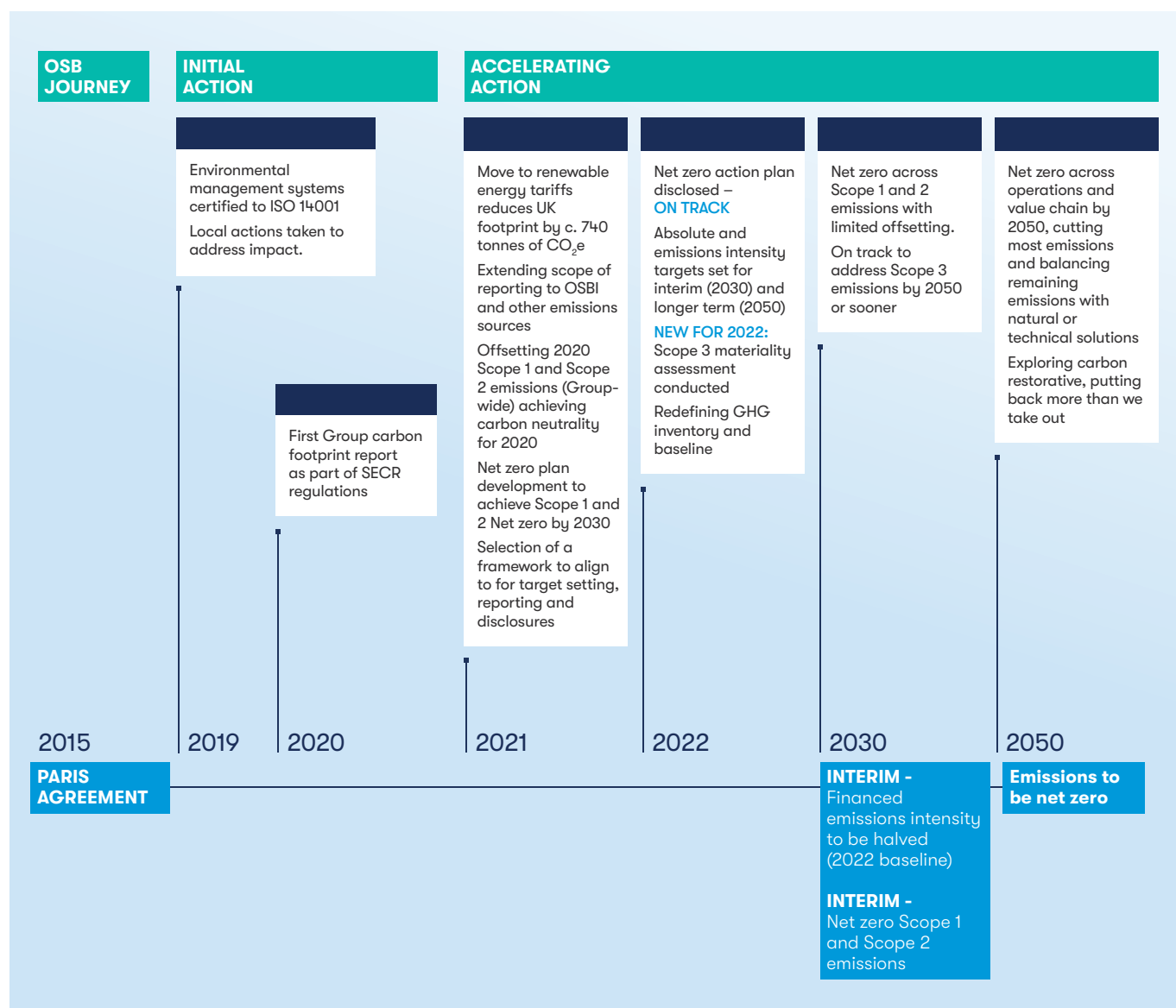
Environmental matters continued

Progress in 2022

Pillar	What we said in 2021	Progress we have made in 2022	Our priorities for 2023
Targets	Set and disclose Science Based Targets for Scope 1, 2 and 3 emissions for 2030, in order to achieve net zero no later than 2050	It is evident from data collected during the year that 2022 will provide a more accurate representation of the Group's carbon footprint post integration between OSB and CCFS, the return to more normal working after the pandemic, and therefore a more robust reference point from which to set reduction targets than the previous base year of 2019. This is in line with Science Based Targets initiative (SBTi) guidance on selecting a baseline year which identifies three determining criteria: 1) verifiable data on Scope 1, 2 and 3 emissions should exist for the base year 2) the base year should be representative of a company's typical GHG profile 3) the base year should be chosen such that the target has sufficient forward-looking ambition Therefore the Group is establishing 2022 as its base year from which to calculate interim and net zero targets.	Validation of our science base targets following re-baseline (Scope 1, 2 and 3 financed emissions targets) Calculate the emissions baseline of our asset based brands (Interbay Asset Finance) using PCAF methodology
Transition plan	Define the near and medium-term actions the Group will take to deliver the transition to net zero by 2050	"Just Transition" has been prioritised as a pillar of the Group's ESG strategy. Work was undertaken in 2022 to establish the Group's approach to Transition Planning. We have: A) Developed a Climate Transition Plan Framework having considered: i) Glasgow Financial Alliance for Net Zero financial sector recommendations for transition plans; and ii) The Transition Plan Taskforce (TPT) draft Sector-Neutral Framework B) Identified the decarbonisation levers that the Group will consider in defining the actions it will take to reduce financed emissions C) Appointed Executive Sponsors to provide support and alignment	In 2023, the Group will form its approach to Climate Transition and publish the plan containing details of: i) Objective and priorities ii) Governance iii) Implementation strategy iv) Engagement Strategy v) Metrics and targets
Metrics	Implement suitable metrics and improve data integrity and quality to measure and report progress towards targets	The Group has established an ESG balanced scorecard which includes greenhouse gas metrics for Scope 1 and 2. The dashboard is presented to the ESG Technical Committee, Group Executive Committee and Board on a monthly basis. Metrics relating to the progress towards net zero are included.	Following the Scope 3 materiality assessment, further metrics will be introduced to measure material emissions sources, or those that are to be targeted for reduction. As part of the Climate Transition Plan further metrics will be considered.
Engagement	Engage key stakeholders in understanding our carbon ambitions and improving carbon literacy	Throughout the year, presentations were made to Committees, and wider groups of colleagues. Communications were shared with employees raising awareness of the Group's ambitions. ESG workshops delivered as part of our People Development Programme included a focus on energy efficiency. Climate training was delivered to the Board in November. The Landlord Leaders report was published in November following significant engagement activities with customers and brokers.	A gap analysis will be performed assessing organisational readiness for executing the Climate Transition Plan; this will include reviewing competence and expertise throughout the Group. Further refinement of training materials as part of our personal development programme
Products	Develop and release products that deliver a material difference to our net zero ambitions and those of our customers	We have introduced products that incentivise, enable and reward customers who improve the energy efficiency of their property. In November 2022, the Group announced a £50m Landlord Leader Fund for 2023, which includes products to support landlords in the transition to energy-efficient properties.	Specifics pertaining to the £50m Landlord Leaders products will be announced as part of transition planning and the Group's commitment to customers. An assessment will be conducted to understand the impact of products across ESG aspects.
Supply chain	Cascade our ambitions to strategic suppliers of goods and services in order to begin addressing our supply chain emissions	In 2022, the Group initiated a pilot scheme with certain suppliers to encourage them to align their ESG strategy with the Group's own ambitions. A questionnaire was shared with pilot vendors to gauge their understanding and maturity in considering ESG matters. In addition, a letter from the Group's CEO was shared with vendors making clear the importance of ESG to the Group.	The Group will define its Vendor Management Strategy and approach to ESG and Sustainable supply chains.
Collaboration	Identify key collaboration opportunities for both sharing and learning through initiatives, programmes, charities and networks	Partnership for Carbon Accounting Financials (PCAF)- membership of two working groups, and chairperson of PCAF UK Residential Working Group Appointment to UK Finance Sustainability Committee. Investigated a number of solutions to support customers in their decarbonisation journey.	The Group will continue to align with, and where required, seek to become a member of collaborations and initiatives aligned with our ambitions.
Risk Assessment	Further refine our approach to climate risk assessment in line with our climate and ESG strategy.	See Risk review on page 58 for further details.	Climate risk management information will be enhanced for 2023, informed by ongoing trend and scenario analysis.

Strategic Principle - Net zero

The Group's environmental ambitions and transition plan will align to the Paris Accord on climate change, achieving carbon net zero across our operational emissions (Scope 1 and 2 emissions) by 2030 and attributable GHG emissions from lending portfolios by 2050.



As a specialist lender, the impact of our business operations (Scope 1 and 2 emissions) is relatively low, driven predominantly by the use of resources associated with electricity and gas. They provide power, heating, cooling and ventilation to our office and branch locations and came from the procurement of goods and services consumed as part of our business activities.

In comparison, the emissions associated with the finance we provide (Scope 3 category 15) to our customers³ was 449 times that of our Scope 1 and Scope 2 emissions. Considering the impact of these emissions and the complexity in reducing them, financed

emissions are a priority area for the Group and form the basis of our climate transition planning.

The wider value chain⁴ of the Group presents a challenge in both measurement and allocation. However, we remain committed to developing our understanding of total greenhouse gas (GHG) inventory and in 2022 we undertook a Scope 3 materiality assessment in order to begin measuring categories that will help guide target setting.

3. Mortgages only.

4. Greenhouse Gas Protocol – Scope 3 categories 1-14.

Management

Our Environmental Policy embodies the Group's commitment to meeting or exceeding all relevant environmental obligations under law and regulation, reducing our impact and achieving the Group's ambition of net zero value chain GHG emissions by no later than 2050. These goals are in line with the Paris Climate Accord of keeping a global temperature rise this century well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C.

Environmental matters continued

The policy is supported by Environmental Management Systems (EMS), the Group's science-based targets and environmental improvement programmes, addressing energy use and carbon reduction, natural resource preservation, waste reduction and encouraging sustainable behaviours. The policy is reviewed by the Group Executive Committee and ESG Technical Committee prior to Board approval and an executive accountable for the policy is appointed.

All UK offices remain under a management system certified to the international environmental management standard ISO:14001 2015.

Measuring emissions

In 2022, the Group matured its approach to GHG accounting, continuing to apply the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard for all GHG accounting across Scopes 1, 2 and 3.

In line with the principles of relevance, completeness, consistency, transparency and accuracy set out in the standard, we recategorised some emissions sources based upon the Operational Control method of setting organisational boundaries. Selecting

this approach reflects the contractual arrangements of ownership and tenancy of the buildings we operate from, and our ability to implement programmes to reduce emissions. Our carbon footprint data and comments on performance for 2022 reflect the revised accounting method. We re-calculated 2021 and 2020 emissions to allow suitable comparison in disclosures. Where emissions sources have moved from Scope 1 or Scope 2, they have been accounted for within Scope 3.

Gaining a complete view of our GHG inventory is the best way to target action based on and our ability to control or influence emissions. With the support of third-party specialists we conducted a materiality assessment of our Scope 3 emissions sources, see page 98 for further details. Maturity in emissions accounting will continue to be a focus. The availability and quality of data, and progress in internal accounting processes and systems to support these will require development over time.



Reducing the emissions from OSB Group buildings

OSB Group commits to reduce Scope 1 and Scope 2 GHG emissions* by

100%
by 2030 from a 2022 base year

* Scope 1 and Scope 2 target is calculated using market-based methodology in line with the SBTi Financial Sector Science-Based Targets Guidance – version 1.1 Aug 2022

This ambitious target embraces the Group's commitment to taking ownership of emissions from the buildings we operate from and have control over.

The Group's net zero strategy continues to be based on a responsible and transparent transition for the emissions associated with our business activities, with the following priorities guiding our action:

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

During the year the following steps were taken:

- net zero 2030 de-carbonisation plan set out for the Group's Scope 1 and Scope 2 emissions and presented to the Group's ESG Technical Committee
- investment in net zero feasibility studies completed for two of the Group's main office locations⁵ in order to evaluate and prioritise technologies suitable for our operations
- feasibility studies and proposals completed for the installation of solar arrays to the UK office buildings⁶
- improvement to Building Management Systems (BMS) controls and settings
- completed the purchase of a freehold office building in Wolverhampton, allowing greater control over emissions, with net zero a core consideration in the design and fit-out project.

5. The Observatory and OSB House in Chatham, Kent.

6. The Observatory, OSB House, Charter House.



Performance in 2022

In 2022, the Group reduced its Scope 1 emissions by 8.1%. The reduction in Scope 1 emissions was a result of using less natural gas (169,386kWh) which is used to provide heating and hot water to a number of UK offices.

The Group's Scope 2 emissions using market-based methodology were zero for 2022, as 100% of the electricity purchased by the Group was from renewable tariffs. Using the location-based methodology, reflecting

the average emissions intensity of grids on which energy consumption occurs, emissions were 322.1 tCO₂e, a 5.9% reduction from 2021. However, the Group's consumption of electricity increased by 54,029 kWh (3%) from 2021. The reduction in location-based emissions despite an increase in consumption is a result of the reduced carbon intensity of the 2022 carbon conversion factor applied to standard grid electricity as published by the Department for Business, Energy & Industrial Strategy (BEIS).

Electricity purchased in the UK from renewable tariffs

100%

Reduction in Scope 1 and Scope 2 emissions from 2021*

8.1%

* Scope 2 emissions calculated using market-based methodology. 2021 KPI measured reduction versus a 2019 baseline. The Group has now reset its base year to 2022. The KPI uses performance versus 2021 to demonstrate progress made in 2022.

Location based GHG Emissions (tCO₂e) 2022

2022	154	322	335	Scope 1
2021	167	342	112	Scope 2
2020	133	310	71	Scope 3

Market based GHG Emissions (tCO₂e) 2022

2022	154	335	Scope 1
2021	167	112	Scope 2
2020	133	239	Scope 3

Environmental matters continued

Electricity and gas

The Group's decarbonisation plan prioritises moving away from natural gas technologies to heat buildings towards electrical solutions as part of our corporate real estate strategy.

As efforts to realise these ambitions continue, the Group has used, verified carbon mitigation schemes from the voluntary carbon market (VCM) to offset the emissions directly related to our business activities in 2022.⁷

Water

The Group's use of water is for domestic and hygiene purposes. 5,243m³ of potable water was used in 2022, an increase of 56.2% from 2021. It can be reasonably assumed that this was a result of increased occupation and use of the office buildings during 2022 following periods of lower occupancy in 2021 as a result of the pandemic.

Waste

Following a UK campaign in June, where all of the plastics items thrown away in UK offices in a week were counted and categorised, a number of actions were taken to reduce waste and increase recycling.

During June, in honour of World Environment Day, OSBI launched a challenge to reduce the amount of consumables used each day in the office.

Defining the Group's Climate Transition Plan for financed emissions

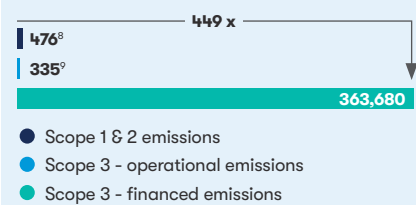
Calculating financed emissions

Building on the Group's inaugural measurement of financed emissions in 2021, using the Partnership for Carbon Accounting Financials (PCAF) methodology, we have again calculated the attributed carbon emissions of our lending portfolio, see page 99.

The Group continues to use the PCAF methodology as the most robust and suitable method to calculate financed emissions. The PCAF method attributes a proportion of the total emissions of a property, taken from the Energy Performance Certificate (EPC) to the lender based on the outstanding value of the loan versus the value at origination.

An inherent limitation in this methodology is that it relies on the availability of property EPC certificates. In 2022, 79.9% of properties had a valid EPC certificate. 19.7% of properties had emissions modelled or estimated based on postcode average or UK average. Where data was unavailable (<1% of properties), properties were allocated a D rating. Our calculations included the mortgage portfolio as the largest asset class (c. 97% for OSB and c. 98% for CCFS of total lending). It did not cover non-modelled book or securitised loans.

Calculated Financed Emissions



In 2021, we committed to improving the quality of data used to calculate financed emissions. For 2022, our PCAF data quality score is at 3.2.⁸ The Group joined the PCAF UK Residential Property Working Group to explore this as a sector level challenge that will not be solved in isolation. Whilst we have identified and explored several solutions that can provide property level consumption data, we continue to form plans of how this is integrated into our product and proposition offering and overcome the barriers of data confidentiality and access.

In October, the Group contributed to PCAF UK's letter to the Department for Business, Energy & Industrial Strategy, outlining the challenges financial institutions face within the current Minimum Energy Efficiency Standards and EPC system, alongside the opportunity presented by smart meter data in both the accurate measurement of financed emissions and determining product and service offerings that can drive change in the real economy. In November, the Group's Head of Sustainability became the Chair of the PCAF UK Residential Property Working Group.



⁷ Offsetting covers Scope 1, Scope 2 (market-based) and UK Scope 3 (business travel, water and waste from operations, energy related activities not reported in Scope 1 and 2 and OSBI operations (purchased electricity - market-based), gas oil and fugitive emissions) for year ended 31 December 2022.

⁸ 2021 PCAF data score of 3.

Target setting

The Group is committed to setting Science-Based targets in line with our Net Zero Banking Alliance (NZBA), and Science Base Targets Initiative (SBTi) commitments. The SBTi requires that companies should use the same base year for all targets within the near-term timeframe, and therefore 2022 will be used as the baseline for calculating targets for financed emissions, with validation of the targets by SBTi to be conducted in 2023.

Planning a just climate transition

In 2022, the Group defined the just transition as one of three ESG Strategic Pillars. Earlier in the year, the Group committed to a science-based net zero target by 2050, and joined the Net Zero Banking Alliance. To deliver on this ambition, we will define and demonstrate the steps we intend to take to achieve net zero emissions.

Just Transition

Whilst there is no single accepted definition of a Just Transition, the principle is based on a fair and inclusive move to a low carbon economy. A transition that maximises benefit for the environment, society and the economy and leaves no one behind.

As a specialist lender, that does not lend into carbon intensive sectors such as coal, oil or gas, the Group is well placed to understand and meaningfully contribute to the real economy decarbonisation of UK housing required in order to avoid the worst impacts of climate change. With our heritage, expertise and understanding of the sectors we operate in, we approach transition planning in a thoughtful and considered way, placing the borrower and tenant at the heart of the conversation alongside the environment. It is important that the actions we do take drive real economy change and do not introduce unacceptable risk.

During the year, the Group focused efforts on creating a framework and solid foundation from which to build the Transition Plan. This involved considering the Glasgow Financial Alliance for Net Zero (GFANZ) and Transition Plan Taskforce (TPT) consultations and calls for evidence. The Group used the elements of the GFANZ framework which is specific to financial institutions, to initiate work on the climate transition plan.

We made progress in a number of areas, including setting ambition and vision, influencing clients and harnessing the collective industry influence.

Our Landlord Leaders – A New Environment for the Private Rented Sector thought leadership piece released in November 2022 is a clear demonstration of both the Group's commitment to decarbonisation and to our brokers, customers and tenants. It also highlights the challenges we face, from raising the education and awareness required to ensure that stakeholders are climate literate, to the current lack of government policy critical to providing direction and pace. That is why the Group committed to delivering the following in 2023:

- a pledge of £50m to our newly established Landlord Leader Fund to help landlords enhance energy efficiency
- a new product range with accommodating loan to values and interest coverage ratios during property refurbishment
- a redesigned underwriting process for existing landlords
- partnering with tax specialists who can provide advice and guidance on tax planning for part-time landlords looking to professionalise
- the creation of a Landlord Leaders community to bring brokers, landlords and other industry members together

The Group recognises the risk of unintended consequences where action is taken without full consideration of all stakeholders that may be impacted. That is why in 2023, we will build on the work completed in 2022 and form our just climate transition plan as a holistic and collaborative exercise, championed by Executive sponsors and utilising the existing expertise within the Group including Risk, Compliance, Products and Propositions, Sales and Marketing, Compliance, ESG and Human Resources teams. We will continue to utilise frameworks and guidance designed for the financial services sector including the GFANZ Financial Institution Net Zero Transition Plans – Fundamentals, Recommendations, and Guidance and when finalised, the Transition Plan Taskforce Disclosure Framework and Guidance both of which have been considered in the work completed to date.

Developing our understanding of Scope 3 upstream and downstream emissions

It is widely understood that Scope 3 emissions account for the vast proportion of a financial institution's GHG inventory due to the emissions attributed to the assets they fund, referred to as financed emissions (Scope 3, category 15). For this reason, the Group approaches reducing financed emissions as a strategic priority with separate targets, planning and sections of reporting.

Given the breadth and depth of categories 1-14 of Scope 3, the Group takes a structured approach to definition and measurement. A Scope 3 screening assessment has been conducted and initial calculations made for various categories where they are deemed potentially significant.

Relevance has been decided based upon size, influence, risk, stakeholders, outsourcing and sector guidance.

As a financial product and service provider, our financed emissions remain the most material as disclosed on page 99. We have quantified and disclosed Scope 3 categories 3, 5 and 6 in the Greenhouse gas emissions table on page 99. Further work will be carried out in 2023 to quantify other categories. Currently we do not expect other categories to be material when considered against financed emissions and the GHG protocol materiality level of 5%.

Scope 3

All indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Environmental matters continued

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).

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.

Emissions are calculated using the Greenhouse Gas Protocol Corporate Standard and associated guidance documents and include all greenhouse gases reported in tonnes of carbon dioxide equivalent (CO₂e). When converting consumption data to carbon emissions Emission Factors from UK Government Emissions Conversion Factors for Company Reporting (Department for Business, Energy & Industrial Strategy, 2022) are used.

In 2022, an exercise to review the Group's GHG inventory was completed. Where an emissions source moved scopes as a result of the assessment, the outcomes of the review are summarised below. We intend to disclose Category 8 emissions in 2023 following refinement of the data.

Emissions source	Country	Nature of operation	Scope previously accounted within	Scope now accounted in ¹	What is the basis for change
OSBI - Bangalore	India	Office	1 & 2	3 Category 8	The Group does not procure the utilities for these locations. These are selected and provided by the building operator. The Group does not operate the mechanical and electrical systems within the building. The building is shared with a number of other organisations.
OSBI - Hyderabad					
OSBI - Hosur					
Whitfield Street	UK	Office	2		

1. It is the intention to report further Scope 3 categories in future disclosures

2022 GHG emissions reporting includes the changes referenced above. To allow annual comparison between previous and current years, emissions have been recalculated and restated in this report.

The Group's 2022 Greenhouse gas emissions basis for reporting is publicly available on the OSB GROUP corporate website: <https://www.osb.co.uk/corporate-responsibility/focused-on-the-environment/>

Verification and assurance

Deloitte LLP was engaged to provide independent limited assurance over the following metrics for the year ended 31 December 2022 ♦ under the International Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000 (Revised)) and the International Standard on Assurance Engagements 3410 Assurance Engagements on Greenhouse Gas Statements (ISAE 3410):

Greenhouse Gas (GHG) emissions

- Total direct (Scope 1)
- Total indirect (Scope 2) emissions – Market-based
- Total indirect (Scope 2) emissions - Location-based

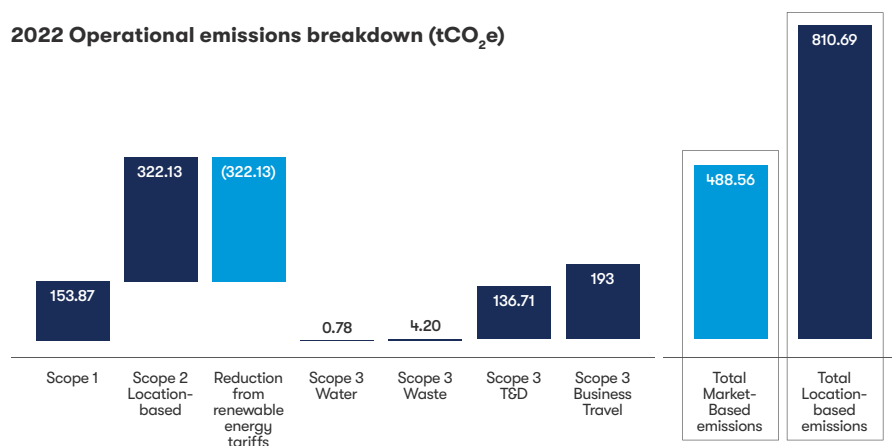
GHG Intensity

- Metric tonnes of CO₂e per FTE employee
- Metric tonnes of CO₂e per £m turnover

Deloitte's assurance statement can be found on page 248.

Scope 3 emissions - (categories: 3 Fuel and energy-related activities, 5 Waste generated in operations and 6 Business travel) disclosures were verified by Interface NRM, an independent UKAS and ASI accredited Certification Body, operating in accordance with ISO 17021 (2015) Conformity assessment: Requirements for bodies providing audit and certification of management systems; and ISO 17065 (2012) Conformity assessment – Requirements for bodies certifying products, processes and services.

2022 Operational emissions breakdown (tCO₂e)



Greenhouse Gas (GHG) Emissions

Direct and indirect GHG emissions (Scopes 1, 2 and 3)		Further description	Specific fuels where applicable	2020	2021	2022
Amounts in metric tonnes CO ₂ equivalent						
Scope 1						
Stationary combustion		Combustion of fuel on site	On site: natural gas, diesel for generators	132.95	167.39	138.22
Fugitive emissions		Fugitive emissions	Fugitive emissions are leaks and other irregular releases of gases or vapours from a pressurized containment: air-con units	0.00	0.00	15.65
Total Scope 1 direct emissions				132.95	167.39	153.87♦
Scope 2						
Purchased electricity						
Total Scope 2 location-based			Electricity - Location-based	309.54	342.23	322.13♦
Total Scope 2 market-based			Electricity - Market-based	238.53	0.00	0.00♦
Scope 3						
Business travel		Unknown vehicle fuel; rail; bus; taxi; hotel stays	Unknown vehicle fuel	71.26	78.87	193.00
Water		Water use		N/M	0.50	0.78
Waste		Waste from operations		N/M	1.35	4.20
Fuel and energy-related activities (not included in Scope 1 or 2)		Well-to-tank (WTT) emissions for fuel use, upstream emissions for non-renewable electricity generation, and transmission and distribution losses in the electricity network		N/M	31.20	136.71
Total indirect Scope 3 emissions (category 3, 5 and 6)			Unknown vehicle fuel, water, waste energy related activities	71.26	111.91	334.69
Total operational emissions (location-based)				513.75	621.53	810.69
Total operational emissions (market-based)				442.74	279.30	488.56
Total indirect Scope 3 - Financed emissions (category 15)*		Category 15 Investments (financed emissions). Calculated by multiplying an attribution factor (outstanding amount of loan divided by the property value at origination) by the emissions associated with the property taken from EPC. Calculated for the Buy-to-Let and residential lending	Gas and electricity for heating, hot water and lighting only	N/M	278,854.00	363,680.00
Total GHG emissions (location-based)				513.75	279,475.53	364,490.69
GHG intensity						
GHG intensity ratio	Description			2020	2021	2022
Full Time Equivalent (FTE) employees (UK)	full-time equivalent (FTE) is a unit of measurement equal to one full-time employee			1233	1164	1237
Annual turnover	£m			508	629	775
Scope 1 and Scope 2 location-based	metric tonnes of CO ₂ equivalent per full time equivalent			0.36	0.44	0.38♦
Scope 1 and Scope 2 location-based	metric tonnes of CO ₂ equivalent per £m total income			0.87	0.81	0.61♦
Scope 3 Financed emissions - physical emissions intensity	Kgs of CO ₂ equivalent per square metre*			N/M	24.81	29.9

Energy consumption

Energy usage kWh		2020	2021	2022
Electricity		1,777,667.00	1,611,783.00	1,665,812.80
Gas		723,050.00	913,890.00	744,504.18
Total kWh		2,500,717.00	2,525,673.00	2,410,316.98

N/M = Not measured

* Financed emissions physical intensity ratio is calculated by multiplying the total estimated attributable financed emissions in tCO₂e for 2022 (363,680 tCO₂e) by 1000 to give Kgs Co₂e (363,680,000 kgCo₂e). This is divided by the total floor area in m² of the properties taken from the Energy Performance Certificate (12,151,478m²). Estimated absolute financed emissions were 610,265 tCO₂e for 2022. Financed emissions estimates are for the mortgage portfolio as the largest asset class. It does not cover non-modelled book or securitised loans.

Task Force on Climate-Related Financial Disclosures

Listing Rule 9.8.6R (8) requires that the Group provides climate-related financial disclosures consistent with the recommendations set out by the Task Force on Climate-related Financial Disclosures (TCFD). The Board confirms that it has disclosed sufficient information to comply with the TCFD recommendations, with the exception of the Group's transition plan which will be completed during 2023 (Strategy b). The Group has reviewed the guidance contained in the TCFD Annex and will continue to supplement its future disclosures where appropriate.

The Board and management are committed to ensuring that the Group takes appropriate and timely actions to support the global sustainability agenda.

Throughout 2022, the Group continued to provide thought leadership, raise awareness and educate our borrowers to help them make decisions that would lead to improvements in the energy efficiency of their properties. Progress was also made in delivering a number of initiatives to reduce the Group's own impact on the climate.

The Board is conscious that regulatory expectations and industry best practices continue to evolve and further work is required to fully embed our climate risk operating model across the Group.

The disclosures below were drafted to be consistent with TCFD recommendations and provide transparent reporting to assist our stakeholders in understanding the impact of climate change on the Group. The current assessment indicates a low climate risk impact to the business, however we remain cognisant that climate risks may evolve over time.

A transition plan (Strategy b) is not included below and is a priority development area for 2023 and will align with the timeline of the commitments made to the UN Net Zero Banking Alliance and Science Based Targets Initiative. The Group aims to include it in the 2023 Annual Report and Accounts.

In the table below, we describe the progress made against each TCFD pillar during 2022 and the opportunities planned for 2023.

GOVERNANCE

Achievements in 2022

1) Board oversight of climate-related risks and opportunities:

- All Committee and Board papers provide an environmental impact assessment to allow the Directors to consider any climate-related risk impacts. Climate risk and Environmental, Social and Governance (ESG) matters are key considerations to the Group's strategy for which the Board assumes responsibility.
- The ESG Technical Committee was created as a Management Committee reporting to the Group Executive Committee which met quarterly in 2022. The Board delegated the day-to-day management of climate risk to the CEO, who was assisted by the ESG Technical and Group Executive Committees in discharging these responsibilities.
- In addition to its direct oversight, the Board delegates responsibility for the Group's climate-related risk appetite, risk monitoring, provisioning, and capital and liquidity management to the Group Risk Committee. The setting of climate risk appetite limits is a key tool utilised to ensure that the Group's risk profile continues to be managed to an acceptable level, whilst the Group's climate risk Internal Capital Adequacy Assessment Process (ICAAP) ensures that the Group continues to hold sufficient capital to address climate specific risks to which it may be exposed. During 2022, the Board provided oversight over these key processes.
- During 2022, the Group Audit Committee continued to monitor the Group's compliance with the TCFD requirements.
- A Non-Executive Director of the Board, Sarah Hedger, continued to oversee ESG matters on behalf of the Board.
- External climate and wider ESG training was provided to the Board in Q4 2022.
- Senior management function responsibilities were updated to include details of functional plans regarding the Group's ESG agenda, and the relevant activities are detailed within Executives' statements of responsibilities.
- The Board considers and approves emission reduction goals and targets in line with the Group's net zero commitment by 2050 commitment.
- The Group Remuneration and People Committee integrated greenhouse gas (GHG) emission reduction targets into the Balanced Business Scorecard (BBS) with performance against these targets presented to the Board on a regular basis (see metrics and targets for further details).

Opportunities for 2023

- Deliver further enhancements to the Group's climate-related internal expertise to ensure effective oversight of climate-related risks.
- Continue to work with external advisors as appropriate to inform annual budgets, business plans, as well as setting the organisation's performance objectives.
- Further develop the Group's climate risk strategy and monitor its adherence by setting and monitoring climate-related risk performance targets.
- Deliver further enhancements to the Group's climate financial risk appetite framework, which will result in enhanced monitoring of the Group's climate risk profile
- Provide training as part of the Group's Climate Transition Plan.

Further details

See Governance matters on page 90 for further information.

GOVERNANCE CONTINUED

Achievements in 2022	Opportunities for 2023	Further details
2) Management's role in assessing and managing climate-related risks and opportunities:		
– The ESG Technical Committee was established in 2022 with the responsibility to maintain effective identification and management of climate-related risks and goals. The Committee's output is summarised and shared annually with the Board for consideration. – An annual materiality workshop is completed as part of the ESG lifecycle where management consider ESG risks and opportunities. – Climate risk continues to be recognised as an enterprise risk and forms part of the Group's overarching Enterprise Risk Management Framework (ERMF). – The ESG Sustainability Director is responsible for ensuring the Group's strategy is aligned and consistent with the various climate-related initiatives across the Group as well as ensuring that the Group is well positioned to meet its ESG reporting objectives. – In 2022, the Group's Climate Risk Management Framework (CRMF) was implemented as a sub framework of the Group's ERMF, which articulates the Group's climate risk management arrangements, ensuring ongoing delivery of planned goals and continued effective risk management of climate-related risks. – Annual greenhouse gas reduction targets (scope 1 and scope 2) were integrated into the personal objective of the CEO and CFO as well as the Balanced Business Scorecard (BBS). Integrating targets into remuneration is expected to reduce the Group's emissions aligned to the Group's net zero commitment. – An internal review of existing risk management frameworks across principal risk areas was conducted to ensure that climate risk is appropriately embedded and monitored. Formal addition of the climate elements are planned during the next individual framework review cycle. – Following the Science Based Targets Initiative (SBTi) guidance and criteria, 2022 is set to be the established base year for financed emissions (mortgages). Interim (2030) and long-term (2050) net zero targets have been established using intensity ratios under sector decarbonisation pathways.	– Further embed the Group's CRMF. – Further embed climate risk considerations within the Group's other sub risk management frameworks. – Progress towards reducing the Group's direct emissions targets. – Continue the development of the Group's transition plan setting out the actions the Group will take to achieve its targets and how progress will be measured and reported. This plan will be reviewed and considered by the Board for approval in 2023.	None

Task Force on Climate-Related Financial Disclosures continued

STRATEGY		
Achievements 2022	Opportunities for 2023	Further details
3) Climate-related risks and opportunities identified over the short, medium, and long-term:		
The Group determined the following as relevant and/or material risks to be reviewed annually: Time periods considered are defined as short term 0-5 years, medium term 5-10 years and long term greater than 10 years. The short term time horizon aligns to the Group's planning and ICAAP stress testing assessment periods. The long term time horizon has been utilised within scenario analysis to assess climate risks which may occur over a longer timeframe. The medium term horizon therefore, relates to risks and opportunities which are inside our long term assessment horizon, but sit outside of our short term assessment period. The Group's lending is to individuals and small and medium enterprises in the UK, where the specific climate risks and opportunities are assessed. The Group's operational sites in both the UK and India (OSBI) are exposed to similar climate risks. Currently, the Group does not deem it necessary to describe risks and opportunities by geography. The Group provides lending in the UK primarily against residential and commercial properties, with low exposure to non-property collateral backed funding lines or asset finance lending which is typically secured against hard assets, and therefore does not have significant credit exposure to carbon related assets.		
Risks Lending • Physical risk (long term) <i>Changes in precipitation patterns and extreme variability in weather patterns, rising mean temperatures and rising sea levels</i> The Group primarily lends on residential assets, either for owner occupation or for investment by professional landlords. The Group undertook the annual scenario analysis of its portfolio using best-case and worse-case scenarios to determine the level of exposure to climate-related risks. The key physical risks used for scenario analysis are flooding, subsidence and coastal erosion in the long-term (> 10 years), which considers the behavioural and contractual life of the Group's primary lending types. • Transition risk (short term) <i>Policy and legal - mandates on and regulation of existing products and services</i> Energy Performance Certificate (EPC) rating requirements are considered a key transitional risk in the short term (0-5 years). The Group's current exposure to transition risk as a proportion of the total lending is relatively small. <i>Uncertainty in market proposition</i> Commissioned research indicated varying levels of awareness amongst borrowers around climate change, mitigation, support available and understanding of EPC ratings. There is a potential risk that landlords might be leaving or not entering the market if climate risks make investment less attractive. <i>Policy and legal - exposure to litigation</i> <i>Reputational - increased concern or negative feedback from the Group's stakeholders</i> Operations • Physical risk (long term) Increased severity of extreme weather events such as cyclones and floods. The Group's operations in the UK and OSBI could be impacted by an increased number or severity of extreme weather events. Increased costs may be incurred during the period in which operational processes are recovered. • Transition risk (long term) <i>Increased pricing of GHG emissions, enhanced emissions-reporting obligations</i> The Group offsets its Scope 1, Scope 2 and Scope 3 business travel emissions on an annual basis whilst it aims to reduce total emissions. It is expected that the cost of offsets from the voluntary carbon market will increase significantly towards 2030. In addition, it is anticipated that policy will introduce mechanisms to penalise fossil fuel use in support of the government's net zero ambitions.		
	– Expand the Group's scenario analysis to a wider range of transition risks. – Identify climate-friendly products, utilising the full range of the Group's brands, whilst being cognisant of any conduct risks. – Fund thought leadership and broker/ borrower education and awareness. – Consider the Group's climate financial risks within the Group's planning processes.	See analysis on pages 58 and 59.

¹ The Group has defined its time periods as follows: short term: less than one year; medium term: period to 2035; long term: period to 2050.

STRATEGY CONTINUED

Achievements in 2022

Opportunities for 2023

Further details

3) Climate-related risks and opportunities identified over the short, medium, and long-term: continued

Opportunities

Lending

• Products and services (short term)

- increased revenue through demand for lower emissions products and services
- improved competitive position to reflect shifting consumer preferences, resulting in increased revenues
- green financing and lending products have the ability to finance retrofit new build projects that increase carbon efficiency or reduce the carbon footprint of investments contributing to real economy decarbonisation, and the Group's ambitions and commitments. The Group undertook and commissioned research in the mortgage market to fully understand broker and customer perceptions, attitudes and knowledge in this area, and will regularly refresh the research to identify solutions that allow the market to meet the government's climate change commitments.

• Resilience (short term)

Increased revenue through new products and services

Transition planning is a significant focus for regulators and continues to gain the attention of shareholders. Suitable planning supports the ongoing resilience of the Group as a specialist lender.

Operations

• Resource efficiency (short term)

Reduced operating costs (e.g. through efficiency gains and cost reduction)

Increasing the Group's energy efficiency is an opportunity that will reduce the ongoing operating costs of electricity and natural gas, which are the key drivers of Scope 1 and Scope 2 emissions. Increased efficiency also provides a level of protection against the current uncertainty of energy security and pricing.

• Energy source (short term)

Use of lower-emission sources of energy, use of supportive policy incentives

The use of low or zero carbon technologies is likely to reduce operating costs associated with carbon intense energy sources over the medium to long-term and the need to fund offsetting. The Group will also be afforded a level of protection from fossil fuel price increases.

- Expand the Group's scenario analysis to a wider range of transition risks.
- Identify climate-friendly products, utilising the full range of the Group's brands, whilst being cognisant of any conduct risks.
- Fund thought leadership and broker/ borrower education and awareness.
- Consider the Group's climate financial risks within the Group's planning processes.

None

Task Force on Climate-Related Financial Disclosures continued

STRATEGY CONTINUED

Achievements in 2022

4) Impact of climate-related risks and opportunities on the Group's businesses, strategy, and financial planning:

- Climate-related risks and opportunities are part of a wider ESG risk and opportunity analysis. The impact and importance of risks and opportunities are determined based upon a quantitative assessment where data is available, or a qualitative assessment of the potential for growth or cost management and the degree of importance to stakeholders.
- During 2022, the Group made progress in managing risks and developing potential areas of opportunity with respect to products and services, the supply/value chain, adaption and mitigation activities and operations, with further initiatives planned in 2023. As a result of the Group's current strategy and simple business model, the climate related risks and opportunities relating to investment in research and development, acquisitions and access to capital are not deemed material for the Group and therefore were not an area of focus in 2022.
- The Board has determined that sustainability is a key priority for the Group, and has committed to the development and implementation of a robust net zero Transition Plan in line with the Paris Agreement's central aim to strengthen the global response to the threat of climate change.
- In 2022, the Group measured its Scope 3 financed emissions using the Partnership for Carbon Accounting Financials (PCAF) methodology. This is an important step forward which allows subsequent analysis and modelling of actions to address this area of significant risk and opportunity. This ambitious strategy is wholly aligned with the Group's Values, in particular Aim High and Stewardship. The PCAF calculation covers the mortgage portfolio as the largest asset class. It does not cover non-mortgaged portfolios or securitised loans.
- The Group's financial plans are set on an annual basis and are reviewed and refreshed quarterly. They consider, among other matters, the Board's risk appetite, macroeconomic outlook, market opportunity, the competitive landscape and sensitivity of the financial plans to volumes, margin pressures and any changes in capital requirements. For the 2022 financial plans, the Board considered all principal and emerging risks including climate risk, where the risk is likely to emerge outside of the viability assessment horizon. The impact of climate risk was assessed as part of the ICAAP, which concluded that the associated financial risks were not material for the Group as at 31 December 2022.
- In 2022, the Group included provisions for climate change in its IFRS 9 impairment in the form of a post model adjustment and accounted for discounts on properties with a low energy efficiency rating in the event of a forced sale. The provisions raised were not material in the context of the total provisions held by the Group.
- The Group considered the impact of climate-related risks on its operations in India and established a second site in Hyderabad to ensure that in the event of an operational incident (including a climate-related one) services can be maintained.

Opportunities for 2023

- Enhance the Group's approach to defining the impact of climate-related risks and opportunities beyond current scenario analysis of physical and transitional risks
- Develop a clear and robust transition plan to achieve the targets set for Scope 1, 2 and 3 emissions to be verified by SBTi which will result in a greater understanding of the effect of climate risk on the Group's financial performance
- The Group will establish two emissions reduction targets aligned to the SBTi methodology which will be submitted for SBTi validation in 2023:
 - 1. a target for Scope 3 category 15 financed emissions using a Sector Decarbonisation approach (SDA) under SBTi IEA ETP 2017 B2DS scenario for residential buildings which will include an interim target for 2030 (financed emissions)
 - 2. a target for operational emissions covering Scope 1 and 2 categories using an absolute contraction approach.

These targets show the Group's commitment to meeting the Paris Climate Accord.

- Consider opportunities such as green funding, green savings, securitisation, climate risk underwriting criteria and ESG awareness campaigns to pursue the most impactful opportunities and support customers in their transition.
- Join sector initiatives to enhance collaborative working to achieve net zero.
- Formalise and include climate-related inputs into the financial planning process.

See page 96 for further details on transition planning.

See Environment matters on page 92 for further details.

5) Resilience of the Group's strategy taking into consideration climate-related scenario analysis:

- The Group's ICAAP considers the resilience of its strategy and loan portfolios to climate risks such as floods, coastal erosion, subsidence, and minimum EPC ratings. The ICAAP saw minimal impact from climate risk, varying severity RCP 2.6 and 8.5 scenarios were considered which assess the impacts across a range of severity scenarios. In 2022, a Climate Biennial Exploratory Scenario was utilised to undertake a Pillar 2B climate risk assessment.

- Expand the number of transitional climate risks considered in future scenario analysis. The results of these may drive changes to strategy which the Group will disclose, if material.

See Risk review on page 58 for further detail on the Group's approach to analysing climate risk.

RISK MANAGEMENT

Achievements in 2022	Opportunities for 2023	Further details
6) Processes for identifying and assessing climate-related risks:		
- Climate-related horizon scanning is in place to monitor regulatory or legislative changes which could impact the Group which feeds into the assessment of transition risks. - Climate risk is also a consideration of the Group's wider assessment of ESG risks and opportunities which uses the outputs of scenario analysis to support the assessment of material ESG risks and opportunities, which further informs the ESG strategy. Within the context of ESG risk and opportunities, potential impact on growth or cost management and the degree of importance to stakeholder groups are assessed. Climate related topics are identified and considered from a wide range of global issues, industry and sector specific considerations, such as regulatory and disclosure requirements and Group specific inputs such as our Purpose, Vision and Values and ESG Operating Framework and Strategy. The Group used the approaches and processes set out in the ERMF to identify and assess all risks including climate risk. - The enterprise risk register process allows the Group to consistently size, scope and reassess the relative significance of all risks including climate risk, considering the likelihood and potential impact of the risk emerging, to provide an inherent risk rating. Risk mitigants are documented and constantly assessed and enhanced to ensure climate related risks are managed appropriately. - Scenario analysis is used as an important tool to understand and inform the potential impact of climate change on the Group's loan portfolios. It consisted of climate change portfolio analysis (covering both physical and transitional risks), including an assessment of EPC ratings in the UK.	- Enhance engagement with stakeholders to determine how customers are being supported in reducing their carbon footprint. - Enhance climate risk management information with ongoing trend and scenario analysis. - Reassess the classification of climate risk based on further regulatory clarity and an ongoing materiality assessment. - Embed climate risk into the risk and control self-assessment (RCSA) process, which will enable the identification of climate-related risks in a proactive manner and embed the right climate risk behaviours across the Group. - Provide further Board training to assist with the ongoing identification of climate-related risks.	See Risk review on page 58 and the Governance matters, Materiality assessment on page 89 for more information.
7) Processes for managing climate-related risks:		
- The existing lending policies and criteria help to manage climate risk across the Group's loan portfolios i.e. setting out the EPC requirements for Buy-to-Let lending. Flood, subsidence and coastal erosion risks are in part mitigated by independent property valuation, which forms part of the underwriting process. - Climate risk appetite statements and limits were implemented which inform the Group's strategy and facilitate monitoring of the Group's climate risk profile. - Climate-related horizon scanning is in place to monitor regulatory or legislative changes which could impact the Group and feeds into the assessment of transition risks. - Business continuity plans and disaster recovery plans were updated to reflect risks from extreme weather and establish appropriate plans to mitigate the associated risks. Threat risk assessments are conducted on both UK and Indian sites annually to support the robustness of business continuity plans. - On an annual basis, the Group conducts a complete review of its loan book from a climate perspective. This enables the Group to determine the potential impact of climate-related risks. - The Group enhanced its risk and opportunity analysis for ESG matters in 2022 which included climate risk, physical and transitional considerations, with the physical transition remaining a key focus. - The Group aligned its scenario analysis processes with UKCP18 climate change predictions for the UK that were issued by the Met Office in collaboration with other agencies.	- Define the Terms of Reference for the ESG Action Group that will oversee progress towards the Group's commitments and responsibilities. - Continue the development of the Group's Transition Plan setting out the actions the Group will take to achieve its targets and how progress will be measured and reported. - Review and update the climate risk glossary annually. - Enhance the prioritisation of climate-related risks to a more quantitative approach across a broader range of risks.	
8) Integrating climate-related risk processes into overall risk management:		
- Climate risk was integrated into the Group-wide ERMF supported by the implementation of the CRMF, a sub-framework of the ERMF specifically designed to manage and monitor climate-related risk. - The Group incorporated climate risk into its three lines of defence risk management model, with the recognition of climate risk as an enterprise risk. - An ESG learning module was completed by the Group's employees during the year, communicating the importance of ESG, the principles that guide decision making, planning and the Group's commitments.	- Conduct the onboarding review of all new business taking into account transitional and physical climate risks and any regulatory requirements. - Create a climate (and wider ESG) training plan to ensure that all relevant employees receive appropriate training. - Identify key roles where further or expanded knowledge or competence is required in order to deliver on the Group's ambitions and commitments.	

Task Force on Climate-Related Financial Disclosures continued

METRICS AND TARGETS

Achievements in 2022

Opportunities for 2023

Further details

9) Metrics used to assess climate-related risks and opportunities:

The Group uses a variety of metrics to assess climate-related risks and opportunities and has considered all cross-industry metrics and has determined the below to be the most important (further information of historical performance is detailed within the Environment Matters Section).

• Physical risk

- Properties within 1,000m of the coastline should the maximum emission scenario prevail, i.e. no climate action is taken and the worst-case scenario prevails.
- Properties exposed to flood alert zones
- Properties with a 0.5% exposure to subsidence risk within a 10-year term in the maximum emission scenario

• Transition risk

- Portfolio EPC distribution at levels F and G
- GHG emissions are calculated using the GHG Protocol Corporate Standard and the Group's criteria for reporting
- Scope 3 financed emissions tonnes of carbon equivalent (tCO₂e) /m2 using PCAF methodology
- Scope 1 and 2 (location-based and market-based) absolute emissions in tCO₂e by emissions source
- Scope 3 business travel in tCO₂e
- Scope 1 and Scope 2 tCO₂e as a proportion of full-time equivalent employees (FTE) which is linked to Executive remuneration.
- The Group is considering internal carbon pricing during the development of the transition plan.

- Define additional metrics and targets as the Group continues its ESG journey and transition planning.
- Define additional Scope 3 emissions sources in line with the GHG Protocol Corporate Standard.
- Understand how EPC data forms part of the Group's strategy and its approach to net zero risks and opportunities.
- Consider internal carbon pricing as a metric to incentivise progress and track costs and benefits.

See Environmental matters on pages 91-99 for more detail on historic performance and future targets.

For portfolio metrics see *Insights from our scenario analysis* on page 107.

10) Scope 1, 2 and 3 Greenhouse Gas (GHG) emissions and the related risks:

- Scope 1, 2 and 3 emissions have been disclosed (where material and available for Scope 3), emissions are calculated in line with the GHG Protocol Corporate Standard. Criteria for reporting GHG emissions can be found on the Group's website.
- Intensity ratios were established and reported on:
 - Scope 1, 2 tCO₂e per FTE
 - Scope 3 – financed emissions only – tCO₂e per m2
- Comparative figures were disclosed for 2020 onwards.

- Conduct an assessment of the risks associated with the Group's Scope 1, 2 and 3 emissions in 2023.

See Environmental matters on page 99 for further information.

11) Targets used to manage climate-related risks and opportunities:

- In 2022, the Group committed to achieve net zero GHG emissions by 2050 in line with the 2015 Paris Climate Accord. The Group's ambition is to reduce Scope 1 and 2 emissions (market-based) to zero by 2030.
- The Group is working towards creating qualitative and quantitative targets. The principles guiding the targets were presented and approved by the relevant Management Committee.
- The emissions year used for science-based target setting will be reset to 2022 as an accurate representation of direct emissions following the pandemic, introduction of a hybrid working model and recategorisation of the carbon footprint inventory. For details on how climate-related risks and opportunities are linked to Executives and senior managers' remuneration, see Remuneration report on page 142.

- Utilise the UN – Finance Initiative "Guidelines for target setting" to develop targets and timeframes for delivery. Target setting is an integral part of transition planning and our approach is expected to mature over time.
- Validate and disclose rebased targets.
- Continue to include GHG Scope 1 and 2 emissions intensity ratio targets in the Executive and senior managers' bonus schemes.
- Use relevant guidance to further enhance metrics and targets e.g. carbon footprint metrics use the GHG protocol, UN NZBA targets setting guidelines.
- Develop longer term climate targets to be considered for inclusion with the Group's long-term incentive plans.

See Environmental matters on page 97 for further information.

Insights from our scenario analysis: key drivers

OSB Group is a leading mortgage lender predominantly in the professional Buy-to-let and specialist Residential market sub segments secured against residential property. The Group also provides loans to limited companies and individuals secured against commercial and semi-commercial properties, residential development financing, funding lines to non-bank finance companies and asset finance lending.

At present the Group has identified the physical risks relating to flooding, subsidence and coastal erosion reducing the value of properties as well as the ability of borrowers to afford or refinance their mortgages, as the most material physical climate risks to be assessed and managed. The Group has also identified the transitional risks relating to changes in regulatory policy resulting in material levels of investment being required to ensure minimum EPC requirements are met. This spend for example, may be required to ensure Buy-to-let properties are eligible to let and loan to value levels aren't adversely impacted and void periods and defaults don't materialise which result in loan losses and higher capital requirements. As such the Group considers the above risks as the most material and therefore focuses on assessing, monitoring and managing these risks.

The climate risks relating to the Group's operational premises are considered less material, than the physical and transitional risks to the properties which underpin the Group's loan portfolios

Insights from our scenario analysis: impact on the Group

Physical risk

The Group's physical risk profile remained broadly stable during 2022, when compared to 2021. The physical impact of climate change on our real estate portfolio across the UK is expected to be limited. Sensitivity analysis completed using RCP scenarios on increases in global temperatures by 2100, compared the least severe scenario (RCP 2.6 – increase of 0.9°C to 2.3°C) to the most severe (RCP 8.5 – increase of 3.2°C to 5.4°C).

At a Group level, the analysis shows that the exposure to the probability of flood over the next decade increases by 0.03% from the best-case scenario to the worst case scenario, only 0.43% of the Group's portfolio is in an area with a flood risk greater than 20%. For subsidence, the increase from best-case to worst-case increase is also only 0.04%, with the portfolio risk of subsidence being less than 0.5%.

For coastal erosion, across the Group over 93.6% of the portfolio is more than 1,000 metres from the coastline. Of the properties within 1,000 meters, only 94 are located in areas likely to experience coastal erosion.

Transitional risk

The Group observed marginal improvements in EPC ratings for existing stock assessed in both 2022 and 2021, in addition improvements in the climate data processes improved insight into the transitional risk profile. At a Group level, c. 40% of properties (2021: 35%) have an EPC rating of C or better, c. 45% (2021: 48%) have an EPC rating of D, c. 13% (2021: 15%) an EPC rating of E and c. 2% (2021: negligible) an EPC rating of F or G. Of the properties with an EPC rating of D or worse, c. 91% (2021: 90%) have the potential to reach at least an EPC rating of C.

Adverse movements in the EPC rating distribution of the Group's loan portfolios and any potential change in government policy have the potential to result in larger future financial impacts for the Group. To mitigate this risk, the Group actively monitors and assesses the possible financial risks associated with the EPC rating distribution of the Group's loan portfolios and horizon scans for any changes in regulatory or governmental policy.

During 2022, the Group ensured consistency between internal analysis covering the setting of climate risk appetite, ICAAP and other ad hoc analysis with the data, scenarios and assumptions used to support the Group's financial disclosures. As an example, the IFRS 9 post model adjustment (PMA) relating to climate change utilised the same underlying data, scenario and approach to quantifying the financial risk relating to climate change as the climate and ICAAP risk assessments. See the Group's Risk review for more detail on the Group's approach to analysing climate risk and further detail on the Group's climate risk PMA. The Group's current risk appetite, ICAAP and IFRS 9 climate risk assessments have all indicated that the Group is currently exposed to a low climate related financial risk, using the materiality assessment scale which supports other financial disclosures within the Group's Annual report and Accounts.

Social matters

Customers

Our customers are at the heart of what we do and are a key part of our success. Through the breath of our product offering, excellent customer service and close relationships with our intermediaries, we aim to be our customers' financial provider of choice.

Group's pledge to Landlord Leaders Fund

£50m

New savings accounts opened

over 191k

2021: over 44k

To achieve this goal, we use an established governance framework for consistent best practice across the business and ensure that we have robust policies and procedures to minimise the risk of failure to deliver the quality of service our savers and borrowers have come to expect.

The main policies which govern how we transact with our customers are:

- Lending policy – ensures that we lend responsibly and within the Group's lending criteria and risk appetite.
- Customer vulnerability policy – sets out the standards and approach for the identification and treatment of vulnerable customers and provides guidance to ensure that these customers consistently receive fair outcomes. The Group's employees are trained to identify vulnerability and put in place appropriate actions to deal with issues as effectively as possible. We are 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 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 the best possible outcome.

There are also policies that apply to the business as a whole and govern our operations, including Data protection and retention policies, Conduct risk framework and our Complaints handling policy.

In 2022, the Group commenced a project to implement the FCA's Consumer Duty rules and requirements, which further focus on customer vulnerability and improve our customers' experience by putting their needs first.

The main way of engaging with our savings customers is via telephone, online or directly in our nine Kent Reliance branches in the south east England. All our mortgage products are distributed by mortgage intermediaries across England and Scotland and our experienced Sales teams maintain strong relationships with them. The surveys conducted on behalf of the Group revealed that in 2022, we received over 4,000 survey responses from intermediaries, almost 7,000 responses from borrowers and over 46,000 responses from savers.

We are proud that in 2022, our efforts to provide transparent and competitive products were recognised by the mortgage and savings industries: Kent Reliance for Intermediaries was awarded Best Specialist Lender by L&G Mortgage Club and Precise Mortgages was named The Best Specialist Lender by the MABs Awards. In addition, Kent Reliance won the Best Cash ISA Provider from Yourmoney.com Personal Finance Awards and Charter Savings Bank was named ISA Provider of the Year by Moneyfacts.

We also measure and closely monitor Net Promoter Scores (NPSs) for our savings customers and intermediaries which indicate their satisfaction with our services and products. Savings customer NPS was +64 for Kent Reliance and +61 for Charter Savings Bank, both strong results in light of eight base rate rises that prompted many savers to choose new products, and across our two brands we opened over 191,000 new savings accounts, more than double that in 2021.

The broker NPS decreased to +37 for OSB and +39 for CCFS in 2022, both impacted by high application and completion volumes as a result of the market disruption following September's mini budget. As a leading specialist lender, we have the breadth of mortgage products, ability to make rapid decisions and expertise in structuring borrowers' portfolios, all of which were particularly valued by our customers during that time. To further provide our customers and intermediaries with the certainty of funding, the Group honoured both our offered and pre-offered applications in the fourth quarter of 2022.

We are conscious that our borrowers are facing more uncertainty in their investment decisions given the elevated focus on the energy efficiency of the properties they own or are considering purchasing. In a move to lead the sector's approach, the Group published the Landlord Leaders research report in November, which surveyed the Private Rented Sector in light of these environmental challenges. As a result, the Group pledged £50m to the newly-established Landlord Leaders Fund to assist landlords in enhancing the energy efficiency of their properties. Earlier in the year, the Group introduced the first of a range of mortgage products that aim to help landlords in making their properties more energy efficient and improve their EPC rating, preparing them for the demands of legislation.

Colleagues

The skills, expertise and commitment of our colleagues have always been fundamental to the achievement of the Group's strategic goals. In 2022, we continued to invest in training, development and employee engagement activities to ensure that the Group provides a compelling and attractive employee proposition both for our existing employees and for candidates considering joining the Group.

Group vacancies filled by the Talent Acquisition team

908

2021: 626

Employee promotions across UK and India

318

2021: 176

2022 saw the conclusion of restructuring following the combination with CCFS and the deployment of an enhanced HR & Payroll system for all UK employees. We also finalised our key employee-related harmonisation activities.

Other areas of focus related to the ongoing organisational growth and recruitment of a significant number of new employees.

The Group's approach to hybrid working was further embedded and expanded to appropriate roles at OSB India, providing flexibility for an increased number of employees.

Recruitment

Our Talent Acquisition teams ensure that, across all locations, internal recruitment specialists provide bespoke support in attracting high quality candidates for vacant positions and, through robust interview and selection processes, assist in making strong recruitment decisions.

The Group's recruitment demands increased significantly during 2022 as a result of departmental restructuring, organisational growth and higher levels of regretted attrition.

During the year, the Talent Acquisition team filled 515 UK vacancies and 393 in OSB India, significantly exceeding the number of vacancies filled in 2021 (387 in the UK and 239 in OSB India).

A key focus for our Talent Acquisition team was again placed on proactively identifying potential candidates directly and through improved use of our website and external job boards. In 2022, they filled almost 30% of UK vacancies on a direct recruitment basis, resulting in a saving in excess of £1m on agency recruitment fees. At OSB India (OSBI), almost half of all the vacancies which closed in 2022 were as a result of direct recruitment activity.

Our recruitment procedures are fair and inclusive, with shortlisting, interviewing and selection always undertaken without regard to gender, gender reassignment, sexual orientation, marital or civil partnership status, colour, race, caste, nationality, ethnic or national origin, religion or belief, age, pregnancy or maternity leave or trade union membership. In addition, Executive sign off is required for senior vacancies where it has not been possible to identify or progress a female candidate through to the interview process.

In 2022, The Group welcomed 386 new UK employees, with a further 297 at OSBI. Our Group-wide employee base at the end of 2022 totalled 2,021, representing an increase of over 13% on prior year.

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 2022, over 1,300 separate internal workshops were delivered by the People Development team and the recorded number of training hours averaged over 3,500 hours per month. It was a significant improvement on the amount of internal training delivered during the previous year and it represented over 10 workshop training hours per UK employee and around 47 hours per OSBI employee.

A lot of focus was applied to the Group's Fit to Practice Scheme, which saw the in-scope number of employees significantly increase following the extension of the scheme to CCFS employees. The scheme requires line managers to undertake regular activities in terms of one to one, performance observations and quality assessments, and play a proactive role in identifying development needs and providing developmental feedback to continually progress the competence levels of their direct reports. The average activity completion rate for over 1,800 in-scope employees exceeded 91%.

Social matters continued

Colleagues continued

In 2022, the Group became an accredited Living Wage employer

Group-wide, monthly mandatory regulatory training requirements were completed robustly with only 6 instances of an employee being more than one month late in completing their training, demonstrating the importance we place on ensuring that our employees are suitably aware of key requirements.

The Group is also committed to supporting employees undertaking professional development; 27 UK employees received financial support to pursue their professional qualifications.

Retention and progression

The Group has a genuine desire to retain, support and develop its employees. Over 240 UK employees were formally promoted to a more senior grade along with 75 employees at OSBI.

We advertise vacancies internally in order to provide career development opportunities for existing employees. Nearly 27% of UK vacancies and nearly 6% at OSBI were filled by way of internal appointments.

At 13.0%, the UK regretted attrition rate improved slightly from the rate seen in 2021. At OSBI, the 2022 rate increased to 23.8%, which was higher than c. 17% in 2021, predominantly due to 'the Great Resignation' and an extremely buoyant external recruitment market. Despite this increase, OSBI's regretted attrition rate compares favourably with rates in the local sector.

2022 saw a continued focus on leadership development and our People Development team delivered three bespoke programmes for different levels of existing leadership and management experience. Throughout the year, we saw 32 employees join our Future Supervisors and Managers Programme, 60 current managers commenced the Essential Managers Programme and among our more senior managers, 23 individuals joined our Stellar Leadership Programme.

A comprehensive approach to succession planning was undertaken to ensure that a proactive focus was applied to identifying individuals who, over a period of up to five years, had the potential to step up into our most senior positions beneath Group Executive level.

Remuneration and benefits

The Group believes in rewarding its 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 142-163.

In 2022, the Group became an accredited Living Wage employer and further sought to support UK employees by making a one-off £1,200 cost of living payment in August to all staff beneath senior management level. This payment was made to around 80% of the employee base and was not pro-rated to reflect either tenure or contractual working hours.

Our approach to benefits also provides UK employees with an element of choice, enabling them to determine their preference for a higher employee pension contribution and a slightly lower discretionary bonus opportunity or vice versa. In addition, employees had an opportunity to select from two separate health and insurance packages. Our third annual benefit choices window opened in November 2022, with new selections becoming effective from 1 January 2023.

We also encouraged our employees to hold shares in the Group for the long term, via our Sharesave Scheme, which is offered annually to all UK employees. The Sharesave Scheme allows employees to save a fixed amount of between £10 and £500 per month over a three year period in order to use these savings at the end of the qualifying period to buy shares at a fixed option price. Nearly 500 employees joined the 2022 Sharesave scheme and, taking into account the schemes launched in previous years, 738 (around 54%) UK employees were Sharesave Scheme members as at the end of 2022.

Employee engagement and culture

The 2023 Best Companies to Work For survey was undertaken in December 2022 and saw an impressive 82.5% of UK employees submit responses. Our overall result was over 5% higher than the previous year and saw the Group achieve an overall '2 Star' rating, with Best Companies defining this as an outstanding level of employee engagement.

OSBI participates in a separate employee engagement survey, run by the Great Place to Work Institute. It was officially certified as a 'Great Place to Work' for the sixth consecutive

year in December, with the overall survey score increasing by 1% from 2021 and strong results in all five survey categories (credibility of management, respect for people, fairness at the workplace, pride and camaraderie between people). It reflects the strong brand and culture that exists throughout our teams in Bangalore and Hyderabad.

Throughout the Group, our values (Stronger Together, Take Ownership, Aim High, Respect and Stewardship) and the related behavioural expectations provide an opportunity for Line Managers to assess and provide behavioural feedback within appraisal processes and consider related learning development activities. The values are also aligned to established award programmes and a range of ongoing communications.

The Group's Workforce Advisory Forum (OurVoice) continued to meet regularly in 2022, including employee representatives from all core geographical locations, including OSBI. The aim of the forum is to further enhance the level of engagement that the Group Executive Committee and the Board have with the wider workforce. To achieve this, in addition to employee representatives, the forum is attended by rotating Non-Executive Directors and Group Executive Committee members to ensure that they can hear directly from the employees and share feedback (positive or negative) on important matters.

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

Employee recognition and awards

In 2022, the Group recognised the significant tenure of 183 UK employees who reached a 5, 10, 15, 20, 25 or 35 year milestone of employment via our Long Service Award programme. There were three employees who reached 20 years' service, another who reached 25 years with our longest-serving employee reaching the significant milestone of 35 years' service with the Group.

Each quarter, all employees within the Group, are invited to nominate their colleagues as part of our Galaxy Award Scheme. Nominations are sought for five separate categories, linking directly to each of our Values with individual winners and runners-up for each category determined by a detailed process. For 2022, over 300 nominations were submitted, with the details of all nominees published on the Group's intranet along with details of the quarterly award winners and their nomination rationale.

Additionally, the Group's 'Thank You' facility provided an opportunity for employees to publicly recognise the contributions of their colleagues and during 2022, there were nearly 1,800 thank you messages posted on the intranet.

Diversity and inclusion

We recognise the benefits that diversity brings to the business and we actively promote and encourage a culture and environment that values and celebrates our differences. In 2022, we continued our journey to become a truly diverse and inclusive organisation that

is committed to providing equal opportunities through the recruitment, training and development for all employees.

2022 saw a continued focus on supporting mental health and well-being via the provision of advice, workshops for employees and Line Managers and we are pleased to have trained a network of over 30 UK employees as Mental Health First Aiders.

The Group published its 2022 Gender Pay Gap Report in line with legislation that applies to all UK companies with more than 250 employees. The full publication is available on the Group's website (www.osb.co.uk) and shows that OSB's mean gender pay gap as at the snapshot date of 5 April 2022 was 42.6%, reducing from the 2021 reported figure of 45.7%. The CCFS mean gender pay gap at the same snapshot date was significantly lower at 24.5% reducing from 31.0% as reported in the previous year.

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 rather than any difference between male and female employees undertaking similar roles.

We recognise that we need to focus on improving our gender balance and we made solid progress towards meeting the commitment the Group made as a signatory of HM Treasury's Women in Finance Charter that, by the end of 2023, 33% of senior management positions within the UK would be undertaken by female employees. Having ended 2022 at 31.4%, gender diversity will remain an area of enhanced focus throughout 2023.

2022 saw the Group apply an enhanced level of focus on ethnicity diversity, particularly in respect of the senior management population. As at the end of 2022, just over 10% of senior managers did not identify as white and increasing this percentage will be an area of ongoing consideration.



Social matters continued

Colleagues continued

Our Diversity and Inclusion (D&I) Working Group ensures an employee led focus on a wide range of D&I matters, with their core purpose being to raise awareness, celebrate our differences and ensure that all employees feel genuinely included and that they are treated equally and fairly.

The launch of the Group's UK HR System in April provided the facility to collate comprehensive diversity data. By the end of 2022, over 70% of employees had provided data spanning a broad range of diversity categories enabling us to build an increasingly clear picture of the diverse nature of our UK workforce and areas which are underrepresented.

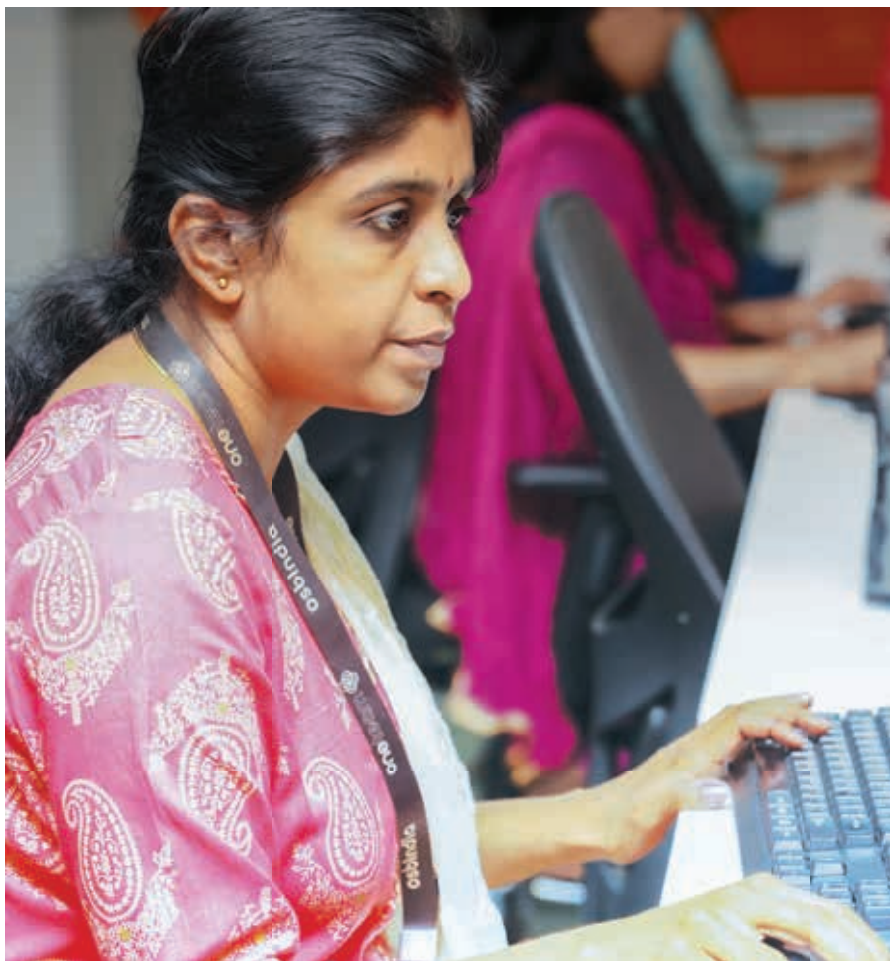
Establishing initiatives to further broaden our diversity and inclusivity will be an area of ongoing focus and in order to ensure an appropriate level of focus and dedicated resource, the Group recruited a Diversity, Equity & Inclusion Specialist who joined in November and will be leading our initiatives in the future.

Just under 10% of our UK employees work under a formal flexible working arrangement relating to part time hours and nearly 70 additional employees compress their full time working hours into less than five full days each week.

At the end of 2022, around 57% of our UK workforce was female, as were 52% of employees who joined in 2022. At OSBI, females constituted just over 40% of all employees, with around 41% of new starters being female. The Group Executive Committee had 25% of members who were females and Board women constituted 44%.

	Male	Female
Number of Board Directors (OSB Group)	5	4
Number of Directors of subsidiaries	14	1
Number of senior managers (not Directors) ¹	127	60
All other employees ¹	848	972

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



OSB India

OSBI, a wholly-owned subsidiary of the Group, is based in Bangalore and, as at the end of 2022 had 663 employees. OSBI supports the Group across various functions including Support Services, Operations, IT, Finance and Human Resources. OSBI is a holder of ISO 27001: 2013 certification, demonstrating high standards of information security.

OSBI's business continuity site in Hyderabad was converted to a fully-fledged operational site in late 2021 in order to accommodate both organisational growth and further enhance operational resilience. By the end of 2022, around 140 employees from a range of functions were operating permanently from the Hyderabad office, representing a significant increase from 61 at the end of 2021 and the Hyderabad employee base is expected to further increase during 2023.

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

Communities

Taking our Stewardship value seriously means acting with a social conscience whilst also considering social, environmental and ethical matters. We have been proactive in 2022 in finding ways we can positively impact our local communities.

From volunteering to sponsorships and fundraising, we have supported our national and local partnerships through a variety of events and initiatives.

How we have helped

In 2022, we raised over £220,000 for charitable causes through donations, fundraising, fund-matching, our good causes fund and Pennies from Heaven initiative.

Our colleagues are encouraged to use their annual volunteering day to make a difference for a cause close to their hearts, and in 2022 310 volunteer days were logged across the Group. Volunteering opportunities varied, from helping out in charity warehouses, mucking out animals, and decorating hospices, to lending a hand at soup kitchens.

Our UK national charity partner for 2022 Campaign Against Living Miserably (CALM)

CALM is leading a movement against suicide through raising awareness of mental health, fighting against stigma, encouraging people to talk and signposting support available.

We supported the cause through bake sales and Halloween fundraisers and highlighted awareness through webinars and supporting suicide prevention day. Our May-ke a Move for CALM step challenge saw over 5.5 million steps logged across the Group.

A CALM representative said: “What we have already, and will achieve in the future, is only possible with the support of organisations such as OSB Group. Together we can continue to show everyone struggling that life is always worth living and that CALM will always be there for them.”

Our community and charity partners UK

Demelza Children Hospice, Kent

Demelza provides clinical care, therapies, specialised activities and practical support across Kent, South East London and East Sussex.

We are proud to have been supporting Demelza Children's Hospice since it was founded in 1998. Funds raised through our Children's savings accounts were supplemented by various fundraising initiatives and donations. These funds are vital to the hospices and help to pay for trained, specialist nurses.

In addition, our employees used their volunteering days to help out in Demelza's retail warehouses, hospices and at a variety of events.

Two such events happened in 2022: Little Warrior in June and Bubble Rush in July. Little Warrior was a new event sponsored by the Group including runs and challenges and Bubble Rush which took place in various locations throughout Kent, saw nearly 3,000 participants taking part in the final race in Maidstone. These two events raised funds to help Demelza continue to support terminally ill children and their families.

As well as helping out at Bubble Rush and Little Warrior, our colleagues also assisted in the Demelza warehouse, helping to sort through donations which are sent out to various stores across Kent. We also introduced Demelza donation stations in our offices and two branches as a trial, to collect clothing for the charity's slowing down 'fast fashion' campaign.

XL@Football. Kent

Kent Reliance sponsors the senior, youth and coaching teams at XL@Football, a Kent-based women's football academy. In 2022, we launched the Kent Reliance Scholarship, offering places to players who are financially vulnerable and/or exceptionally talented, to help them develop to their full potential.



Social matters continued

Communities continued



We have gifted the logo placement to Demelza Hospice Care for Children, our local charity partner, to create a three-way partnership to help raise awareness and fundraising opportunities.

Coventry Rugby Club

The Group supported Project:500 camps held during school holidays, where disadvantaged children attend a 3-day event to play sports and learn about nutrition and wellness. The children are given a hot meal each day and take home a hamper of fresh food to feed their families for a week. Our colleagues also attended the Christmas camp to help with packing the food hampers, serving the meals and providing support wherever we could.

Through our partnership with Coventry Rugby Club we also donated to the Reading for Pleasure Zone at Colmore Junior School in Birmingham, and supported grassroots Wolverhampton Rugby to deliver a coaching night to 100 children in the junior team.

Wolves Play Café, Wolverhampton

Our support helped this community organisation, which delivers 'stay and play' sessions to children under 7, pay for new uniforms, provide safeguarding training and purchase vital online technology.

The Haven, Wolverhampton

The Haven delivers vital support to families affected by domestic violence or homelessness. In June, our colleagues cycled 175 miles on a static bike to raise funds and in August a team of colleagues decorated two new temporary homes at the refuge.

Happy Pants Animal Ranch, Kent

Happy Pants Ranch is a safe haven for unwanted and abandoned animals. In 2022, colleagues used their volunteering day to make a difference at the ranch by shovelling muck, collecting metal waste for recycling and sorting through donations.

India

SOS Children's Village, Bangalore

The Group has been a consistent partner to SOS Village over the last six years, providing warmth, care and the bare necessities to orphaned and marginalised children.

SOS Children's Village provides opportunities for the holistic development of orphans, women and children in vulnerable families. We provide funding to support education, food, clothing and housing for orphans in Bangalore and children in Hyderabad.

HBS Hospital, Bangalore

A non-profit hospital that provides critical healthcare to those unable to afford the care they need.

The Group has been a consistent sponsor of monthly dialysis sessions for individuals who live below the poverty line. We also donated two dialysis machines that can provide over 11,000 dialysis sessions over five years.

Civil Hospital – Kolar Gold Field Hospital

In 2022, the Group worked closely with the hospital providing funding for renovation and we are discussing an opportunity to provide the hospital with surgical equipment.

Group's sponsorships and donations

over
£220k

In this section...

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The Board recognises that good corporate governance is fundamental to the sustainable execution of the Company's strategy in line with evolving stakeholder expectations.

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Board of Directors

Experienced leadership

Committee membership:

- Chair of Committee
- N Group Nomination and Governance Committee
- M Group Models and Ratings Committee
- Re Group Remuneration and People Committee
- A Group Audit Committee
- C Board Capital and Funding Committee
- Ri Group Risk Committee



David Weymouth
Chairman



Experience and qualifications

David is also Chairman of Mizuho International Plc and Chair Elect of Pension Insurance Corporation plc. Other current non-executive directorships include Pension Insurance Corporation Group Limited and Marsh Limited where he is Chair of the Risk Committee. David previously served as a non-executive director on the board of Bank of Ireland (UK) plc, Fidelity International Holdings (UK) Limited and the Royal London Mutual Insurance Society. David was previously Chief Information Officer at Barclays Bank plc and Chief Risk Officer at RSA Insurance Group plc. He sat on the Executive Committee of both companies. His experience as an executive includes a wide range of senior roles in operations, technology, risk and leadership.

Key skills

David has over 40 years' experience in the financial services industry and has a degree in Modern Languages from University College London and a MBA from the University of Exeter.

Appointment

David was appointed to the OSB Board as Chairman in September 2017 and held the position until October 2019 when OSB combined with CCFS. He was reappointed as Chairman in February 2020.



Andy Golding
Chief Executive Officer



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.



Noël Harwerth
Senior Independent Director



Experience and qualifications

Noël was appointed to the Board of CCFS in June 2017 and was its Senior Independent Director from August 2017. Noël is a non-executive director of Scotiabank Europe plc. She is also a member of the UK Export Finance Board. She is a former non-executive director of Sirius Minerals plc, Standard Life Aberdeen plc and RSA Insurance Group plc, prior to which she held a variety of senior roles with Citicorp for 15 years, latterly serving as the Chief Operating Officer of Citibank International plc. Noël has held non-executive roles with GE Capital Bank Limited, Sumitomo Mitsui Banking Corporation Europe Limited, Avocet Mining plc, Alent plc, Corus Group plc, Logica plc, The London Metal Exchange and Standard Life Assurance Limited.

Key skills

Noël has extensive experience in both the public sector with government bodies and the private sector with global banking companies, which brings valuable insight to the boardroom debate.

Appointment

Noël was appointed to the OSB Board and the position of Senior Independent Director in October 2019.



April Talintyre
Chief Financial Officer



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



Experience and qualifications

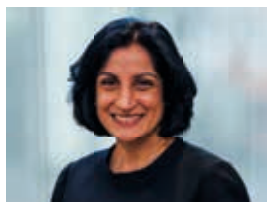
Graham was previously Acting Group Credit Director at Lloyds TSB plc and Chief Credit Officer at Abbey National plc. Prior to this, he spent 18 years at National Westminster Bank plc culminating in the role of Managing Director, Credit Risk at NatWest Markets plc. A Fellow of the Institute of Chartered 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.



Kal Atwal
Independent Non-Executive Director



Experience and qualifications

Kal has significant experience as a non-executive director across FTSE 100, FTSE 250 and mutual businesses and is a non-executive director of Admiral Financial Services, Whitbread Plc and WH Smith PLC. At BGL Group, Kal was Managing Director and became the founding managing director of comparethemarket.com, a division of BGL. Following promotion to Group Director of BGL Limited, Kal was responsible for brand-led businesses, group strategy and corporate communications.

Key skills

Kal is an experienced strategy leader with international experience in start-up, scale-up, fintech and digital businesses.

Appointment

Kal was appointed to the Board on 7 February 2023.



Sarah Hedger
Independent Non-Executive Director



Experience and qualifications

Sarah previously held leadership positions at General Electric Company (GEC) for 12 years in its Corporate, Aviation and Capital business development teams, leaving General Electric Company as Leader of Business Development and M&A for its global GE Capital division. Prior to General Electric Company, Sarah worked at Lazard & Co. Limited for 11 years, leaving as Director, Corporate Finance and also spent five years as an auditor at PricewaterhouseCoopers LLP (PwC). She served as an Independent non-executive director of Balta Group NV, a Belgian company listed on Euronext, until December 2021 and as non-executive director of GE Money Bank AB for 3 years during her time at GEC.

Key skills

Sarah has significant capital management and merger and acquisitions experience in financial services. She is a qualified chartered accountant.

Appointment

Sarah was appointed to the OSB Board in February 2019.



Rajan Kapoor
Independent Non-Executive Director



Experience and qualifications

Rajan was appointed to the Board of CCFS in September 2016 and is a non-executive director of Allica Bank and Revolut Newco UK Ltd. 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.



Mary McNamara
Independent Non-Executive Director



Experience and qualifications

Mary is Chair of the Remuneration Committee and Senior Independent Director at Motorpoint Group plc. She served as a non-executive director of Dignity plc and Chair of its Remuneration Committee. She was the CEO of the Commercial Division and a Director of the Banking Division at Close Brothers Group PLC. Prior to that, Mary was interim Chief Operating Officer of Skandia, the European arm of Old Mutual Group, and prior to that, spent 17 years at GE Capital, running a number of businesses including GE Fleet Services Europe and GE Equipment Finance.

Key skills

Mary has broad senior management experience in the banking and finance sectors.

Appointment

Mary was appointed to the OSB Board in May 2014.



Simon Walker
Independent Non-Executive Director



Experience and qualifications

Simon has significant experience in financial services. He joined KPMG in 1980 and was made a partner of the firm in 1992, going on to lead the firm's National Building Societies and Mortgage Practice and subsequently became banking partner in Financial Risk Management. Simon graduated in Law from University College London and is a qualified chartered accountant. Simon is a non-executive director of H&T Group plc and IWP (Holdings) Limited and was previously a non-executive director of Leeds Theatre Trust Limited.

Key skills

Simon has significant experience in mortgages, SME lending, risk management and regulation within the banking sector.

Appointment

Simon was appointed to the Board in January 2022.

Group Executive Committee

A strong core team



Jens Bech
Group Commercial Director

Experience and qualifications

Jens joined OSB as Chief Risk Officer in 2012, before becoming Group Commercial Director in 2014.

Jens joined from the Asset Protection Agency, an executive arm of HM Treasury, where he held the position of Chief Risk Officer. Prior to joining the Asset Protection Agency, Jens spent nearly a decade at management consultancy Oliver Wyman Limited where he advised a global portfolio of financial services firms and supervisors on strategy and risk management. Jens led Oliver Wyman Limited's support of Iceland during the financial crisis.



Jason Elphick
Group General Counsel and Company Secretary

Experience and qualifications

Jason joined OSB in June 2016. He has over 25 years of legal private practice and in-house financial services experience.

Jason's private practice experience was primarily in Australia with King & Wood Mallesons and in New York with Sidley Austin LLP. He has been admitted to practice in Australia, New York and England and Wales.

Jason has previous in-house financial services experience 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.



Jon Hall
Group Managing Director, Mortgages and Savings

Experience and qualifications

Jon joined OSB in November 2021.

Jon has significant experience within the financial services sector and joined the Group from Aspinall Financial Services, a pre-authorisation bank start-up, having previously led Masthaven Bank from 2016 to early 2021 as their Chief Commercial Officer and Deputy Chief Executive Officer (CEO). Jon started his career with PwC, before joining Aviva plc and subsequently became CEO of Saffron Building Society.

Jon is a Fellow of the Institute of Chartered Accountants in England and Wales.



Peter Hindle
Group Chief Information Officer

Experience and qualifications

Peter joined OSB in 2017 driving a substantial IT change programme. In 2019, he was appointed to lead the post-Combination integration of OSB and CCFS. Peter was appointed as Interim Group Chief Information Officer in April 2022.

Peter has over 30 years' experience working in IT and Change across a range of market sectors. Having worked in an IT advisory capacity with Accenture and PricewaterhouseCoopers, Peter worked extensively as an interim IT and Change leader and consultant serving financial services clients including Barclays, NatWest and Deutsche Bank. He previously held IT leadership positions in a range of organisations including Bradford & Bingley, Adidas, Merlin Entertainments, FirstAssist and John Charcol Limited.



Victoria Hyde
Deputy Chief Financial Officer

Experience and qualifications

Victoria joined OSB in September 2022. Prior to joining OSB, Victoria worked at Barclays for 21 years, most recently as Finance Director of the Consumer, Cards and Payments segment.

Victoria is a qualified Chartered Management Accountant and has over 25 years experience in finance. She has supported Retail, Corporate and Investment Banking business lines across a range of Finance roles including Product Control, Treasury Finance, Costs and Business Planning and Analysis.



Hasan Kazmi
Group Chief Risk Officer

Experience and qualifications

Hasan joined OSB in September 2015 as Chief Risk Officer. He became Group Chief Risk Officer in 2021.

Hasan has over 25 years of risk experience having worked at several financial institutions, including Barclays Capital, Royal Bank of Canada and Standard Chartered Bank. Prior to joining OSB, he was a Senior Director at Deloitte LLP within the Risk and Regulatory practice with responsibility for leading the firm's enterprise risk, capital, liquidity, recovery and resolution practice. Hasan graduated from the London School of Economics with a MSc in Systems Design and Analysis and a BSc in Management.



Clive Kornitzer
Group Chief Operating Officer

Experience and qualifications

Clive joined OSB in 2013. Clive has over 25 years of financial services experience, having worked at several financial organisations including Yorkshire Building Society, John Charcol Limited and Bradford and Bingley plc.

Prior to joining OSB, Clive spent six years at Santander Group where he was the Chief Operating Officer for the intermediary mortgage business. He has also held positions at the European Financial Management Association and has been the Chair of the FS Forums Retail Banking Sub-Committee.

Clive is a Fellow of the Chartered Institute of Bankers.



Lisa Odendaal
Group Chief Internal Auditor

Experience and qualifications

Lisa joined OSB in April 2016. Prior to joining OSB, she worked for Grant Thornton LLP where she was an Associate Director responsible for leading several outsourced audit functions within its Business Risk Services division.

Lisa is a qualified Chartered Internal Auditor and has over 25 years of internal audit and operational experience gained in the UK, UAE and Switzerland, having worked at several financial institutions, including PwC, Morgan Stanley Group, HSBC and Man Group plc.



Richard Wilson
Group Chief Credit and Compliance Officer

Experience and qualifications

Richard joined OSB in 2013.

Prior to joining OSB, Richard was head of the credit function for Morgan Stanley Group's UK origination business and subsequently looked after the Credit and Collections strategy within its UK, Russian and Italian businesses. Between 1988 and 2006, Richard held various roles at Yorkshire Building Society, including the position of Mortgage Application Centre Manager.

Corporate Governance Report

Dear Shareholder,



The Company's Corporate Governance Report for 2022 is set out in the following pages and demonstrates full compliance with the Code throughout the year.

The statement of corporate governance practices, including the Reports of the Committees, set out on pages 129-163 and information incorporated by reference, constitutes the Corporate Governance Report of OSB GROUP PLC.

Stewardship culture

The Board recognises that stewardship and strong corporate governance is fundamental to the sustainable execution of the Company's strategy. This year, the Board continued to focus on environmental, social and governance (ESG) matters to ensure that the strategy remains aligned with the Group's purpose of helping customers, colleagues and communities prosper.

The Board has identified Stewardship to be one of the Group's core values. This reflects the Board's ambition to encourage a culture of environmental and social conscience and positively impacting the communities in which we operate. A number of initiatives have been implemented this year to ensure Stewardship remains a key part of the Group's culture. Sarah Hedger is the Non-Executive Director appointed as ESG Champion. The Group's Task Force on Climate-related Financial Disclosures (TCFD) are presented on pages 100-107. Further details of the Group's ESG initiatives can be found on pages 86-99.

Board effectiveness

During the year, the Board and its Committees undertook self-evaluations with the assistance of Independent Audit¹, details of which are set out in the report on page 128. It is pleasing to see the review concluded that the Board and its Committees continue to operate effectively. Recommended areas of focus will be addressed by the Board during 2023.

Board appointments and composition

Kal Atwal has been recently appointed to the Board bringing significant experience as a Non-Executive Director across FTSE 100, FTSE 250 and mutual businesses. The Board feel that she will be a great addition to the existing skillset. Simon Walker joined the Board on 4 January 2022 and brought with him significant experience in mortgages and risk management. Further changes to the composition of the Board will be seen during 2023 with the retirement of Graham Allatt and Mary McNamara who have both reached the end of their nine-year tenure and will not be standing for re-election at the Annual General Meeting (AGM) on 11 May 2023. I would like to extend my thanks to Graham and Mary for the significant contribution and support they have provided over the years to the Board and Committees and I wish them well for the future.

Engaging with stakeholders

The Board is committed to maintaining effective engagement and active dialogue with its stakeholders. Full details can be found on pages 16-21.

The Investor Relations function continues to assist the Board in developing a programme of meetings and presentations to both institutional and private shareholders, details of which are also set out in the report that follows. Shareholders have an opportunity to further engage with us at the AGM which will be held at our offices at 90 Whitfield Street, Fitzrovia, London W1T 4EZ on 11 May 2023 at 11am.

Further details are set out in the Notice of AGM.

David Weymouth
Chairman

16 March 2023

1. Independent Audit has no other connection with the Company or individual Directors.



The Board recognises that stewardship and strong corporate governance is fundamental to the sustainable execution of the Company's strategy.

David Weymouth

Chairman

16 March 2023

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R	2022 performance outcomes	150

Corporate Governance Statement **UK Corporate Governance Code 2018 (the Code) Compliance Statement**

During 2022, the Company applied all the principles and complied with all the provisions of the Code. The Corporate Governance Report and the table on this page illustrates how we have applied the Code principles and complied with the provisions.

The Code is available at www.frc.org.uk.

Corporate Governance Report continued

The role and structure of the Board

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

The activities undertaken by the Board during the year are set out on page 123. The Board has established a number of Committees, as indicated in the chart on page 57. Each have their own terms of reference, which are reviewed at least annually. Details of each Committee's activities during 2022 are shown in the Group Nomination and Governance, Group Audit, Group Risk, Group Models and Ratings, Board Capital and Funding and Directors' Remuneration reports on pages 129-163.

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

Directors

The Board currently consists of 10 Directors; the Chairman, two Executive Directors (being the Chief Executive Officer (CEO) and Chief Financial Officer (CFO)) and seven 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 10 times during the year. The Board has a formal meeting schedule with ad hoc meetings called as and when circumstances require. There is an annual calendar of agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the regulatory and financial cycle. The table also shows each Director's attendance at the Board and Committee meetings they were eligible to attend in 2022.

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 Enterprise Risk Management Framework (ERMF).

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 material 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.

The Directors who served during the year are listed in the table below. Kal Atwal was appointed on 7 February 2023 and Simon Walker was appointed to the Board on 4 January 2022. Attendance at meetings of the Board Capital and Funding Committee are not included due to its transactional nature.

	Board	Group Audit Committee	Group Remuneration and People Committee	Group Nomination and Governance Committee	Group Risk Committee
David Weymouth (Chairman)	10/10	n/a	5/5	7/7	n/a
Graham Allatt	10/10	7/7	n/a	n/a	7/7
Andy Golding	10/10	n/a	n/a	n/a	n/a
Noël Harwerth	10/10	6/7	5/5	7/7	7/7
Sarah Hedger	10/10	7/7	5/5	n/a	n/a
Rajan Kapoor	10/10	7/7	5/5	n/a	7/7
Mary McNamara	9/10	n/a	5/5	7/7	n/a
April Talintyre	10/10	n/a	n/a	n/a	n/a
Simon Walker	10/10	7/7	n/a	n/a	7/7

All Directors are expected to attend all meetings of the Board, any Committees of which they are members and to devote sufficient time to the Group's affairs to fulfil their duties as Directors. Where Directors are unable to attend a meeting, they are encouraged to submit any comments on the meeting materials in advance to the Chair to ensure that their views are recorded and taken into account during the meeting. Both Noël Harwerth and Mary McNamara provided comments for the meetings they were not able to attend.

Due to the continuing impact of COVID-19 during the first quarter of the year, all meetings were held virtually via video conference; however, from April 2022 all meetings were held face-to-face across split sites in Chatham and London.

Key Board activities during the year included:

- Development of Strategy and the Group's Financial Plan.
- ESG strategy, including approval of the Group's Modern Slavery Statement.
- Monitoring and assessing culture.
- Oversight of the £100m share repurchase programme.
- Risk monitoring and review.
- The impact of increasing interest rates.
- Consumer duty regulation updates.
- Governance and compliance.
- External affairs and competitor analysis.
- Board and Executive succession planning.
- Annual, interim and quarterly reporting.
- Policy reviews and updates.
- Investment proposals.
- Climate change developments.
- Charitable and Community initiatives.
- Customer/brand/product reviews.

Purpose, Vision, Values and Culture

The Board sets the tone from the top in relation to conduct and culture whilst acting with integrity and fully supports the Group's Purpose, Vision and Values.

The Board assesses and monitors culture to ensure that it is aligned with the Group's Purpose, Vision, Values and strategy. The Board monitors culture through regular updates from management, interactions with employees (informally and through OurVoice), reviewing the diversity and inclusion metrics, the employee engagement strategy and the results of employee engagement surveys. The Board annually reviews regretted leaver analysis for signs of poor culture.

The Board and Group Executive Committee monitor completion rates of the Group's conduct training modules to ensure employees successfully meet the required behaviours that support the Group's Values and, to identify any key themes and systemic issues relating to culture. The Board is satisfied that the Purpose, Vision, Values and strategy of the Group are aligned with culture but recognises that this is a developing area. Further details regarding the Group's Values and culture are provided on pages 14 and 15.

During 2022, the Board received regular updates from management in respect of the workforce and the levels of engagement of employees. The Board oversees charitable and community activities undertaken by employees. Further details of the Board's engagement with its stakeholders and the community is included on pages 16-21.

Risk management and internal control

The Board retains ultimate responsibility for setting the Group's risk appetite and ensuring that there is an effective Enterprise Risk Management Framework to maintain levels of risk within the risk appetite. The Board regularly reviews its procedures for identifying,

evaluating and managing risk, acknowledging that a sound system of internal control should be designed to manage rather than eliminate the risk of failure to achieve business objectives.

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 76 and 77.

The Board has an established Group Risk Committee to which it delegates 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 139-141.

The Board has delegated authority to the Group Audit Committee for reviewing the effectiveness of the Company's internal control systems including oversight of financial reporting processes. The Group Audit Committee is supported by the Internal Audit function in discharging this responsibility and receives regular reports from the Group Chief Internal Auditor regarding the overall effectiveness of the internal control system within the Group. The Group Audit Committee also receives reports from the external auditor on control matters. Details of the review of the effectiveness of the Company's internal control systems are set out in the Group Audit Committee Report on pages 133-138.

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 Group's risk appetite and is ultimately responsible for ensuring an effective ERMF 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.

Corporate Governance Report continued

Stakeholder engagement

The Board is committed to maintaining effective engagement and active dialogue with its stakeholders and ensuring that stakeholder views and interests are a key consideration in the Board's decision making. The Board engages with colleagues directly through attending OurVoice meetings.

This year, the Board continued to focus on external and internal developments in relation to climate change, including discussions around the Group's climate strategy and goals, as well as oversight of the Group's compliance with the disclosure requirements of TCFD. The Board and its Committees spent time on a broad range of sustainability considerations, including as part of strategy discussions and regular ESG updates recognising that this is a growing area of importance for stakeholders.

The Board and Group Nomination and Governance Committee have continued to monitor diversity and inclusion, both as part of ongoing Board and Executive succession planning and in relation to activities aimed at developing a diverse and inclusive talent pipeline below Board level. A Diversity, Equity & Inclusion Specialist was appointed during the year in order to drive forward the Group's ambitions in diversity and inclusion. Further information relating to Diversity can be found on pages 112, 113 and 131.

Full details of how the Board engages with the Group's key stakeholders are included on pages 16-21.

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 scheduled meetings with larger investors and remain available outside of this cycle to discuss areas of topical interest. The Board is updated on shareholder expectations following these meetings to ensure that the strategy is aligned with those expectations.

In 2022, the Investor Relations team responded to a range of enquiries and points of feedback raised by shareholders, including in relation to capital management and the effects of higher interest rates on the Group's business performance and its customers.

The Board's primary contact with institutional shareholders and sell-side analysts is through the CEO and the CFO. The Board is also regularly presented with shareholders' feedback, analysts' recommendations and market views via Investor Relations updates, topics which are frequently on the Board agenda.

The Chairs of each Board Committee are available to engage with shareholders on any significant matters that relate to their areas of responsibility.

Further details can be found in the Section 172 Statement on pages 16-21.

Annual General Meeting

Our AGM will be held at our offices at 90 Whitfield Street, Fitzrovia, London W1T 4EZ on 11 May 2023 at 11am. The Annual Report and Accounts and Notice of the AGM will be sent to shareholders at least 20 working days prior to the date of the meeting.

Shareholders are encouraged to participate in the AGM process and all resolutions will be proposed and voted on at the meeting on an individual basis by shareholders or their proxies. Voting results will be announced and made available on the Company's website, www.osb.co.uk. At the 2022 AGM, all resolutions were passed with at least 94% of votes in favour.

Shareholders may require the Directors to call a general meeting other than an AGM as provided by the Companies Act 2006.

Requests to call a general meeting may be made by members representing at least 5% of the paid-up capital of the Company as carries the right of voting at general meetings of the Company (excluding any paid-up capital held as treasury shares). A request must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. A request may be in hard copy form or in electronic form and must be authenticated by the person or persons making it. A request may be made in writing to the Company Secretary to the registered office or by sending an email to company.secretariat@osb.co.uk. At any general meeting convened on such request, no business shall be transacted, except that stated by the requisition or proposed by the Board.

Workforce policies and practices

The Board is supported by its Committees to ensure that workforce policies and practices are consistent with the Company's core values and support its long-term sustainable success. The Board monitors and assesses culture to ensure that it is aligned to the Group's continued commitment to treating customers fairly, carrying out business with integrity and preventing bribery, corruption, fraud or the facilitation of tax evasion and modern slavery. The Board, with the support of its Committees, approves key policies and practices which impact the workforce and drive their behaviours. Training is provided to employees to ensure that the policies are embedded within the culture. Further details of workforce policies and practices are included on pages 78-85.

Whistleblowing

The Group has established procedures by which employees may, in confidence, raise concerns relating to possible improprieties in matters of financial reporting, financial control or any other matter. The Group Whistleblowing Policy applies to all employees and is benchmarked against industry standards. Rajan Kapoor, Chair of the Group Audit Committee is the appointed Whistleblowers' Champion. The Group Audit Committee is responsible for monitoring the Group's whistleblowing arrangements and the policy and regularly reports to the Board on its activities.

Division of responsibilities

Roles of the Chairman and Chief Executive Officer

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

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

A summary of the key areas of responsibility of the Chairman and CEO and how these have been discharged during the year, are set out below.

Chairman's responsibilities	Activities carried out in 2022
Chairing the Board and general meetings of the Company.	David Weymouth chaired all Board meetings held during 2022, including the AGM.
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 and on changes in corporate governance and its application to the Company.
Ensuring that the Board receives accurate, timely and clear information in advance of meetings.	The Chairman, in liaison with the Company Secretary and the CEO, agreed the information to be distributed to the Board in advance of each meeting.
Promoting a culture of openness and debate by facilitating the effective contribution of all NEDs. Ensuring constructive relations between Executives and NEDs and the CEO in particular.	The Chairman ran meetings in an open and constructive way, encouraging contribution from all Directors and regularly met with NEDs without management present so that any concerns could be expressed. The Chairman adapted his approach to ensure that any virtual meetings were conducted in a manner that allowed all Directors to participate fully. A self-evaluation of the Board concluded that the Chairman was viewed positively, with NEDs and Executives noting that the open, inclusive and collaborative atmosphere within the boardroom was a major strength of the Board.
Regularly considering succession planning and the composition of the Board.	The Board received regular updates from the Group Nomination and Governance Committee and were all invited to attend a succession planning session held by that Committee. Details of the Committee's activities are explained in the Group Nomination and Governance Committee Report on pages 129-132.
Ensuring training and development needs of all Directors are met and that all new Directors receive a full induction.	The Chairman, in liaison with the Company Secretary, has reviewed the Directors' training requirements. Details of training held during the year are given on page 127.
Ensuring effective communication with shareholders and stakeholders.	The Chairman, along with other members of the Board, is available should any shareholders or other key stakeholders wish to speak to him. Our shareholders did not request any additional meetings during the year.

Chief Executive Officer's responsibilities

Andy Golding's responsibilities as CEO are to ensure that the Group operates effectively at strategic, operational and administrative levels. He is responsible for all the Group's activities; he provides leadership and direction to encourage others to effect strategies agreed by the Board; channels expertise, energy and enthusiasm; builds individual capabilities within the team; develops and encourages talent within the business; identifies commercial and business opportunities for the Group, building strengths in key areas; and is responsible for all commercial activities of the Group, liaising with regulatory authorities where appropriate. He is responsible for the quality and financial well-being of the Group, represents the Group to external organisations and builds awareness of the Group externally.

An experienced Group Executive team, comprising specialists in finance, banking, risk, operations, internal audit, legal and IT matters, assist the CEO in carrying out his responsibilities. The biographies for the Group Executive team are set out on pages 118 and 119.

Senior Independent Director

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

The SID is also available to shareholders should they wish to discuss concerns about the Company, other than through the Chairman and CEO.

Corporate Governance Report continued

Group Executive Committee

The CEO chairs the Group Executive Committee, whose members also include the CFO, Deputy CFO, Group Chief Operating Officer, Group Chief Risk Officer (CRO), Group General Counsel and Company Secretary, Group Commercial Director, Group Chief Information Officer, Group Chief Credit and Compliance Officer, Group Managing Director for Mortgages and 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 oversee the Risk and Compliance functions, with a view to ensuring the effective management of risks across OSB and CCFS as individual entities and on an aggregated basis.
- To oversee and lead the embedding of the ESG Strategy and Operating Framework.

The areas of focus for the Group Executive Committee during the year included:

- Consumer Duty.
- Business review.
- Capital and funding.
- Human resources and succession planning.
- Governance, control and risk environment – current and forward-looking.
- The impact of increasing interest rates.
- Monitoring target operating model progress.
- Culture – Purpose, Vision and Values.
- ESG matters, including climate change.
- Operational and customer service.
- IT Security and cyber risk.

Company Secretary

The Company Secretary, Jason Elphick, plays a key role within the Company, advising on good governance and assisting the Board to discharge its responsibilities, acting with integrity and independence to protect the interests of the Company, its shareholders and employees of the Group. Jason advises the Company to ensure that it complies with all statutory and regulatory requirements and he works closely with the Chairman, CEO and Chairs of the Committees of the Board so that Board procedures (including setting agendas and the timely distribution of papers) are complied with and that there is a good communication flow between the Board, its Committees, senior management and NEDs. Jason also provides the Directors with advice and support, including facilitating induction programmes and training, in conjunction with the Chairman.

Balance and independence

The Board comprises seven NEDs, the Chairman and two Executive Directors. All of the NEDs, including the Chairman, have been determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the relevant individual's judgement. The independence of the NEDs is reviewed continuously, including a formal annual review. Any NED who does not meet the independence criteria will not stand for election or re-election at the AGM.

Non-Executive Directors' terms of appointment and time commitment

NEDs are appointed for terms of three years, subject to annual re-election by shareholders. The initial term may be renewed up to a maximum of three terms (a total of nine years). The terms of appointment of NEDs specify the amount of time they are expected to devote to the business, which is a minimum of two and a half days per month, calculated based on the time required to prepare for and attend Board and Committee meetings, the AGM, meetings with shareholders and training.

NEDs are also committed to working additional hours as may be required in exceptional circumstances.

NEDs are required to confirm annually that they continue to have sufficient time to devote to the role.

Conflicts of interest

The Company's Articles set out the policy for dealing with Directors' conflicts of interest and are in line with the Companies Act 2006. The Articles permit the Board to authorise conflicts and potential conflicts, as long as the potentially conflicted Director is not counted in the quorum and does not vote on the resolution to authorise the conflict.

Directors are required to complete an annual confirmation including a fitness and propriety questionnaire, which requires declarations of external interests and potential conflicts. In addition, all Directors are required to declare their interests in the business to be discussed at each Board and Committee meeting. The interests of new Directors are reviewed during the recruitment process and authorised, if appropriate, by the Board at the time of their appointment. The Group Nomination and Governance Committee reviews conflicts of interest relating to Directors at least annually; periodic reviews are also undertaken as required. The Group has adopted a Conflicts of Interest Policy, which includes a procedure for identifying potential conflicts of interest within the Group.

No Director had a material interest in any contract of significance in relation to the Group's business at any time during the year or at the date of this report.

Board resources

Training and development

The Chairman ensures that all Directors receive a tailored induction on joining the Board, with the aim of providing a new Director with the information required to allow him or her to contribute to the running of the Group as soon as possible. The induction programme is facilitated and monitored by the Company Secretary to ensure that all information provided is fully understood by a new Director and that any queries are dealt with. Typically, the induction programme will include a combination of key documents and face-to-face sessions covering the governance, regulatory and other arrangements of the Group. Further information on the induction programme for Kal Atwal and Simon Walker can be found on page 130.

As senior managers, under the Senior Managers Regime operated by the PRA and FCA, all Directors are required to maintain skills, knowledge and a certain level of expertise in order to meet the demands of their positions of 'significant influence' within the Group. As part of the annual fitness and propriety assessment, Directors are required to complete a self-certification that they have undertaken sufficient training during the year to maintain their skills, knowledge and expertise and to make declarations as to their fitness and propriety. The Company Secretary supports the Directors to identify relevant internal and external courses to ensure that Directors are kept up to date with key regulatory changes, their responsibilities as senior managers and other matters impacting the business.

Information and support

The Company Secretary and the Chairman agree an annual calendar of matters to be discussed at each Board meeting to ensure that all key Board responsibilities are discharged over the year. Board agendas are then distributed with accompanying detailed papers to Directors in advance of each Board and Committee meeting. These include reports from Executive Directors and other members of senior management. All Directors have direct access to senior management should they require additional information on any of the items to be discussed. The Board and Group Audit Committee also receive regular and specific reports to allow the monitoring of the adequacy of the Group's systems and controls.

The information supplied to the Board and its Committees is kept under review and formally assessed on an annual basis as part of the Board evaluation exercise to ensure that it is fit for purpose and that it enables sound decision-making.

There is a formal procedure through which Directors may obtain independent professional advice at the Group's expense. The Directors also have access to the services of the Company Secretary as described on page 126.

Directors' indemnities

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

Directors' and Officers' Liability Insurance cover is in place for all Directors and Officers.

Directors' powers

As set out in the Articles, the business of the Company is managed by the Board, which may exercise all the powers of the Company. In particular, save as otherwise provided in company law or in the Articles, the Directors may allot (with or without conferring a right of renunciation), grant options over, offer, or otherwise deal with or dispose of shares in the Company to such persons at such times and generally on such terms and conditions as they may determine. The Directors may at any time after the allotment of any share but before any person has been entered in the Register as the holder, recognise a renunciation thereof by the allottee in favour of some other person and may accord to any allottee of a share, a right to effect such renunciation upon and subject to such terms and conditions as the Directors may think fit to impose. Subject to the provisions of company law, the Company may purchase any of its own shares (including any redeemable shares).

Board appointments and succession plans

The Board may appoint a Director, either to fill a vacancy or as an addition to the existing Board. All appointments to the Board are made on the recommendation of the Group Nomination and Governance Committee and are subject to a formal, rigorous and transparent procedure. Succession plans are also considered by the Group Nomination and Governance Committee. Appointments and succession plans are based on merit and objective criteria and, within this context, promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. The Group Nomination and Governance Committee Report on pages 129-132 provides further details on the process for appointing Board Directors, succession planning and diversity.

Kal Atwal was appointed as a Non-Executive Director on 7 February 2023 and Simon Walker was appointed on 4 January 2022. All Directors will be put forward for election or re-election at the forthcoming AGM with the exception of Graham Allatt and Mary McNamara who will be retiring at the AGM as they have reached the end of their nine year term. In addition to any power of removal conferred by the Companies Act, any Director may be removed by special resolution, before the expiration of his or her period of office and, subject to the Articles, another person who is willing to act as a Director may be appointed by ordinary resolution in his or her place.

Board composition

The size and composition of the Board is kept under review by the Group Nomination and Governance Committee and the Board to ensure that an appropriate balance of skills and experience are represented. Following an external skills review undertaken in 2020 and the subsequent appointment of Simon Walker in January 2022, the Board continued to focus on its composition and engaged the external Executive Search agency, Per Ardua¹, with the remit to find potential Non-Executive Director candidates. After an extensive search and rigorous interview process, the decision was made to appoint Kal Atwal as a NED with effect from 7 February 2023. 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.

1. Per Ardua has no other connection with the Company or individual Directors.

Corporate Governance Report continued

The Group Nomination and Governance Committee acknowledges the need for an effective and robust succession plan for both NEDs and Executives in order to fill any potential skills gaps and to continue to develop broader diversity within the Board. Korn Ferry was appointed as succession planning adviser to the Group and provided independent advice to the Committee during 2022. Korn Ferry also act as Remuneration Consultant to the Group Remuneration and People Committee. Korn Ferry has no other connection with the Company or any individual Director with the exception of Mary McNamara. Korn Ferry acts as Remuneration Consultants to the Remuneration Committee of Motorpoint Group Plc, of which Mary McNamara is Chair.

The Directors' biographies can be found on pages 116 and 117.

Board evaluation

The Board undertakes an evaluation of its performance and that of its Committees and individual Directors annually. An externally-facilitated evaluation of the Board was conducted in 2021. In 2022, Independent Audit was commissioned to facilitate the self-evaluation of the Board and its Committees.

Questionnaires for the Board and its Committees were prepared by Independent Audit and completed by members of the Board and Group Executive Committee. Independent Audit did not conduct

any interviews, observe meetings or review Board papers as part of the exercise. Responses from the questionnaires were analysed by Independent Audit and formed the basis of the internal self-assessment report, which was presented to the Board and its Committees who discussed the findings.

The 2021 external review concluded that the Board was working well together and the results of this year's self-evaluation showed that this was still the case. The results were indicative of a well-functioning Board whereby the NEDs and Executives were aligned in their thinking. The self-evaluation noted that there was unanimous agreement that the NEDs worked well together on a good basis of trust in a collaborative and open atmosphere. The Chairman of the Board was viewed very positively, with NEDs and Executives noting the open, inclusive and collaborative atmosphere as a major strength of the Board. The dynamic between the Board and Group Executive Committee was positive, striking the right balance of support and challenge.

The Chairing of the Board and its Committees was of a high quality and encouraged all views to be heard. It was agreed that the Board considered its stakeholders in all decisions, thinking through their views in depth. The Committees worked effectively, particularly in how they liaised with each other and the Board.

As part of the self-evaluation, Independent Audit suggested some areas for development, as outlined in the table below.

Outcomes of the self-evaluation	Proposed actions
Continue to focus on the long-term strategy of the Group.	Time has been allocated to discuss the Group's long-term strategy at Board meetings in 2023.
Develop deeper understanding of the role of technology in the Group's strategy, in particular the ability of IT systems to support the strategy, as well as managing cyber risk.	The Board will be provided with cyber risk training during 2023.
Oversee the development of a broader People strategy, with particular reference to culture and engagement.	A People Strategy is being developed, which will focus on the skills, characteristics and diversity needed to underpin the Group's overall strategy.
Continue to oversee the development of the ESG strategy in terms of how it is being embedded throughout the Group and with focus on thought leadership in relation to the private rented sector.	The Board received regular updates relating to ESG during 2022. In the latter part of the year, more detail relating to ESG Strategy was presented. The Board and the Group Nomination and Governance Committee will continue to receive regular updates on this topic during 2023.

Group Nomination and Governance Committee Report

Dear Shareholder,



This report is presented to you in my capacity as Chair of the Group Nomination and Governance Committee.

Committee member	Meetings attended
David Weymouth (Chair)	7/7
Noël Harwerth	7/7
Mary McNamara	7/7

The Group Nomination and Governance Committee is responsible for leading the process for the appointment of new members of the Board and Executives and provides oversight and guidance to the Board on all Corporate Governance matters in relation to the Group.

In relation to the values, ethics and overall culture of the Group the Board sets the tone from the top leading the Group towards creating a sustainable business. The Group adheres to best practice in relation to corporate governance which is in line with the Code and the requirements of the PRA and FCA. 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.

Following Simon Walker's appointment to the Board in January 2022, the Committee has continued to focus on the composition of the Board to ensure that the current mix of experience and skills remains fit for purpose. Kal Atwal has been appointed as a NED with effect from 7 February 2023 following approval from the Board and brings with her significant experience as a Non-Executive Director across FTSE 100, FTSE 250 and mutual businesses. The Committee acknowledges the need for an effective and robust succession plan for both NEDs and Executives in order to fill any potential skills gaps and to continue to develop broader diversity within the Board. Korn Ferry¹ has been appointed as Executive succession planning adviser to assist the Committee with succession planning for key roles. Per Ardua² assisted with the search for the new NED which led to the appointment of Kal Atwal.

¹ Korn Ferry also act as Remuneration Consultant to the Group Remuneration and People Committee. Korn Ferry has no other connection with the Company or any individual Director, with the exception of Mary McNamara.

² Per Ardua has no other connection with the Company or any individual Director.

As at the date of this report, the Board is comprised of 50% females and continues to meet the requirements of the Parker Review and Hampton-Alexander guidelines.

For a number of years, the Group has subscribed to the Women in Finance Charter which is an initiative to drive the representation of female employees at senior levels across the financial services industry. Having met the initial three-year target of ensuring that 30% of all senior roles would be filled by females by the end of 2020, the Committee agreed to a new three-year commitment to the end of 2023 to achieve 33%. As at 31 December 2022, 31.4% of all senior roles were undertaken by female employees and the Group is continuing to work towards achieving the increased target by the end of this year.

In addition to Board and Executive succession planning resulting in the appointments of Kal Atwal and Simon Walker during the year; other items considered by the Committee included Board effectiveness, the Executive Development Programme and NED conflicts of interests, as well as ESG matters such as a focus on diversity and inclusion, the Gender Pay Gap Report, and recruitment activity across the Group.

During the year, the Group Remuneration Committee's remit was expanded to include people matters. As a result of this change, some of the Committee's responsibilities relating to employee engagement, diversity, equity and inclusion and culture, were reallocated to the renamed Remuneration and People Committee.

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
 16 March 2023

Group Nomination and Governance Committee Report continued



Board and Committee composition and succession planning has been a main focus throughout the year.

David Weymouth

Chair of the Group Nomination and Governance Committee

Group Nomination and Governance Committee – key responsibilities

- Review and oversee the structure, size and composition of the Board (including the balance of skills, knowledge, experience and diversity, including gender).
- Review and oversee the composition (including the skills, knowledge, experience and diversity, including gender) of Committees of the Board and succession planning for chairs of the various Committees and the Senior Independent Director.
- Ensure plans are in place for orderly succession planning for Directors and other senior management and oversee the development of a diverse pipeline for succession.
- Keep under review the leadership needs of the Group, both Executive and Non-Executive.
- Identify and recommend for the approval of the Board, candidates to fill Board vacancies as and when they arise.
- Monitor, oversee and keep the Board aware of strategic corporate governance issues and changes affecting the Company and the market in which it operates.
- Review whether Directors continue to meet the independence criteria at least annually.
- Review annually the time required from Non-Executive Directors.
- Review and approve changes to the Board's Corporate Governance guidelines.
- Review and recommend to the Board for approval the Corporate Governance Report, for inclusion in the Annual Report.
- Monitor developing trends, initiatives or proposals in relation to legal developments, Board governance issues and best corporate governance practice.

Membership and meetings

The Committee met a total of seven times during 2022. The members of the Committee are Noël Harwerth, Mary McNamara and David Weymouth (Chair). Mary McNamara will cease to be a member of the Committee on 11 May 2023. Sarah Hedger will be appointed as a member of the Committee with effect from 11 May 2023.

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 People and Group Risk Committees and its own composition during 2022, carefully considering the skills of existing members and looking at any skills gaps applicable to each Committee. In relation to this Committee, it was found that members were unanimous in their decisions following detailed discussion; the meetings are chaired well and supported by internal functions of the Group. The focus of the Committee was strong in all aspects of its key responsibilities, particularly in relation to diversity, equity and inclusion and overseeing Executive succession planning.

Succession planning

The Committee considered both Board and Executive level succession planning during 2022, including ways in which existing skills could be developed further and identified additional skills which would complement the Board and its Committees. Korn Ferry was appointed as Executive succession planning adviser to the Group and provided independent advice to the Committee during 2022. Per Ardua is the appointed Board succession planning adviser and assisted with the search for new NEDs.

All members of the Board were invited to participate in succession planning discussions during the year.

Induction

All Directors newly appointed to the Board undergo a thorough induction plan. During 2022, Simon Walker had one-to-one meetings with the Chair, existing Non-Executive Directors, CEO, CFO, Group General Counsel and Company Secretary, members of the Group Executive Committee and other senior managers. He also had access to various corporate documents and product guides and received a briefing on Directors' responsibilities and obligations. Kal Atwal will follow a similar induction plan this year. Site visits to all offices will be arranged and other members of the Board will be given the opportunity to participate to refresh their knowledge.

Environmental, Social and Governance

The Committee monitored sustainability and ESG developments relevant to the Group including consideration of points arising from engagement with shareholders and other stakeholders in these areas. ESG continues to be a key area for the Board and its Committees and is expected to remain a focus in the coming years.

Following recommendation from the Committee, Sarah Hedger was appointed as the ESG Champion in order to facilitate Board engagement on ESG matters and held this position throughout the year.

The Committee reviewed changes in the regulatory landscape, particularly the remit and composition of the Committees and the operation of two banking licences within the Group. The Committee remained satisfied that there are effective arrangements in place.

Further details on the Group's ESG initiatives is included on pages 86-114.

Diversity and inclusion

The Group recognises and embraces the benefits of having a diverse Board and workforce; and sees diversity at Board level as an essential element in maintaining a competitive advantage. We believe that a truly diverse Board and workforce will include and make good use of differences in the skills, regional and industry experience, age, background, race, gender and other distinctions between people. The Board recognises that diversity is the key to better decision-making and avoiding 'group think'.

These differences are considered in determining the optimum composition of the Board and, where possible, will be balanced appropriately. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

In compliance with Listing Rule 9.8.6, as at 31 December 2022, 25% of the Group Executive Committee and 44% of the Board was female and two females held senior Board positions. With the appointment of Kal Atwal, and as at the date of this report, 50% of the Board is female; two of the ten Directors are from an ethnic minority and two females hold senior Board positions. The tables on page 132 set out the required information as at 31 December 2022.

During the year the Committee reviewed, and the Group Remuneration and People Committee approved, the Group's Diversity, Equity and Inclusion Policy which sets out the Board's commitments in relation to diversity and inclusion. These commitments include addressing behavioural gender and ethnic bias and basing appointments on merit and objective criteria and, within this context, promoting diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. The policy also sets out the Board's commitment to the Women in Finance Charter and has introduced measurable objectives with the Group committing to increase the percentage of females in senior management positions within the Group's UK population to 33% by the end of 2023.

Jason Elphick is the appointed Diversity and Inclusion Champion. His role is to promote diversity initiatives such as our commitment to those with a disability, mental health in the workplace and unconscious bias training. The Diversity and Inclusion Working Group continued to develop and deliver the Group's Diversity and Inclusion agenda in order to promote, champion and encourage diversity, equity and inclusion within the workplace in line with the Respect Others value. The Diversity and Inclusion Working Group consists of volunteer representatives from across the Group and hosted a number of activities during the year, including Learning at Work Week which focused on creating human connections and supporting colleague well-being and resulted in the Group receiving an Impact Award for Promoting Well-being. The Diversity and Inclusion Working Group reports to the ESG Technical Committee, which in turn provides updates to the Committee and the Board on all matters relating to diversity, equity and inclusion.

Further details relating to diversity, equity and inclusion are set out on pages 111-113.

Group Nomination and Governance Committee Report continued

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in Executive Management	Percentage of Executive Management
Men	5	56%	2	9	75%
Women	4	44%	2	3	25%
Other	0	0%	0	0	0%
Not specified/prefer not to say	0	0%	0	0	0%

Table for reporting on ethnic background

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in Executive Management	Percentage of Executive Management
White British or other White (including minority-white groups)	8	89%	4	11	92%
Mixed/Multiple Ethnic Groups	0	0%	0	0	0%
Asian/Asian British	1	11%	0	1	8%
Black/African/Caribbean/Black British	0	0%	0	0	0%
Other ethnic group, including Arab	0	0%	0	0	0%
Not specified/ prefer not to say	0	0%	0	0	0%

Activities during 2022

In last year's report, the Committee identified four key priorities. A summary of actions taken and outcomes are set out in the table below.

Objective	Action taken
Continue to work on developing the Board and Group Executive Committee succession plans and invite all NEDs to attend such meetings of the Committee.	The Committee continues to review the skills and experience matrix of the Board and Group Executive Committee to ensure that it remains fit for purpose, as well as maintaining an effective succession plan. Following endorsement, Kal Atwal was appointed to the Board on 7 February 2023 and Simon Walker was appointed on 4 January 2022. Succession planning for the Group Executive Committee was further enhanced with the appointment of the Deputy Chief Financial Officer in September 2022. The Committee endorsed new Chairs of the Group Risk Committee and Group Remuneration and People Committee when the existing Chairs retire. These appointments were approved by the Board. The Committee continues to look to fill potential skills gaps and to continue to develop broad diversity in the Board.
Oversee the development of a structured workforce engagement plan to build upon the engagement provided by employee forums, including face-to-face engagement and informal visits.	The OurVoice meetings conducted in 2022 provided the Board and Executives with real time exposure to employees and the opportunity to engage with them directly. There are tangible outcomes from these meetings such as improving the new employee referral scheme. Work also commenced in 2022 towards developing a broader people/culture strategy for the Group to be delivered in 2023.
Organise occasional sessions with the CEO to brief NEDs on capacity and succession planning within senior teams.	The CEO held sessions with the NEDs in order to provide an update on capacity and succession planning in respect of key appointments within the Group. The Committee approved the appointment of Korn Ferry as Executive succession planning adviser to the Group; they provided independent advice to the Committee during 2022.
Continue to oversee the development of the ESG strategy and how it is being embedded throughout the Group.	The Committee acknowledges that central to the Group's ESG strategy and succession planning is the importance of having a diverse and inclusive workforce. The Board approved a broad ESG strategy in November 2022, which includes regular reporting to enable the Board to monitor how well it is being embedded within the culture of the Group.

Priorities for 2023

- Continue succession planning work for at Board and Executive levels.
- Specific actions to embed the ESG strategy in 2023, in particular by providing thought leadership.

Group Audit Committee Report

Dear Shareholder,



The Group Audit Committee report for 2022 sets out how the Committee has discharged its responsibilities and provided assurance on the integrity of the Group's financial statements for the year ended 31 December 2022.

Committee member	Meetings attended
Rajan Kapoor (Chair)	7/7
Graham Allatt	7/7
Noël Harwerth	6/7
Sarah Hedger	7/7
Simon Walker	7/7

The Committee supports the Board in overseeing the systems of internal control and external financial and narrative reporting across the Group; and provides assurance on the integrity of the Group's financial statements.

During 2022, the Committee challenged management on accounting judgements and estimates; in particular, the calculation of expected credit losses (ECL) and effective interest rate (EIR) accounting in accordance with IFRS 9, against the backdrop of economic and political uncertainties. The Committee focused on model enhancements and analysis, with management judgments applied on historical data trends to factor in the impact of the macroeconomic outlook and the rising cost of living and borrowing as well as the longer term climate factors. Other areas of focus included monitoring the steps being taken by management to enhance the Group's internal control environment and ensure that the Group is prepared for the regulatory changes anticipated following the UK government's consultation on 'Restoring trust in audit and corporate governance'; monitoring the Group's compliance with the Task Force on Climate-related Financial Disclosures (TCFD) requirements and other non-financial reporting requirements.

The Committee performs this role by ensuring that effective external and internal audit arrangements are in place, reviewing and monitoring compliance assurance processes, overseeing fraud prevention and whistleblowing procedures and monitoring the integrity of the Group's financial and regulatory disclosures. Throughout 2022, maintaining audit quality remained a priority and the Committee monitored the performance of the external

auditor and the Internal Audit function. A formal assessment was undertaken through an internal process and the Committee reviewed the feedback provided by stakeholders. Additionally, the Committee approved the Internal Audit Plan for 2022 and was kept informed of progress and delivery. The Committee regularly sets time aside to meet with the Group's external and internal auditors without management present so that they are able to raise concerns freely. As Chair, I am committed to ensuring that the Committee's performance is also kept under review and further details of the Committee's performance evaluation is included within this report. I work with the CFO and Committee Secretary to ensure that the agenda remains appropriate in light of regulatory changes and relevant developments within the Group. I am also available to meet with the Company's investors on request in accordance with the Financial Reporting Council's (FRC) Stewardship Code.

In addition to my role as Chair of this Committee, I act as the Group's Whistleblowers' Champion and have overall responsibility for the integrity, effectiveness and independence of the Group's policies and procedures on whistleblowing. An internal assurance review of the Group's whistleblowing procedures was undertaken and the recommended actions were implemented during the year. The Committee is confident that the whistleblowing arrangements remain effective, facilitate the proportionate and independent investigation of reported matters and allow appropriate follow-up action to be taken.

I would like to thank all Committee members for their diligent contribution during 2022 and in particular, Graham Allatt for his continued support and invaluable insight as the Group has continued to grow. Graham will not be standing for re-election at the AGM and will cease to be a member of the Committee on 11 May 2023. Simon Walker became a member of the Group Audit Committee on his appointment to the Board in January 2022 in order to provide consistency and to support succession planning during the time leading up to Graham's departure.

Rajan Kapoor
Chair of the Group Audit Committee
16 March 2023

Group Audit Committee Report continued

Membership and meetings

The Committee met seven times during the year. The current members of the Committee are Rajan Kapoor (Chair), Graham Allatt, Noël Harwerth, Sarah Hedger and Simon Walker and details of their qualifications and experience can be found on pages 116 and 117. The members are all independent Non-Executive Directors who also serve on other Board Committees in addition to the Group Audit Committee. Simon Walker joined the Committee on 4 January 2022 and has significant experience in financial services. Graham Allatt will cease to be a member of the Committee on 11 May 2023. Rajan Kapoor served as Chair of the Group Audit Committee throughout the year and has wide-ranging financial experience in the banking industry, including recent and relevant financial experience as required by the UK Corporate Governance Code 2018.

As a whole, the Committee has an appropriate balance of skills and standing invitations to Committee meetings are extended to the Chairman of the Board, Executive Directors, the Group Chief Risk Officer, the Group Chief Internal Auditor and the external audit partner, all of whom attend meetings as a matter of practice. Other non-members may be invited to attend all or part of any meeting, as and when appropriate.

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.

Group Audit Committee – key responsibilities

Internal control and risk management

- Review systems of internal control over financial reporting to identify, assess and monitor financial risks and other internal control and risk management systems.
- Review and approve systems and controls for the prevention of bribery and procedures for detecting fraud including conduct risk and related activities.
- Review the adequacy and effectiveness of anti-money laundering systems and controls.
- Review the adequacy of the Group's whistleblowing arrangements and procedures.

Financial and non-financial reporting

- Review and recommend to the Board, the long-term viability statement and the adoption of the going concern basis for the preparation of the year-end and interim financial statements.
- Monitor the integrity of the financial statements, including annual and interim reports, trading updates, Pillar 3 disclosures and any other formal announcements relating to financial performance.
- Provide challenge and oversight on the consistency, quality and appropriateness of significant accounting policies and judgements and on the methods used to account for significant or unusual transactions.
- Ensure compliance with all appropriate accounting standards and regulatory reporting requirements.
- Consider and recommend changes to accounting policies to the Board.
- Review and challenge, where appropriate, all material information included in the Annual Report and the financial statements, such as the business review and the corporate governance statements relating to the audit and to risk management.

Internal and External Audit

- Review and monitor the effectiveness of the Group's internal and external audit arrangements.

Activities during 2022

The principal activities undertaken by the Committee during the year are described below.

Viability and going concern

The Committee reviewed the current position of the Group, along with principal and emerging risks; and assessed the prospects of the Group before recommending the Group's long-term viability statement for approval by the Board. The Committee also undertook a review, before recommending to the Board, that the going concern basis should be adopted in preparing the annual and interim financial statements. Further details are set out on pages 76, 77 and 166.

Alternative performance measures

The Committee provided oversight and challenge in relation to the use of alternative performance measures (APMs) in the Annual Report and Accounts to ensure that these were applied consistently and remained relevant. The Group presents APMs on an underlying basis, alongside the statutory basis, which helps demonstrate the performance of the Group on a consistent basis and enables meaningful comparisons to prior years. See pages 246-250 for further details.

As APMs are important measures of how the Group performed, the Committee asked the external auditor, Deloitte, to provide assurance on their computation. Deloitte was selected as the Committee considered that they could perform the work efficiently and economically. The Committee was satisfied that this assignment did not affect Deloitte's independence as external auditor. A copy of Deloitte's independent assurance statement can be found on page 247.

Financial reporting and regulatory disclosures

The Committee's review of financial reporting during the year included the approval of the Annual Report and Accounts, the Interim Results, quarterly trading updates and analysts' presentations. The Committee also approved the Group's Pillar 3 regulatory disclosures for publication on the Group's website, following a review of the governance and control procedures around their preparation.

As part of its review, the Committee assessed management's application of key accounting policies, significant accounting judgements and compliance with disclosure requirements to ensure that these were consistent and appropriate to satisfy the relevant requirements. In particular, the Committee carefully considered the presentation of results on a statutory and underlying basis to ensure transparency and consistency throughout.



The Committee's primary objective is to assist the Board in overseeing the systems of internal control and external financial and narrative reporting across the Group.

Rajan Kapoor

Chair of the Group Audit Committee

Fair, balanced and understandable

The Committee considered, on behalf of the Board, whether the 2022 Annual Report and Accounts taken as a whole are fair, balanced and understandable and whether the disclosures are appropriate. The Committee also considered whether the non-financial information within the Annual Report was consistent with the financial statements, the use of APMs and associated disclosures.

Following its review, the Committee advised the Board that it is satisfied that the Annual Report and Accounts is fair, balanced and understandable; and provides the information necessary for shareholders and other stakeholders to assess the Group's position and performance, business model and strategy in line with section 172 requirements as outlined on pages 16-21.

Significant areas of judgement and estimates considered by the Committee

The Committee considered management's significant accounting judgements and use of accounting policies in relation to the interim and full-year results of the Group. In its assessment, the Committee received reports from management and provided challenge in relation to each area of significant judgement and management's recommended approach. The Committee also sought the views of the external auditor on the accounting treatment and judgements underpinning the financial statements.

Significant issues considered	How these were addressed by the Committee
Loan book expected credit losses	The Committee received reports from management and challenged the approach to provisioning for loan book ECLs. The Committee provided oversight of the IFRS 9 Framework including the Group's enhancements to models, which were incorporated into the Group's IFRS 9 Framework as part of the Internal Ratings-Based (IRB) programme. The Committee consulted the Group's economic advisers who provided their view and insight into macroeconomic scenarios and proposed probability weightings. The Committee focused on management's proposals on the probabilities attached to the economic scenarios and approved the final weightings utilised within the Group's impairment calculations. The Group continued to utilise four scenarios; an upside, base case and two further downside scenarios. The Group undertakes regular industry benchmarking of the economic scenarios, weightings and the resulting overall coverage. These benchmarks, in addition to insight from the Group's economic advisers, support management in the selection and weighting of economic scenarios. The Committee reviewed the key assumptions and judgements to ensure that these appropriately reflect the economic and social environment. The Group has ensured that the identification of Significant Increases in Credit Risk remains appropriate, in addition to making post model adjustments for model limitations, including the impacts of cost of living and cost of borrowing, as well as climate change factors.
Effective interest rate	A number of assumptions are made when calculating the EIR for newly-originated loan assets. These include their expected redemption profiles, product switching activity and the anticipated level of any early redemption charges (ERCs). Certain mortgage products offered by the Group include significant directly attributable fee income; in particular, certain Buy-to-Let products and/or those that transfer to a higher revert rate after an initial discount or fixed period. Judgement is used in assessing the expected rate of prepayment during the discounted or fixed period and during the period post rate reversion. The Group uses historical experience of customer behaviour in its assessment along with the economic outlook and market conditions. The Committee reviewed and challenged management's assessment of the drivers of recent prepayment behaviour, in both the fixed and reversionary periods, and whether these were expected to be temporary or longer-term in nature. The assessment considered higher than expected early repayments during the fixed period, which increased ERC income and accelerated the recognition of net fee income, and concluded that this was temporary in nature as customers looked to lock in their cost of borrowing in a period of extreme interest rate volatility. The assessment also included prepayment behaviour in the reversionary period, which had accelerated during the year as customers looked to lock in their cost of borrowing, and concluded that this was likely to continue in a less volatile rate environment, due to the significant step up in rates in the reversionary period, and the Group's active retention programmes, offering more favourable rates. 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. The Committee noted that the portfolios were most sensitive to the assumption of time spent on the higher reversion rates and reviewed and challenged Management's proposed sensitivity disclosures. Having considered all of the evidence, the Committee is satisfied that the approach taken and judgements and estimates made were reasonable. Further details of the above significant areas of judgement and estimation can be found in note 2 to the financial statements.

Loan book expected credit losses

Effective interest rate

Group Audit Committee Report continued

Significant areas of judgement and estimates considered by the Committee continued

Significant issues considered	How these were addressed by the Committee
Intangibles and investments in subsidiaries	The Committee reviewed management's assessment of the economic and political changes in the year, along with the latest economic forecast and the Group's business plans to determine whether there were any indications of an impairment of the Group's intangible assets and investments in subsidiaries at the Company level. The Committee noted the reduced balances for merger related intangibles (following the Combination with CCFS in October 2019) and was satisfied that there was no impairment in intangibles or investments in subsidiaries at the Company level.

Taxation

The Committee received an update on the Group's tax position and discussed matters such as the relationship with HMRC and tax compliance status. The Committee endorsed the Group's UK tax strategy, which is available on our website, www.osb.co.uk.

Internal Audit

The Committee is responsible for approving the remit of Group Internal Audit, together with the annual Internal Audit plan and ensuring that it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee approved the Group Internal Audit Charter in October 2022, which formally defines Internal Audit's purpose, authority and responsibility and can be found on our website, www.osb.co.uk.

The Internal Audit function is resourced with an in-house team supported by a panel of third party independent accountancy firms that provide expert resource (on a co-source basis) for specific technical/specialist audits. The Group Internal Audit team has grown in size, developed its methodology and matured its assurance to support the growth ambitions of the Group.

The Committee holds private sessions with the Group Chief Internal Auditor and ensures that the Internal Audit function has adequate standing and is free from management, or other restrictions, which may impair its independence and objectivity. On an annual basis, the Committee assesses the effectiveness of the Internal Audit function. In 2022, 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. The Committee confirms that it is satisfied that the Internal Audit function operated effectively during the year.

The Committee received regular updates from the Group Chief Internal Auditor on progress against the 2022 Internal Audit Plan and noted the results of audit assignments, significant findings and themes; and any outstanding audit action points. This is a dynamic plan, which is updated on a quarterly basis to capture any emerging risks that required assurance. In addition, the Committee, together with the Executives and external auditor, received written reports following the conclusion of each Internal Audit engagement. Management actions on all Internal Audit recommendations were tracked and reported to the Committee. As well as monitoring progress with the 2022 Internal Audit Plan, the Committee also considered and approved the 2023 Plan, which is based on an assessment of the key risks faced by the Group.

Systems of internal control and risk management

The Committee approved the annual review of the Compliance Risk Assessment and Assurance Plan and received regular reports from the Group's Compliance function. The Committee used the Internal Audit and Compliance Reports to support its assessment of the effectiveness of the Group's system of internal controls and risk management. The Committee also received a report on the effectiveness of the Group's system of controls from the CEO, which was based on a self-assessment process completed by senior managers and Executives. The Committee continues to review operational incidents and ensures that appropriate follow up action is taken.

The Committee received and reviewed reports from management on key controls over the accuracy and completeness of the financial statements, the status of the substantiation of balance sheet general ledger accounts at the reporting date and judgements made in the calculation of regulatory capital disclosures and the supporting external professional advice. In addition, the Committee requested and reviewed reports from management on the Group's Finance function. The Committee also received and reviewed reports on planned enhancements to internal IT access controls to address control deficiencies identified by internal and external audit. The systems of internal control and risk management have been in place throughout the year under review and up to the date of approval of the Annual Report and Accounts.

The Committee reviewed and approved a number of policies following their annual update, including; anti-bribery and corruption, data protection, data retention and record management, fraud, sanctions, loan impairment provisioning, whistleblowing, anti-money laundering and prevention of terrorist financing. The Committee received reports on fraud prevention arrangements, fraud incidents, whistleblowing, financial crime systems and controls and received an annual report from the Money Laundering Reporting Officers for the two Banks during the year.

Whistleblowing

The Committee is responsible for monitoring the Group's Whistleblowing Policy and arrangements. Where concerns have been raised, a detailed report is provided on the investigation, actions taken, lessons learnt and changes made as a result.

The Chair of the Committee has overall responsibility for whistleblowing arrangements with oversight from the Board. Training and periodic updates are provided to all employees who are encouraged to use the multiple channels available to raise any concerns they may have. Training is also provided to Line Managers and those involved in any investigations to ensure that they comply with relevant regulations. No concerns were raised that required a report to be made to the regulators.

External auditor

The Committee is responsible for overseeing the Group's relationship with its external auditor, Deloitte. This includes the ongoing assessment of the auditor's independence and the effectiveness of the external audit process, the results of which inform the Committee's recommendation to the Board relating to the auditor's appointment (subject to shareholder approval) or otherwise. The Committee holds regular private sessions with the external auditor.

External auditor effectiveness and independence

The Committee assesses the effectiveness of the external audit function on an annual basis. In 2022, 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; and some minor areas for improvement were suggested.

The FRC's Audit Quality Review (AQR) team monitors the quality of audit work of certain UK audit firms through annual inspections of a sample of audits and related procedures at individual audit firms. The FRC's AQR team reviewed Deloitte's audit of the Group's financial statements for the year ended 31 December 2020 as part of its annual inspection of audit firms. The Audit Committee received and reviewed the final report from the AQR team, which indicated that there were no significant areas of concern.

The Committee is satisfied that Deloitte is independent; in making this assessment, it took into account the non-audit services provided during the year and confirmations given by Deloitte as to its continued independence at various stages in the year.

External auditor appointment and tenure

The Group's external audit contract was put out for tender for the 2019 financial year and the next external audit tender is expected to be 2028 for the financial year 2029.

Rob Topley has been the statutory auditor since 2019 and in compliance with mandatory lead partner rotation standards will rotate off the audit at the conclusion of the 2023 audit. In anticipation of this change, the Committee met with a number of potential successors and considered that Ben Jackson has the experience and knowledge to take on this role.

The Committee confirms that the Group has complied with the Statutory Audit Services for Large Companies Market Investigation (mandatory use of competitive tender processes and Audit Committee Responsibilities) Order 2014, which requires FTSE 350 companies to put their statutory audit services out to tender no less frequently than every 10 years. There are no restrictive contractual provisions or third parties limiting the Company's choice of auditor and a resolution to re-appoint Deloitte as external auditor will be presented at the AGM.

External audit plan and reports

The Committee reviewed the plan for the 2022 audit and was satisfied that appropriate audit effort was being directed at all significant areas. The auditors attended all meetings of the Committee and presented their detailed reports for their half-year review and the year end audit on the audit-related work and conclusions. This included Deloitte's view on accounting judgements made by management, compliance with IFRSs and observations on controls. The Committee also received helpful benchmark data from Deloitte during the year.

Non-audit services

The Committee reviewed and approved the policy governing the use of the external auditor for non-audit services which is designed to ensure that any provision of non-audit services to the Group by the external auditor does not impact its independence and objectivity. The Committee closely monitors and receives regular reports on non-audit services.

The Group maintains active relationships with several other large firms and any decision to appoint the external auditor for non-audit services is taken in the context of its understanding of the Group, which can place it in a better position than other firms to undertake the work, and includes an assessment of the cost- effectiveness and practicality of using an alternative firm.

The EU statutory audit market reform legislation adopted in the UK applies a cap on permissible non-audit services of 70% of the preceding three-year average of audit fees for UK incorporated Public Interest Entities (PIEs). The Revised Ethical Standard issued by the FRC in December 2019 contained a 'whitelist' of permitted non-audit services, distinguishing between those which fall under the cap, including extended assurance work, and those not subject to the cap, being services required by a competent authority or regulator by law. The cap is applicable for financial periods commencing on or after 17 June 2019. As a result of the Combination with CCFS and insertion of a holding company in 2020, the Group contains multiple PIEs and the application of the rules are 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 maintained a cap for non-audit services in 2022 of 50% of audit services. The Committee pre-approved a number of non-audit services including proposed Tier 2 debt issuances, compliance tools in India, interim profit verifications, the half-year review, assurance review of certain key performance indicators in the Annual Report and Accounts, TCFD, and reporting on the Inline Extensible Business Reporting Language (iXBRL) tagging of Financial Statements. The Committee also agreed mandates for the CFO and the Chair of the Committee to approve additional permitted engagements subject to agreed thresholds.

Group Audit Committee Report continued

The fees paid to the external auditor in respect of non-audit services during 2022 totalled £546,000, representing 16% of 2022 Group audit services of £3,415,000 (2021: £619,000 representing 26% of 2021 Group audit services of £2,398,000) and are summarised in the table below. All non-audit services provided by Deloitte were assurance-related in nature and consistent with the role of the external auditor. No advisory or consulting services were provided.

	Group 2022 £'000	Group 2021 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	75	68
Fees payable to the Company's auditor for the audit of the accounts of subsidiaries	3,340	2,330
Total audit fees	3,415	2,398
Audit-related assurance services	254	258
Other assurance services	259	121
Other non-audit services	33	240
Total non-audit fees	546	619
Total fees payable to the Group's auditor	3,961	3,017

Audit-related assurance services include the interim review and profit verifications for regulatory purposes. Other assurance services in 2022 include an assurance review of APMs, iXBRL and ESG disclosures and certain ESG metrics (2021: assurance review of APMs, iXBRL and synergy savings). Other non-audit services primarily comprise work related to reporting accounting work and the Euro Medium-Term Note comfort letter where we did not issue due to market volatility (2021: work related to reporting accounting work and an opinion on Additional Tier 1 (AT1) securities issuance and comfort letter for the Euro Medium-Term Note programme).

Committee effectiveness

The Committee formally evaluates its performance on an annual basis. This year, 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 2022 with no significant improvements required. An internally facilitated Board and Committee effectiveness review was also undertaken, which included the Committee and further details can be found on page 128.

The Committee undertook training during the year, including making extensive use of training programmes run by the major accountancy firms and other external advisers. In addition, Committee members attended a number of in-house workshops on specific areas and completed all mandatory training. Some members of the Committee also interacted with key employees during the year to increase their knowledge and understanding of the business.

Common membership across the Group's Committees facilitates effective communication lines between the Committees regarding finance, risk and remuneration matters; and ensures that agendas are aligned and duplication of responsibilities is avoided.

Group Risk Committee Report

Dear Shareholder,



The Committee has continued to discharge its risk oversight, review and challenge responsibilities effectively during a period of continuing uncertainty and change.

Committee member	Meetings attended
Graham Allatt (Chair)	7/7
Noël Harwerth	7/7
Rajan Kapoor	7/7
Simon Walker	7/7

The Committee remains focused on the risks to the Group's strategic, business and regulatory agenda based on the Board-approved risk appetite. Throughout the year, the Committee has ensured that appropriate and timely decisions have been taken in order to manage the Group's risk profile during a period of heightened economic uncertainty and change.

Volatility in global markets, alongside continuing interest rate rises and the rising cost of living and cost of borrowing in the UK, has been an important backdrop against which the Committee has discharged its duties. The Committee has also been mindful of the increasing regulatory agenda and supervisory focus as a result of the Group's growth.

The Committee has overseen and further guided the Group's development of its risk management frameworks, risk appetite and key regulatory submissions such as the Internal Capital Adequacy Assessment Process (ICAAPs), Internal Liquidity Adequacy Assessment Process (ILAAPs) and Recovery Plan, as well as ensuring that appropriate levels of risk governance and oversight have been maintained over the individually regulated entities. A number of key regulatory projects have been subject to review and discussion by the Committee including the Internal Ratings-Based Approach (IRB), Resolvability Assessment Framework (RAF) and Operational Continuity in Resolution (OCIR).

The Committee, jointly with the Group Audit Committee, has provided a significant level of review and challenge to IFRS 9 based methodologies, judgements and estimates, economic scenario calibrations and weightings, including the adequacy of individually

assessed provisions. It has also ensured that the total level of credit provisions at the Group and its regulated entities are commensurate with the wider risks and uncertainties. Assessment of risk-based capital and funding requirements, including supporting methodologies and assumptions, have been subject to Committee review and recommendation for Board approval as part of the Group and regulated entities' ICAAPs, ILAAPs and Recovery Plans.

The Committee has closely scrutinised the Group and its regulated entities' risk profiles against the Board-approved risk appetites, requesting focused reviews and deep dives to better understand emerging trends and incidents.

IRB is an important strategic initiative that is intended to enhance risk management capabilities. Regular updates have been provided to the Committee on progress against plan, use and integration of IRB outputs within credit underwriting, credit risk management, capital planning and stress testing processes. The Committee has exercised oversight and approval of IRB and IFRS 9 based models and policies through its sub-committee, the Group Models and Ratings Committee.

The Committee has overseen efforts to enhance the Group's operational resilience capabilities in line with industry good practice and emerging regulatory requirements, as well as continuing to oversee the alignment and enhancement of the Group's approach to risk and controls assessment based on a single system platform and common standards.

I would like to offer my thanks to the members of this Committee, past and present, whose contribution and engagement since I assumed the role of Chair has been a great support. I will be stepping down from both the Board and as Chair of this Committee at the AGM and will be succeeded by Simon Walker, who has a wealth of experience in financial services and specifically risk management.

Graham Allatt
Chair of the Group Risk Committee
16 March 2023

Group Risk Committee Report continued

Membership and meetings

The Committee met seven times during the year. The current members are Graham Allatt as Chair, Noël Harwerth, Rajan Kapoor and Simon Walker. Graham Allatt served as Chair of the Group Risk Committee throughout the year and will cease to hold this position following the AGM on 11 May 2023. Simon Walker, on joining the Board, became a member of the Committee on 4 January 2022 and will succeed Graham Allatt as Chair with effect from 11 May 2023.

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, Group Chief Internal Auditor, Chairman of CCFS, Group Chief Risk Officer (CRO) and Group Chief Credit and Compliance Officer, unless the Chairman of the Committee informs any of them that they should not attend a particular meeting or discussion.

Responsibilities

The 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.

Group Risk Committee – key responsibilities

- Set a clear tone from the top in relation to a risk-based culture to foster individual and collective accountability for risk management.
- Ensure the Group organises and resources its risk management and oversight functions across the first and second line effectively.
- Provide oversight to key regulatory initiatives.

Risk appetite and assessment

- 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.
- 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.
- Continuously review, challenge and recommend enhancements to the Group's Enterprise Risk Management Framework (ERMF).
- Challenge and oversee the ICAAP and ILAAP frameworks.
- Monitor actual and forecast risk and regulatory capital positions.
- Recommend changes to capital utilisation.
- Monitor the actual and forecast liquidity position.
- Review reports on risk appetite thresholds, identify where a risk of a material breach of risk limits exists and ensure proposed actions are adequate.
- Provide challenge and oversight to the Recovery Plan framework.
- Monitor risks arising from Climate Change.

Group CRO and risk governance structure

- Consider and approve the remit of the Risk function.
- Recommend to the Board the appointment and removal of the Group CRO.
- Review all reports from the Group CRO and monitor management's responsiveness to the Group CRO's findings
- Receive summary reports from senior risk management committees

Activity during 2022

The key areas of the Committee's focus during 2022 are outlined in the following pages.

Risk appetite

The Committee played an active role in shaping and assessing the design of the Group's risk appetite in the context of economic and business outlook and uncertainties, the strategic growth agenda of the Group and regulatory developments. The Committee reviewed and recommended to the Board for approval, the Group's risk appetite metrics and thresholds, ensuring that they remained appropriate and aligned to the Group's strategic agenda, business plans and stress testing capabilities. Members of the Committee attended dedicated workshops run by management, which focused on the risk appetite methodologies and details of how the supporting analysis was conducted.

Risk appetites were set at both Group and banking entity levels. The Committee reviewed the Group's position against risk appetite across all principal risks and escalated issues to the Board, where appropriate.

Internal Ratings-Based (IRB) Programme

The Committee oversees the performance and regulatory compliance of the Group's IRB rating systems through regular updates from management regarding the Group IRB programme including progress made against key milestones in model development, model governance and technical enhancements. The Committee has an established sub-committee (Group Models and Ratings Committee) to ensure effective governance of all the IRB related models. The Committee is well positioned to provide oversight and approval of relevant supervisory submissions relating to the IRB approval process.

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 and climate change.

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.

During 2022, the Committee (jointly with the Group Audit Committee) provided oversight of the Group's IFRS 9 methodologies focusing on key assumptions and the appropriateness of judgements made and assessed and approved the Group's provision adequacy levels, supported by analysis provided by the Risk function.

Market risk and liquidity risk

Market risk and liquidity risk are continually monitored by the Group Assets and Liabilities Committee (ALCO), which provides reports to the Committee. The Committee reviewed ALCO's regular assessments of the UK macroeconomic environment and potential impacts on the Group's assets and liquidity.

The Committee also reviewed and recommended the market and liquidity risk appetite to the Board for approval. The Committee oversaw the Group's liquidity management plans during the year in order to ensure that liquidity positions remained appropriate against the uncertain economic backdrop arising from the Russian invasion of Ukraine, lockdowns in China and the continuing increase in interest rates, alongside the rising cost of living and cost of borrowing in the UK.

Solvency risk and ICAAP

The Committee reviewed the Group ICAAP, which demonstrates how the Group would manage its capital resources and requirements during a plausible but severe period of stress.

The Committee also reviewed and challenged the Group Capital Plan and monitored total capital and Common Equity Tier 1 (CET1) forecasts throughout the year, ensuring that risks were understood and managed appropriately. The solvency risk appetite was reviewed and recommended to the Board for approval.

Operational risk

The Committee received reports on operational risks at each of its meetings. The reports covered risk incidents that had arisen to allow the Committee to assess management's response and remedial action proposed. The reports also covered key risk indicators (KRIs), which can be quantitative or qualitative and provided insights regarding changes in the Group's operational risk profile. The Committee also reviewed and recommended the operational risk appetite to the Board for approval.

The Committee also provided oversight and guidance in relation to the programme of activities focused on enhancing the Group's systems and procedures for the assessment of operational risks and controls as well as the management of operational risk events.

Conduct, regulatory and financial crime risks

The Committee received reports covering conduct, regulatory and financial crime KRIs on a quantitative and qualitative basis, which provided insight into changes in the Group's conduct, regulatory and financial crime risk profiles. The Committee also assessed enhancements to the conduct, regulatory and financial crime risk appetites before recommending them for approval by the Board.

Enterprise Risk Management Framework (ERMF)

In the first quarter of 2022, an independent review of the Group's ERMF and accompanying sub-frameworks was undertaken by an external firm to ensure that the ERMF remains aligned to industry practice. The Committee monitored the closure of all actions recommended by the external firm to ensure that they were tracking in line with agreed timetables. The Committee also oversaw the integration of Climate Risk into the ERMF. It reviewed and recommended to the Board for approval, the Climate Risk Management Framework. This sets out how the Group identifies, assesses, monitors and manages the climate risk to which it is exposed to ensure that the Group's approach to climate risk is in line with the regulator's expectations.

Other risk types

The Committee reviewed the Group profiles of reputational risk, climate change risk and business and strategic risk against their respective risk appetites. Further details on climate-related risks are set out in the TCFD report on pages 100-107.

Other Committees

Group Models and Ratings Committee

The Group Models and Ratings Committee is a sub-committee of the Group Risk Committee and 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, including IRB, IFRS 9 and other risk-based models. The Committee also exercises oversight over credit risk models and provides 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.

The Committee is chaired by the Chair of the Group Risk Committee, Graham Allatt. Rajan Kapoor, April Talintyre and Simon Walker are members of the Committee. Graham Allatt will cease to hold the position of Chair following the AGM on 11 May 2023. Simon Walker joined the Board and became a member of the Committee on 4 January 2022. He will succeed Graham Allatt as Chair with effect from 11 May 2023.

Board Capital and Funding Committee

The Board Capital and Funding Committee is a Committee of the Board. Its primary objective is to approve capital, funding and equity activities of the Group consistent with Board-approved plans.

The Committee met three times during the year. The current members are David Weymouth as Chair, Graham Allatt, Andy Golding, Rajan Kapoor and April Talintyre. Simon Walker joined the Board and became a member of the Committee on 4 January 2022. Graham Allatt will cease to be a member on 11 May 2023.

Directors' Remuneration Report

Annual Statement by the Chair of the Group Remuneration and People Committee

Dear Shareholder,



Directors' remuneration is aligned with performance, risk and pay policies throughout the organisation.

Mary McNamara

Chair of the Group Remuneration and People Committee

16 March 2023

Committee member	Meetings attended
Mary McNamara (Chair)	5/5
Noël Harwerth	5/5
Sarah Hedger	5/5
Rajan Kapoor	5/5
David Weymouth	5/5

Overview of 2022 performance and incentive outcomes

Despite significant challenges in the marketplace during 2022, the Group has nevertheless delivered resilient performance across the financial, customer, quality and ESG quadrants of the Balanced Business Scorecard (BBS) which determines 90% of the outcome from the 2022 Executive Bonus Scheme.

Financial highlights in 2022 included delivering underlying pre-tax profits of £591.1m, continued double digit net loan book growth of 12% and delivering an underlying cost to income ratio of 25%. As a result, financial targets have significantly outperformed expectations with 50% out of the 50% allocated to the financial quadrant of the BBS being earned.

Whilst 2022 financial performance has benefitted from net fair value gains on financial instruments, driven largely by unmatched mortgage pipeline swaps of £57.1m (see page 196), the Committee is satisfied that the outturn is in line with underlying performance with the hedging being considered an operational decision, which the business uses to manage its risk exposure.

Our customers and employees are key stakeholders of the business and the BBS includes key barometers of how we treat both groups including a robustly evaluated customer Net Promoter Score (NPS) and an employee engagement score. Whilst our customer scores were down on the previous high levels, they continue to be sector leading. This resulted in 3.12% out of the 15% allocated to the customer quadrant of the BBS being earned.

The achievements against the Quality category were particularly strong with 15% out of the 15% allocated to the quality quadrant being earned. This reflects the strength of the controls environment within the Group with the stretch targets being met for Overdue Actions, Arrears and High Severity Incidents.

2022 was the first year in which we operated a broader ESG quadrant in the BBS, which covers both employee and environmental metrics. Payouts against the ESG metrics were mixed with strong performance against the employee metrics but, despite the progress on embedding the ESG strategy, it has not yet delivered the targeted reductions in emissions. As a result, 7.55% out of the 10% allocated to the ESG quadrant of the BBS was earned.

As a result of this performance, the Executive Directors earned 75.67% out of the 90% of their bonus assessed against the BBS. The remaining 10% of the Executive Bonus Scheme is based on the achievement of stretching personal objectives. Performance against personal targets was also considered by the Board and Committee to be strong. This resulted in a payout of 9% out of a maximum 10% of bonus for both the CEO and CFO.

As such, payouts under the 2022 Executive Bonus Scheme are 84.67% of maximum for the CEO and CFO. The bonus is paid half in cash and half in shares, which must be held for a minimum of three years and up to seven years for a portion, in line with regulatory requirements.

Directors' remuneration is aligned with performance, risk and pay policies throughout the organisation. The Directors' Remuneration Policy (the Remuneration Policy) was approved by shareholders at the 2021 AGM with over 99% support and provides the framework under which remuneration is structured. The policy is included from page 157 within this report for reference and will be reviewed during 2023 to ensure that it remains appropriate for the next policy period following shareholder approval at the 2024 AGM.

The 2022 Directors' Remuneration Report, page 142-156 sets out details of the Directors' remuneration in respect of 2022 and how we intend to operate the Remuneration Policy in 2023, and will be presented to shareholders for approval, along with this letter, at the 2023 AGM.

Full details of the performance conditions and bonus payments are provided on page 151 of this report. The targets for each measure were set at the start of the year and assessed by the Committee following the end of the financial year, liaising as necessary with the Group Risk and Group Audit Committee Chairs. The Committee believes that this payout is appropriate, reflecting the underlying performance of the Group and wider stakeholder experience and discretion was not used to adjust the outturn from the performance metrics.

The 2020 Awards under the Performance Share Plan (PSP) are based on performance over the three-year performance period which ended on 31 December 2022. Performance was based 35% on Earnings Per Share (EPS) growth; 35% on Total Shareholder Return (TSR) versus the companies in the FTSE 250 Index (excluding Investment Trusts); and 15% each on Return on Equity (RoE) and a risk-based metric.

Performance against the EPS target range exceeded the maximum target and so 100% of the EPS part of the award vested. The TSR of 28% growth over the period placed OSB in the top quartile of the FTSE 250 peer group and therefore 100% of the TSR part of the award vested. The average RoE over the performance period was 22.2% resulting in 64.6% of the RoE part of the award vesting. As prescribed by the performance condition, the Committee undertook a qualitative assessment of the risk metric and concluded that 86.67% of maximum had been achieved. Further detail on the assessment is included on page 150.

In total, 92.56% of maximum has been achieved and the Committee is comfortable that there has been a clear and strong link between reward and performance so that discretion was not required to adjust the incentive outcome. The Committee has also confirmed that the outcome is aligned with risk and no further adjustments are required. The Committee received an annual report, and a summary report for the period from 2020 to 2022, from the Group Chief Risk Officer regarding the Group's performance against the Board-approved risk appetite, which reflected upon adherence to the desired risk culture and corporate values. The Committee also liaised with the Chair of the Group Risk Committee in relation to aligning remuneration with risk.

As the Awards were granted in 2020 when the COVID-19 pandemic was unfolding and global stock markets fell sharply; the Committee agreed to assess, at the time of vesting whether, given the market volatility at the time, the participants had benefitted from any windfall gain through a market-led recovery in the share price and, if so, whether awards should be scaled back on vesting. The Committee has reviewed this and based on all the evidence, has determined that discretion is not required to scale back the awards. This was concluded based on the fact that: (i) the share price did not recover materially above the grant price until over six months after grant; (ii) the grant share price was 20% above the low point for the share price in 2020; (iii) the Group has delivered top quartile TSR performance against both the FTSE 250 and other UK listed banks over the performance period, which started prior to the onset of the pandemic; (iv) the TSR over the performance period has delivered 28% growth, which measured performance from before the pandemic; and (v) vesting will be in equal tranches over five years.

Directors' Remuneration Report continued

With this being the first PSP award granted following the combination of OSB and CCFS, there were additional regulatory requirements applicable to the award meaning that vesting will be over three to seven years from grant. As such, these awards will vest in five equal tranches between 2023 and 2027, with the vested shares being subject to a further one-year holding period.

Implementation of the remuneration policy in 2023

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 for the final year of the policy period.

- **Salary:** Following careful consideration by the Committee of the impact of salary increases on total remuneration and market positioning, the CEO and CFO will receive a salary increase of 5% in 2023. This is significantly lower than the average increase applicable to the workforce, where the average increase is expected to be c.7.8%, with the highest increases for the lowest paid. Employees below senior management levels will also receive two £600 cost of living payments in 2023 to assist with the impact of high inflation.
- **Pension:** The pension contribution remains at 8% of salary, which is aligned to the rate for the majority of the workforce.
- **Annual Bonus:** The 2023 annual bonus will be subject to a maximum limit of 110% of salary and will continue to be based 90% on performance against the BBS and 10% on personal objectives. Half of any bonus will be in deferred shares, which may not be sold for at least three years.

The Committee has reviewed the metrics to be used and the measures are broadly consistent with 2022, albeit the Customer NPS metric has been split to measure the performance of the lending and savings and Lending businesses separately.

- **PSP Awards:** PSP awards of 110% of salary will be made to the Executive Directors with performance being measured over the period to 31 December 2025. Performance will continue to be based on TSR (35% weighting), EPS growth (35% weighting), RoE (15% weighting) and Risk (15% weighting). The Committee is supportive of including an ESG metric within the PSP; however, this will be considered as part of the in-depth Remuneration Policy review that will be undertaken in 2023.

The targets for each measure are set out in this report together with supporting rationale and the Committee is satisfied that these provide the appropriate stretch, taking into account the business plan, external operating environment and market expectations. Furthermore, when assessing the performance outcome, the Committee may adjust the formulaic vesting outcome to ensure that it is aligned with the underlying performance, risk appetite and individual conduct over the period.

In line with the changes implemented in 2020, the 2023 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.

Review of Non-Executive Directors' fees

During the year, the Committee reviewed the Chairman's fee and, determined that the fee should increase from £330,000 to £346,500. Further details on the changes to NED fees are on page 156.

Consideration of shareholder views

We have taken into account shareholder views when determining the operation of the Remuneration Policy and we will undertake a full consultation exercise in 2023 as part of the Remuneration Policy review.

Consideration of employee policies and views

As the NED responsible for representing the workforce on the Board, I regularly meet with employees, individually and through forums such as the Workforce Advisory Forum (OurVoice), to understand their views, including those on remuneration, and report these views to the Board. During 2022, the HR policies were discussed with the OurVoice forum, setting out how Executive remuneration is governed and how the Remuneration Policy is aligned with the wider workforce policies. Views were sought with regards to the approach to senior management remuneration and they were supportive of the balanced approach to measuring performance including environmental and employee metrics. Further details on the activities of OurVoice can be found on pages 164 and 165.

Concluding remarks

Having been a NED of OSB since the IPO in 2014, I will be stepping down from the role at the 2023 AGM. It has been an enjoyable challenge to Chair this Committee throughout this period. Sarah Hedger, who has been a member of the Committee since 2020, will assume the role of Chair of the Committee from the 2023 AGM and will lead the Committee through the Remuneration Policy review ahead of it being presented to shareholders at the 2024 AGM.

I would also like to welcome our newest NED, Kal Atwal, who joined the Committee on 7 February 2023.

The Annual Report on Remuneration including this Chair's Statement will be presented to shareholders at the 2023 AGM as an advisory resolution and I look forward to your continued strong support at such time.

Mary McNamara

Chair of the Group Remuneration and People Committee

16 March 2023

Group Remuneration and People Committee – key responsibilities

- Review and recommend for Board approval the Group Remuneration Policy.
- Review the ongoing appropriateness and alignment of the Group Remuneration Policy to the Group strategy (including ESG) and alignment with key stakeholder expectations.
- Review workforce remuneration and related implementation policies and note annually, the remuneration trends across the Group.
- Review and recommend for Board approval, the remuneration policy for the Executive Directors, including pension rights and any compensation payments.
- Review and approve the remuneration policy for senior management and the Company Secretary and all employees who are identified as Material Risk Takers for the purposes of the Prudential Regulation Authority's Remuneration Code (the Remuneration Code) including pension rights and any compensation payments.
- Review and approve the total individual remuneration package of the Chairman of the Board, each Executive Director, the Company Secretary and other designated senior managers¹ including bonuses, any other incentive payments and share-based awards.
- Ensure that workforce remuneration practices and culture are taken into account when determining individual remuneration packages.
- Approve the appointment of remuneration consultants.
- Approve the design of, and determine targets for, any performance-related pay schemes operated by the Group and approve the total annual payments made under such schemes.

The following responsibilities were reallocated to the Committee from the Group Nomination and Governance during the year:

- Provide oversight of people matters within the Group (in conjunction with the Group Nomination and Governance Committee) including targets set by the Women in Finance Charter, Gender Pay Gap reporting, Culture, updates from OurVoice and outputs from surveys relating to employee engagement.
- Review and approve the Group's Diversity, Equity and Inclusion Policy.

1. Designated senior managers include all members of the Group Executive Committee and any other senior employees in independent control functions.

Directors' Remuneration Report continued

Directors' Remuneration at a glance

An overview of the Directors' remuneration policy and its implementation

	Feature	Alignment with Workforce policies	Performance Metrics (weighting)
Salary	To reward for the role and duties required, recognising experience, responsibility and performance.	Executive salary increases are normally in line with or lower than the average of the workforce.	N/A
Pension/ Benefits	Contributes to retirement planning and market competitive benefits to ensure the well-being of employees.	Pension contribution rates for Executives are the same as most of the workforce. The benefits are generally in line with those available to the wider workforce.	N/A
Executive Bonus Scheme	To incentivise and reward the achievement of pre-defined annual financial, operational and individual objectives which are closely linked to the corporate strategy. Maximum opportunity = 110% of salary Deferral of 50% of value earned into shares aligns payout with shareholders' interests over the longer term.	The majority of our workforce participate in an annual bonus plan, with performance metrics aligned to business performance and individual KPIs. Senior employees are required to defer a portion of their bonus into shares.	Financial: 50% weighting Customer: 15% weighting Quality: 15% weighting ESG: 10% weighting Individual: 10% weighting
PSP	To incentivise and recognise execution of the business strategy over the longer term. Payable in shares. Three-year performance period with vesting in five annual tranches. Maximum opportunity = 110% of salary	Only the most senior individuals participate in the Performance Share Plan. In 2022, around 80 employees participated in the scheme thereby promoting longer-term performance and aligning them to our shareholders' interests.	2020 Award vesting: Relative TSR (35%) EPS (35%) ROE (15%) Non-financial - Risk (15%) 2022 Award granted: In line with 2020 Award
Shareholding requirements	To increase alignment between Executive Directors and shareholders during employment and following cessation.	Shareholding requirements are only in place for the most senior employees to strengthen the alignment of their interests with those of our shareholders.	Executive Directors are required to build up and maintain a shareholding worth at least 250% of salary for the CEO and 200% of salary for the CFO

Salary	Pension/Benefits	Shareholding requirements
How we implemented the Policy in 2022 CEO (A Golding) £847,600 CFO (A Talintyre) £530,400 How we intend to implement the Policy in 2023 CEO (A Golding) £889,980 (+5%) CFO (A Talintyre) £556,920 (+5%)	How we implemented the Policy in 2022 and how we intend to implement the Policy in 2023 Pension: 8% of salary Benefits: Standard benefits provided to both Executive Directors	How we implemented the Policy in 2022 Value of direct shareholding CEO: £3m (365% of salary) CFO: £1.3m (244% of salary) (based on share price on 31 December 2022 of £4.7980) How we intend to implement the Policy in 2023 No change
Executive Bonus Scheme	PSP	
How we implemented the Policy in 2022 CEO: 84.67% of maximum CFO: 84.67% of maximum 50% of bonus deferred into shares for at least three years Performance assessment set out on page 150	How we implemented the Policy in 2022 2020 Award 92.56% of the maximum award vested based on performance over the three years to 2022 Performance assessment set out on page 151 2022 Award: Awards granted at 110% of salary Targets set out on page 154	
How we intend to implement the Policy in 2023 Maximum opportunity 110% of salary No change to performance measures Targets disclosed retrospectively together with performance assessment	How we intend to implement the Policy in 2023 2023 Awards expected to be made over a maximum of 110% of salary No change to performance measures Targets set out on page 156	

The link between pay and the Group's performance, strategy, culture and ESG commitments

Financial	Quality	Strategy & Culture	Purpose	ESG
Sustainable financial growth of the business through attractive margins and exceptional returns, measured across a range of financial indicators	Strong governance and quality of the business underpins our operations	Tailored individual objectives in line with our strategic priorities and values	Helping our customers prosper in line with our Purpose	To support our Purpose to help our customers, colleagues and communities prosper
Executive Bonus Scheme 110% of salary opportunity with at least 50% deferred into shares for at least 3 years				
50% of bonus opportunity	15% of bonus opportunity	10% of bonus opportunity	15% of bonus opportunity	10% of bonus opportunity
- Underlying PBT¹ - All-in RoE¹ - Cost to income ratio¹ - Net loan book growth	- Overdue management actions - Arrears - High-severity incidents	Varies by Executive	- Customer satisfaction¹ - Broker satisfaction - Complaints	- Gender diversity¹ - Ethnic diversity - Environment (Carbon emissions) - Employee engagement
Performance Share Plan 110% of salary opportunity, with performance assessed over 3 years and any shares delivered over extended time-horizons				
50% of PSP opportunity	15% of PSP opportunity			
EPS ¹ (35% weighting) ROE ¹ (15% weighting)	Non-financial – Risk (15% weighting)			
Total Shareholder Return (35% weighting)				

¹Key performance indicators (see pages 2 and 3).

Directors' Remuneration Report continued

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 2022. This Annual Report on Remuneration will, in conjunction with the Annual Statement of the Committee Chair on pages 142-144, be proposed for an advisory vote by shareholders at the forthcoming AGM to be held on 11 May 2023.

Some of the data provided has been audited by Deloitte, which is indicated, where applicable.

Membership and meetings

The Committee met five times during 2022. The members of the Committee are Mary McNamara (Chair), Noël Harwerth, Sarah Hedger, Rajan Kapoor and David Weymouth. Following her appointment to the Board on 7 February 2023, Kal Atwal was also appointed as a member of the Committee. Mary McNamara will cease to be Chair of the Committee on 11 May 2023 and Sarah Hedger will become Chair of the Committee on the same date. 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.
- Provide oversight of people matters within the Group (in conjunction with the Group Nomination and Governance Committee) including targets set by the Women in Finance Charter, Gender Pay Gap reporting, Culture, updates from OurVoice and outputs from surveys relating to employee engagement.

Employees under the Committee's scope include Executive Directors, the Chairman of the Board, the Company Secretary and all employees who are identified as Material Risk Takers for the purposes of the PRA and FCA's Dual-regulated firms Remuneration Code (Code Staff).

Key matters considered by the Committee in 2022

Key issues reviewed and discussed by the Committee during the year included:

- Review and approval of 2022 salary increases.
- Review and approval of 2021 bonus awards.
- Determining the 2022 grants under the PSP.
- Consideration of remuneration arrangements for the CEO and CFO for 2023.
- Approval of the 2023 personal objectives for the CEO, CFO and Group Executive team.
- Updates on the performance of in-flight PSP awards.
- Regular shareholder updates, as well as the approach and strategy in respect of shareholder engagement.
- Review of pay arrangements across the Group.
- Leaving arrangements for senior employees.
- Considering and recommending the Directors' Remuneration Report to the Board for approval.
- Annual review of the costs and performance of the external remuneration consultant.
- Other business as usual matters for employees under the Committee's scope.

Advisers to the Committee

Korn Ferry provided independent advice to the Committee during 2022, having been appointed following a competitive tender process in 2017. The total fees paid to Korn Ferry in 2022 were £160,400 and were charged on a time and materials basis.

A separate department within Korn Ferry also acts as the Group's Executive succession planning adviser. Korn Ferry has no other connection with the Company or any individual Director, with the exception of Mary McNamara; Korn Ferry act as Remuneration Consultant to the Remuneration Committee of Motorpoint Group Plc, of which Mary McNamara is Chair. Korn Ferry is a member of the Remuneration Consultants' Group and abides by the voluntary code of conduct of that body, which is designed to ensure that objective and independent advice is given to remuneration committees. The Committee is satisfied that Korn Ferry provides objective and independent advice.

The Committee consults with the CEO (as appropriate) and seeks input from the Chair of the Group Risk Committee to ensure that any remuneration or pay scheme reflects the Company's risk appetite and profile and considers current and potential future risks.

The Committee also receives input on senior management remuneration from the CEO, CFO and Group HR Director. The Group Head of Company Secretariat 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 2022

Remuneration and fees payable for 2022 – (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 2022 and 31 December 2021.

Executive Directors	Year	Basic salary £'000	Taxable benefits ¹ £'000	Pension ² £'000	Annual bonus paid ³ £'000	Amount bonus deferred ³ £'000	LTIP ⁵ £'000	Total fixed pay £'000	Total variable pay £'000	Total £'000
Andy Golding	2022	839	22	67	395	395	1,340	928	2,130	3,058
	2021	815	22	65	389	389	907	902	1,685	2,587
April Talintyre	2022	525	16	42	247	247	912	583	1,406	1,989
	2021	508	16	41	244	244	611	565	1,099	1,664

1. Taxable benefits received include car allowance (CEO: £20,000; CFO: £15,000) and private medical cover.
2. Executive Directors currently receive pension contributions (or cash in lieu thereof) of 8% of salary, which is in line with the majority of the workforce.
3. 50% of bonus is payable in cash and 50% in shares deferred for three years or longer, in line with regulatory requirements.
4. The LTIP figure for the year ended 31 December 2021 has been restated based on the share price on vesting of £5.206782 for the 2019 PSP.
5. The LTIP figure for the year ended 31 December 2022 has been valued using the fourth quarter share price of £4.6258. The value will be restated in next year's report based on the actual share price on vesting for the 2020 PSP.

Total fees £'000	2022	2021
Chairman		
David Weymouth	330	300
Non-Executive Directors		
Graham Allatt	127.5	115
Noël Harwerth ¹	127.5	110
Sarah Hedger ²	102.5	83
Rajan Kapoor	130	118
Mary McNamara	115	105
Simon Walker	105	–
Total	1,037.5	831

NEDs cannot participate in any of the Company's share schemes and are not eligible to join the Company pension scheme.

1. Noël Harwerth received £255 (2021: £631) for taxable travel expenses; total payments received £127,755 (2021: £110,631).
2. Sarah Hedger received £479 for taxable travel expenses; total payments received £102,979.

Executive bonus scheme

Despite significant challenges in the marketplace during 2022, the Group has nevertheless delivered resilient performance across the financial, customer, quality and ESG quadrants of the Balanced Business Scorecard (BBS); which determines 90% of the outcome from the 2022 Executive Bonus Scheme.

Financial highlights in 2022 included delivering underlying pre-tax profits of £591.1m, net loan book growth of 12% and delivering an underlying cost to income ratio of 25%. As a result, financial targets have significantly outperformed expectations with 50% out of the 50% allocated to the financial quadrant of the BBS being earned.

Whilst 2022 financial performance has benefitted from net fair value gains on financial instruments, driven largely by unmatched mortgage pipeline swaps of £57.1m (see page 196), the Committee is satisfied that the outturn is in line with underlying performance with the hedging being considered an operational decision that the business uses to manage its risk exposure.

Our customers and employees are key stakeholders of the business and the BBS includes key barometers of how we treat both groups including a robustly evaluated customer Net Promoter Score (NPS) and an employee engagement score. Whilst our customer scores were down on the previous high levels, they continue to be sector leading. This resulted in 3.12% out of the 15% allocated to the customer quadrant of the BBS being earned.

The achievements against the Quality category were particularly strong with 15% out of the 15% allocated to the quality quadrant being earned. This reflects the strength of the controls environment within the Group with the stretch targets being met for Overdue Actions, Arrears and High Severity Incidents.

2022 was the first year in which we operated a broader ESG quadrant in the BBS, which covers both employee and environmental metrics. Payouts against the ESG metrics was mixed with strong performance against the employee metrics but, despite the progress on embedding the ESG strategy, it has not yet delivered the targeted reductions in emissions. As a result, 7.55% out of the 10% allocated to the ESG quadrant of the BBS was earned.

Directors' Remuneration Report continued

The performance against the measures for 2022 is set out below.

Category	Key performance indicator	Weighting	Targets¹			Actual result	Outcome CEO	Outcome CFO
			Threshold (25%)	Budget (50%)	Maximum (100%)			
Financial (50%)	Underlying PBT (£m)	25%	490m	516m	542m	591.1m	25%	25%
	All-in RoE (%)	10%	18.9%	19.9%	20.9%	23.5%	10%	10%
	Cost to income ratio (%)	7.5%	28.9%	27.5%	26.1%	24.7%	7.5%	7.5%
	Net loan book growth (%)	7.5%	8.5%	9.7%	10.9%	12.4%	7.5%	7.5%
Customer (15%)	Customer satisfaction	6%	60	65	70	59.3	0%	0%
	Broker satisfaction	4%	25	35	40	37.8	3.12%	3.12%
	Complaints (%)	5%	0.11%	0.10%	0.09%	0.12%	0%	0%
Quality (15%)	Overdue actions (#)	5%	5	3	2	2	5%	5%
	Arrears (%)	5%	2.0%	1.7%	1.5%	1.07%	5%	5%
	High-severity incidents (#)	5%	3	2	1	0	5%	5%
ESG (10%)	Gender diversity (%)²	2%	31.0%	31.5%	33.5%	31.4%	0.90%	0.90%
	Ethnic diversity (%)²	2%	10.0%	11.0%	12.0%	10.3%	0.65%	0.65%
	Environment	3%	4%	7%	10%	11.63%	3%	3%
	Employee engagement³	3%	690	700	710	730.3	3%	3%
Personal (10%)	Varies by Executive	10%	See section below				9%	9%
Total							84.67%	84.67%

1. Targets – based on a sliding scale between threshold, target and maximum.

2. Gender diversity – based on the Group's commitment to the Women in Finance Charter and the gender diversity of employees in senior roles.

3. Employee engagement – Best Companies to Work For survey score

2022 personal performance

The Executive Directors could earn up to a maximum of 10% of their bonus based on their performance against agreed personal objectives.

The objectives for 2022 were built around strategic priorities (as identified in our 2021 Annual Report) and cultural indicators. Performance against these objectives for both Executive Directors was considered to be strong, with the delivery of key objectives in a challenging and uncertain year.

The objectives set at the start of the year and the Committee's assessment of performance against them are set out below:

Objectives	Key achievements
CEO	
Deliver the 2022 strategic objectives in line with the Board-approved operating plan and as underpinned by a medium-term goal to position the Group for future growth and development.	2022 strategic objectives delivered including strong financial performance, completion of the three-year integration of OSB and CCFS and positioning the Group to streamline processes in the future.
Live the Purpose, Vision and Values of OSB as a role model and cascade the message throughout the organisation.	Lived the OSB Group Values, leading by example and ensuring that employees understand the behaviours expected of them with employee engagement within the leadership category remaining strong. Strong, open and transparent relationship with regulators maintained with ongoing and proactive communications on key developments and initiatives.
Establish and embed the ESG strategy and framework across the Group during 2022.	ESG strategy and framework developed and well received by the Board, employees and shareholders. Relevant and robust baselines for specific measures have been established, enabling longer term targets to be set for specific measures within the ESG strategy.
Refresh the succession planning for the Group Executive Committee confirming the status of the talent pipeline for all key roles and implementing development plans for identified individuals.	Key Executive appointments made in 2022 and work commenced with the Group Nomination and Governance Committee to begin Executive succession planning.

Objectives	Key achievements
CFO	
Deliver the 2022 strategic objectives in line with the Board-approved operating plan and as underpinned by a medium-term goal to position the Group for future growth and development.	2022 strategic objectives delivered including strong financial performance, completion of the three-year integration of OSB and CCFS and positioning the Group to streamline processes in the future. Implementation of new Treasury and HR systems; and oversight of the management of the Group's capital and funding and capital strategy, including further optimisation of the capital stack.
Live the Purpose, Vision and Values of OSB as a role model and cascade the message throughout the organisation.	Lived the OSB Group Values, leading by example and ensuring that employees understand the behaviours expected of them with employee engagement within leadership category remaining strong. Strong, open and transparent relationship with regulators maintained with ongoing and proactive communications on key developments and initiatives.
Establish and embed the ESG strategy and framework across the Group during 2022.	ESG strategy and framework developed and well received by employees and shareholders. Relevant and robust baselines for specific measures have been established, enabling longer term targets to be set for specific measures within the ESG strategy.
Refresh the succession planning for the Group Executive Committee confirming the status of the talent pipeline for all key roles and implementing development plans for identified individuals.	Key Executive appointments made in 2022 and work commenced with the Group Nomination and Governance Committee to begin Executive succession planning.

Based on this performance, the Committee determined that 9% of a possible 10% for the individual element of the bonus should be paid to each of the CEO and CFO.

2022 bonus scheme payout

Taking into account the performance against the BBS and individual objectives, the CEO and CFO therefore each earned 84.67% of maximum (93% of salary). In line with regulatory requirements, half of the bonus will be paid in cash with the remainder deferred into shares with the majority released after three years and the remainder vesting in equal tranches over three to seven years.

Long-term incentive plan (audited)

The 2020 PSP award was granted on 19 March 2020 and measured performance over the three financial years to 31 December 2022. Based on performance against EPS, TSR, RoE and risk measures, 92.56% of the maximum award has been achieved as set out below.

	Weighting	Threshold (25% vesting)	Stretch (100% vesting)	Actual	Vesting of portion
EPS growth	35%	5% CAGR 75.1p	12% CAGR 91.2p	16.2% CAGR 101.9p	35% out of 35%
Relative TSR	35%	Median	Upper quartile	Above upper quartile (32 out of 159)	35% out of 35%
Average RoE	15%	19%	25%	22.1%	9.56% out of 15%
Non-financial – Risk	15%	Assessment by Group Risk Committee			13% out of 15%

1. EPS targets were set in 2020 following the Combination with CCFS based on a 'Threshold' target of 5% CAGR and a 'Stretch' target of 12% CAGR measured from the 2019 pro-forma Group EPS for the base year.
2. RoE targets were set in 2020 following the Combination with CCFS based on achieving average RoE over 2020, 2021 and 2022. The RoE portion is subject to an underpin requiring that the CET1 ratio is not below the Board-approved minimum requirement, which has been met.

In relation to the 15% Risk element, there was a robust process for the Committee's assessment of this measure. This entailed papers being prepared each year by the Risk function, which were considered by the Group Risk Committee, together with an overall assessment presented to the Committee, by the Chair of the Group Risk Committee. This assessment noted the following points:

- (i) A strong risk culture and excellent 'tone from the top' in relation to risk;
- (ii) successful navigation of two extreme risk events being the COVID-19 pandemic and sharp rise in inflation and interest rates following the Ukraine conflict;
- (iii) steps taken to address the resourcing constraints within the Risk function;
- (iv) strong progress on the ESG agenda; and
- (v) a constructive relationship with the regulator.

Windfall gain assessment

As the Awards were granted in 2020 when the COVID-19 pandemic was unfolding, the Committee agreed to assess at the time of vesting whether, given the market volatility at the time, the participants had benefitted from any windfall gain through a market-led recovery in the share price. The Committee has reviewed this and, based on all the evidence, has determined that discretion is not required to scale back the outturn. This was concluded based on the fact that; (i) the share price did not recover materially above the grant price until over six months after grant; (ii) the grant share price was 20% above the low point for the share price in 2020; (iii) the Group has delivered top quartile TSR performance against both the FTSE 250 and other UK listed banks over the performance period, which started prior to the onset of the pandemic; (iv) the TSR over the performance period has delivered 28% growth, which measured performance from before the pandemic; and (v) vesting will be in equal tranches over five years.

Directors' Remuneration Report continued

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 five equal tranches between 2023 and 2027, with the shares delivered being subject to a further one-year holding period in each case.

The 2020 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	Total value vesting ²
Andy Golding	312,935	289,653	23,282	£591,529	£1,339,875
April Talintyre	212,881	197,043	15,838	£402,401	£911,480

- Value of share price increased/(decreased) based on a £2.5836 share price at the time of grant of the award compared to the three-month average share price of £4.6258 to 31 December 2022. The Committee is comfortable that discretion is not required to scale back awards as a result of share price appreciation.
- Value of shares based on a three-month average share price of £4.6258 to 31 December 2022. The 2020 Awards will vest in equal tranches from 2023 to 2027. 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 149. The percentage is not included for Non-Executive Directors who joined the Board in the year as the disclosure would not be meaningful.

The changes to salary/fees between 2019 and 2020 are as a result of changes made to pay arrangements following the Combination of OSB with CCFS, which is also the reason for the increase in salary for the CEO between 2020 and 2021 when the second stage of his phased increase was implemented. There have been no material changes to the benefits between 2019 and 2020 or between 2020 and 2021. The reduction in bonus for Executive Directors and employees between 2019 and 2020 is as a result of the pandemic impacting the 2020 BBS performance and the Executive Directors waiving the cash portion of their bonus. The increase in annual bonus between 2020 and 2021 is as a result of strong performance across the BBS in 2021, whereas the payout in 2020 was lower due to the pandemic impacting performance. The increases to the Non-Executive Director fees in 2022 compared to 2021 were based on a market assessment of fee levels.

	Salary/NED fees			Taxable Benefits			Annual Bonus		
	2019/20	2020/21	2021/22	2019/20	2020/21	2021/22	2019/20	2020/21	2021/22
UK employees	5.5%	5.1%	11.4%	0%	21.87% ⁴	0%	-27.5%	34%	24.8%
CEO	42.4%	10.9%	3.0%	0%	0.6%	0%	-71.9%	366.1%	1.54%
CFO	44.1%	1.6%	3.5%	0%	0%	0%	-71.5%	330.1%	1.23%
Graham Allatt	25.3%	0.9%	10.9%	0%	0%	n/a	n/a	n/a	n/a
Noël Harwerth ¹	n/a	0.9%	15.9%	n/a	285% ⁵	(168)% ⁵	n/a	n/a	n/a
Sarah Hedger ²	n/a	(1.2%)	23.5%	n/a	n/a	198% ⁶	n/a	n/a	n/a
Rajan Kapoor ¹	n/a	(1.7%)	10.2%	n/a	n/a	n/a	n/a	n/a	n/a
Mary McNamara	16.2%	0%	9.5%	0%	n/a	n/a	n/a	n/a	n/a
Simon Walker ³	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
David Weymouth	16.7%	2.7%	10.0%	0%	n/a	n/a	n/a	n/a	n/a

- Noël Harwerth and Rajan Kapoor joined the Board in October 2019.
- Sarah Hedger joined the Board in February 2019.
- Simon Walker joined the Board in January 2022.
- Relates to the broader provision of our medical cash plan and the revision of car allowances following the harmonisation of benefits post Combination.
- This relates to taxable travel expenses of £255 (2021: £631)
- This relates to taxable travel expenses of £479.

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 2022.

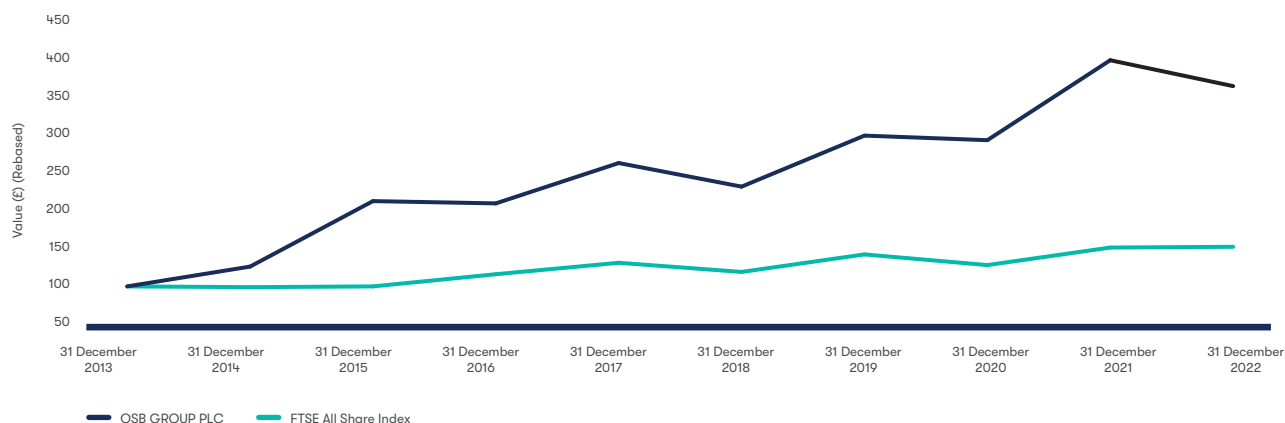
	2013	2014	2015	2016	2017	2018	2019	2020 ¹	2021	2022
Annual bonus										
(% of maximum opportunity)	92.5%	92.63%	93.00%	88.75%	85.00%	91.75%	75.89%	20.60%	86.83%	84.67%
LTIP vesting										
(% of maximum opportunity)	–	–	–	–	100.00%	50.00%	75.1%	62.74%	87.16%	92.56%
CEO single figure of remuneration										
(£'000)	518	777	848	910	1,614	1,602	1,382	1,510	2,587	3,058

- 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 2022 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 2022, of £100 invested in OneSavings Bank plc on Admission (5 June 2014), and following the insertion of a new holding company in November 2020, the shares of OSB GROUP PLC, compared with the value of £100 invested in the FTSE All Share Index on the same date. The other points plotted are the values at intervening financial year ends.

Source: Datastream (Refinitiv)

CEO pay ratios

The ratio of the CEO's single figure of total pay to median employee pay is set out in the table below. The ratio has been calculated in accordance with methodology B as it is the same pay data for employees as is used for the gender pay gap analysis and is based on pay and benefits as at 5 April each year. Full-time equivalent pay for individuals that do not work full time has been calculated by increasing their pay pro-rata to that of a full-time individual. No further estimates or adjustments have been made. The employees identified are considered to be representative of the quartile positions as their total pay is in line with expected positioning and the proportion of fixed pay to variable pay is also in line with other individuals at those levels.

The median ratio decreased in the period between 2017 and 2019 as a result of a combination of factors, which resulted in the total pay for the median individual within the workforce increasing, including

positive changes to the Group's pay policy and changes in the employee population between 2018 and 2019. The decrease in the ratio between 2018 and 2019 was also due to the decrease in total pay for the CEO.

The median ratio increased between 2019 and 2020 largely as a result of the decrease in the total pay for the median employee. This was primarily as a result of OSB's Combination with CCFS. The increase in the ratio between 2020 and 2021 is primarily due to changes in the CEO pay, which was increased as a result of the staged salary increase upon Combination with CCFS; and due to higher incentive payouts than 2020, which were adversely impacted by COVID-19. The increase in ratio between 2021 and 2022 is primarily due to the increase in CEO pay caused by higher incentive payments and, in particular, the PSP award which benefitted from strong share price growth, reflecting the excellent recent performance of the business.

There has been no change to the Group's employment models during this period and the median ratio is consistent with the pay, reward and progression policies within the Company. The Directors' pay is set by the Committee with reference to both the internal relativities across the Group and taking into account external market benchmarks. As such, the pay ratio is considered appropriate and is not considered excessive, particularly when compared to other listed financial services companies.

CEO pay ratio	2017	2018	2019	2020	2021	2022
Method	B	B	B	B	B	B
CEO single figure	1,614	1,602	1,382	1,510	2,571	3,058
Upper quartile	24.8	22.3	22.5	28.1	35.9	45.1
Median	46.1	40.1	32.0	42.1	56.1	70.1
Lower quartile	62.1	59.5	54.6	51.6	82.2	86.3

2022	Basic salary (£'000)	Total pay (£'000)
CEO	839	3,058
Lower quartile – Employee A	27	35
Median – Employee B	38	44
Upper quartile – Employee C	57	68

Directors' Remuneration Report continued

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 underlying profit before tax for the year under review and the prior year.

	2022	2021
Total employee costs	£109.3m	£92.5m
Distributions to shareholders ¹	£133.1m	£86.7m
Distributions to shareholders - special dividend ¹	£50.3m	–
Underlying profit before tax (PBT)	£591.1m	£522.2m
Total employee costs vs PBT	18.5%	17.7%
Average headcount	1,896	1,755
Average PBT per employee	£311,762	£297,550

1. See note 16 to the financial statements. In addition to dividends, the Company repurchased 20,671,224 ordinary shares as part of its £100m share repurchase programme announced to the market on 17 March 2002 (2021: none).

Other disclosures relating to 2022 Executive remuneration

Scheme interests awarded during the financial year (audited)

The table below shows the conditional share awards made to Executive Directors on 23 March 2022 under the PSP and the performance conditions attached to these awards. The Committee has discretion to adjust the vesting level to ensure that the reward level reflects underlying performance, risk and individual conduct. There will be full disclosure of the Committee's deliberations on these matters in the 2024 Directors' Remuneration Report. The Awards will vest 20% each year between three and seven years after grant, with each vested tranche subject to a one-year holding period.

Executive	Face value of award (percentage of salary)	Face value of award	Number of shares ¹	Percentage of awards released for achieving threshold targets	End of performance period	Performance conditions ² (weighting)
Andy Golding	110%	£932,360	166,991	25%	31 December 2024	EPS (35%) TSR (35%) RoE (15%) Non-financial/Risk (15%)
April Talintyre	110%	£583,440	104,497			

1. The number of shares awarded was calculated using a share price of £5.5833 (the average closing price over the three Dealing Days prior to the date of grant).
 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 3% per annum increasing to maximum vesting for 10% per annum); (iii) 15% RoE (25% vesting for average RoE of 17% increasing to maximum vesting for an average of 23%); and (iv) 15% non-financial/risk scorecard.

All-employee share plans (audited)

Executive	Date of grant	Exercise price	Market price 31 December 2022	Exercisable from	Exercisable to	Number of options granted	Number of options as at 31 December 2022
Andy Golding	28 October 2020	£2.29013	£4.7980	1 December 2023	1 June 2024	7,859	7,859
April Talintyre	28 October 2020	£2.29013	£4.7980	1 December 2023	1 June 2024	7,859	7,859

Statement of Directors' shareholdings and share interests (audited)

Total shares owned by Directors and connected persons:

	Interest in shares		Interest in share awards ¹		Shareholding requirements	
	Beneficially owned at 1 January 2022	Beneficially owned at 31 December 2022	Without performance conditions at 31 December 2022 ²	Subject to performance conditions as at 31 December 2022	Shareholding requirement (percentage of basic salary)	Current shareholding (percentage of basic salary) ³
Executive Directors						
Andy Golding	505,787	644,908	217,980	661,330	250%	435% (Met)
April Talintyre	325,855	269,260	143,729	430,895	200%	320% (Met)
Non-Executive Directors						
Rajan Kapoor	19,970	19,970	–	–	–	–
Mary McNamara ⁴	66,850	66,850	–	–	–	–
David Weymouth	18,678	18,678	–	–	–	–
Graham Allatt	–	–	–	–	–	–
Noël Harwerth	–	–	–	–	–	–
Sarah Hedger	–	–	–	–	–	–
Simon Walker	–	–	–	–	–	–

1. Vested shares are held in a corporate nominee account and are subject to the relevant retention periods. This account is also used to monitor current and post-employment shareholding guidelines. The details of share options relating to the Executive Directors are set out above. None of the current Directors hold vested but unexercised share options and no share options have been exercised during 2022.
 2. Includes DSBP awards granted on 15 April 2022 at a price of £5.5833 (CEO: 69,713 shares and CFO: 43,625 shares).
 3. Shareholding based on the closing share price on 31 December 2022 (£4.7980) and year-end salaries; it also includes interest in share awards without performance conditions (where applicable, on a net of tax basis).
 4. Includes 27,500 shares that are owned by spouse.

The Company operates an anti-hedging policy under which individuals are not permitted to enter into any personal hedging strategies in relation to shares subject to a vesting and/or retention period.

External appointments

Andy Golding is a Director/Trustee of the Building Societies Trust Limited. He receives no remuneration for this position.

Payments to departing Directors (audited)

There were no payments made to past Directors nor any payments for loss of office during 2022.

How we will implement the Remuneration Policy for Directors in 2023

The Committee consider the Policy to be operating effectively and as such there are no material changes proposed for the operation of the Remuneration Policy in the full year for 2023. The Policy will be implemented during 2023 as follows:

Salary

Following careful consideration by the Committee of the impact of salary increases on total remuneration and market positioning, the salaries for the CEO and CFO will be increased in 2023 by 5% to £889,980 and £556,920 respectively on 1 April 2023 which is significantly below the average workforce percentage increase of c.7.8%. Employees below senior management levels will also receive two £600 cost of living payments in 2023 to assist with the impact of high inflation.

Annual bonus

The 2023 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 (BBS). The Committee has reviewed the metrics to be used in the BBS and the measures are broadly consistent with 2022, albeit the customer NPS metric has been split to measure the performance of the lending and savings businesses separately.

The objectives under the personal element of the bonus (10% of the overall opportunity) are in line with the key areas of focus for the year ahead, including efficiency initiatives, people, customer and ESG. The weightings are split between the four quadrants and individual objectives to provide a balanced assessment of performance for the year, as set out below.

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 2023 Annual Report on Remuneration. The Committee may apply discretion to adjust the resultant bonus if the result fails to reflect broader performance and the wider shareholder experience.

At least half of any bonus will be delivered in shares and cannot be sold for at least three years.

Financial	Customer	Quality	ESG	Individual objectives
Sustainable financial growth of the business through attractive margins and exceptional returns, measured across a range of financial indicators	Helping our customers and communities to prosper in line with our purpose	Strong governance and quality of the business underpins our operations	To support our purpose	Tailored to our values and strategic priorities
50% of bonus opportunity	15% of bonus opportunity	15% of bonus opportunity	10% of bonus opportunity	10% of bonus opportunity
Underlying PBT	Customer satisfaction (separate lending and savings) ¹	Overdue management actions	Carbon emissions	Varies by Executive
All-in RoE ¹	Broker satisfaction	Arrears	Gender diversity	Details of objectives (and performance against these) will be disclosed retrospectively in next year's report
Cost to income ratio ¹	Complaints	High-severity incidents	Ethnic diversity	
Net loan book growth			Employee engagement	

1. Key performance indicators (see pages 2 and 3).

Performance Share Plan

PSP awards of 110% of salary will be made to the Executive Directors with performance being measured over the three-year period to 31 December 2025. Performance will be assessed against the same performance metrics and weightings as 2022 awards being based on relative TSR versus the FTSE 250 (35% weighting), adjusted EPS in 2025 (35% weighting), Return on Equity (15% weighting) and Non-financial/Risk (15% weighting). The metrics and weightings provide a balanced assessment of corporate performance over three-year periods taking into account financial, share price and non-financial metrics. A discretionary assessment at the time of vesting ensures that the level is in line with underlying performance, risk appetite and individual conduct over the period.

The target ranges for EPS and ROE have been set carefully by the Committee taking into account a number of factors, including those set out below, which will influence the outlook for business performance over the three years to 2025. The Committee is therefore satisfied that these are appropriately stretching, taking account of the following:

- The 2022 EPS benefitted from after tax net fair value gains on financial instruments of £36.8m, primarily due to the step up in interest rate outlook following the September mini-budget.

These unrealised gains unwind over the life of the financial instruments. Excluding the impact of these net gains on 2022 EPS, the implicit profit growth required to achieve the EPS target range would remain significant.

- The previously articulated changes in the Group's funding mix are factors which will act as a partial drag on the Group's EPS growth and ROE outlook, namely:
- The Group is subject to an interim MREL requirement of 18% of Risk Weighted Assets by July 2024 with full bail-in MREL of 2x Pillar 1 and Pillar 2a from July 2026. The Group is required to issue MREL eligible debt instruments to meet these requirements.
- The Group is required to repay the relatively lower-cost £4.2bn of borrowings under the Bank of England's Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME) by October 2025.
- The level of ROE required to be achieved represents a sector leading level of performance.

Overall, the Committee is comfortable that these targets provide a strong link between reward and performance delivered and are at least as stretching as target ranges in prior years.

Directors' Remuneration Report continued

Performance Share Plan continued

Metrics	Weighting	Threshold (25% of maximum)	Stretch (100% of maximum)	Rationale
Adjusted EPS in 2025 ¹	35%	92p	105p	Measures the sustainable profitability of the business
Relative TSR versus FTSE 250	35%	Median	Upper quartile	Measures the success of the Company versus other listed companies
Average RoE ¹	15%	15%	21%	Measures the sustainable financial performance and financial efficiency of the business
Non-financial/Risk	15%	See below		Strong governance around risk and quality of the business underpins our operations

1. Key performance indicators (see pages 2 and 3). No vesting below threshold and pro-rata vesting between threshold and stretch.

For the risk-based measure, the Committee will assess the risk management performance with regard to all relevant risks including, but not limited to, conduct, credit, funding, liquidity, market, operational and regulatory risk. There will be full retrospective disclosure of the Committee's assessment.

Awards will vest 20% each year between three and seven years after grant, with each vested tranche subject to a one-year holding period.

Share ownership guidelines

The CEO and the CFO are required to accumulate and maintain a holding in ordinary shares in the Company equivalent to no less than 250% of salary and 200% of salary, respectively. This is calculated on the basis of the value of beneficially owned shares plus the net of tax value of deferred bonus shares or any other unvested share awards which are not subject to performance conditions. Half of any vested share awards must be retained until the guideline is achieved. Based on the current share price, the CEO and CFO hold shares in excess of these levels. The guidelines also apply for two years following cessation of employment.

Chair and Non-Executive Director fees

The fees for the Chair and NEDs were reviewed and the rates for 2023 are set out below. The fee payable to the Chair was reviewed by the

Committee and it agreed that the fee for 2023 would be increased by 5% from £330,000 to £346,500. The fees payable to the NEDs were also reviewed by the Board (minus the NEDs) and will be increased by 5% for 2023. Additionally, Sarah Hedger, the ESG Champion, provides independent input into the Group's ESG strategy will receive an additional fee of £7,875 for this role in 2023.

Base fees	£'000	
Chairman ¹	346.5	
Non-Executive Director	84	
Senior Independent Director	21	
Additional Board Committee fees	Chair	Member
Group Nomination and Governance Committee	21	5.25
Group Audit Committee	31.5	7.875
Group Remuneration and People Committee	31.5	7.875
Group Risk Committee	31.5	7.875
Group Models and Ratings Committee	10.5	5.25

1. The Chairman's fee is inclusive of all duties; no additional Chair or Member fees are paid in relation to Board Committees.

Statement of voting at the Annual General Meeting

Shareholders were asked to approve the 2021 Annual Report on Remuneration at the 2022 AGM and the Directors' Remuneration Policy at the 2021 AGM. The votes received are set out below:

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Total votes cast	Votes withheld
To approve the 2021 Remuneration Report (2022 AGM)	384,316,369	96.47%	14,060,040	3.53%	398,376,409	834,568
To approve the Remuneration Policy (2021 AGM)	380,816,449	99.98%	65,570	0.02%	380,882,019	1,025,114

Approval

This report was approved by the Board of Directors (on the recommendation of the Group Remuneration and People Committee) and signed on its behalf by:

Mary McNamara

Chair of the Group Remuneration and People Committee

16 March 2023

Remuneration Policy

This section describes our Directors' Remuneration Policy (the Remuneration Policy) for which shareholder approval was sought at the AGM on 27 May 2021 and which formally came into effect from that date. It is intended that this Policy will last for three years from the 2021 AGM date. There are no changes to the OSB Remuneration Policy that was approved at the 2020 AGM. Certain factual data has been updated where applicable (e.g. page references and illustration of remuneration policy); the original version approved by shareholders can be found on pages 149-155 of the 2020 Annual Report.

Policy overview

This Remuneration Policy has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as subsequently amended. The Remuneration Policy has been developed taking into account a number of regulatory and governance principles, including:

- The 2018 UK Corporate Governance Code.
- The regulatory framework applying to the Financial Services Sector (including the Dual-regulated firms Remuneration Code and provisions of the EU Capital Requirements Directive).
- The Executive remuneration guidelines of the main institutional investors and their representative bodies.

Approach to designing the Remuneration Policy

The Committee is responsible for the development, implementation and review of the Directors' Remuneration Policy. In addressing this responsibility, the Committee works with management and external advisers to develop proposals and recommendations. The Committee considers the source of information presented to it, takes care to understand the detail and ensures that independent judgement is exercised when making decisions. The Group Risk Committee considers whether the Remuneration Policy and practices are in line with the risk appetite and the Group Audit Committee confirms incentive plan performance results, where appropriate.

The Code sets out principles against which the Committee should determine the Remuneration Policy for Executive Directors. These are shown in the first column of the table below, together with the Committee's approach, in the second column:

Principle	Committee approach
Clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	– We aim to set out our approach to remuneration in this report as transparently as possible. – We will engage with our Workforce Advisory Forum (OurVoice) to explain the alignment of the Executive Directors' Remuneration Policy with that of the workforce.
Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	– Within the required regulatory framework and in line with investor guidance, we have structured the Remuneration Policy to be as simple as possible. – We have a simple policy offering pension at the same rate as employees, an annual bonus plan which cascades to most employees and, for senior employees, performance shares to provide alignment with longer-term performance. – There is, however, a degree of complexity required for Executive Director packages to ensure a robust link to performance, to avoid reward for failure and to comply with investor and Code requirements.
Risk – remuneration arrangements should ensure reputational and other risks arising from excessive rewards and behavioural risks that can arise from target-based incentive plans are identified and mitigated.	– We have mitigated these risks through careful policy design, including long-term performance measurement, the use of specific risk-based measures, deferral and shareholding requirements (including post-cessation of employment) and discretion and clawback provisions if incentive payment levels are inappropriate.
Predictability – the range of possible values of rewards to individual Directors and any other limits or discretions should be identified and explained at the time of approving the Remuneration Policy.	– We look carefully each year at the range of likely performance outcomes for incentive plans when setting performance target ranges for threshold, target and maximum payouts and would use discretion where necessary where this leads to an inappropriate pay outcome.
Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	– Incentive plans are determined based on a proportion of base salary so there is a sensible balance between fixed pay and performance-linked elements. – There are provisions to override the formula-driven outcome of incentive plan deferrals and clawbacks to ensure that poor performance is not rewarded or if incentive payments are too high for the performance delivered, in the view of the Committee. – As illustrated by the chart showing our TSR performance and historical CEO remuneration on page 153, we believe that there has been a strong link between Executive Directors' pay and performance.
Alignment to culture – incentive schemes should drive behaviours consistent with Company purpose, values and strategy.	– The Balanced Business Scorecard used for the annual bonus is based on a wide range of measures linked to financial performance, customer, quality and 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

Directors' 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 OurVoice. The Chair attends OurVoice to provide an overview of Executive pay and governance within the Group and to provide the opportunity to give feedback, which is communicated to the Committee and the Board. The Committee also receives updates in relation to the remuneration structure throughout the Group, salary and bonus reviews each year. As set out in the Remuneration Policy table, in setting remuneration for the Executive Directors, the Committee takes note of the overall approach to reward for employees in the Group and salary increases will ordinarily be in line (in percentage of salary terms) with those of the wider workforce. Thus, the Committee is satisfied that the decisions made in relation to Executive Directors' pay are made with an appropriate understanding of the wider workforce.

The Committee undertook extensive engagement with shareholders during the review of the Remuneration Policy in late 2019 and early 2020 and again consulted with shareholders prior to the Remuneration Policy being re-presented to shareholders at the 2021 AGM to confirm that they remain supportive. The Committee will seek to engage with major shareholders and the main shareholder representative bodies and proxy advisory firms when it is proposed that any material changes are to be made to the Remuneration Policy or its implementation. In addition, we will consider any shareholder feedback received at the AGM.

The table below and the accompanying notes describe the Remuneration Policy for Executive Directors.

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
Salary	To reward Executive Directors for the role and duties required. Recognises individual's experience, responsibility and performance.	Paid monthly. Base salaries are usually reviewed annually, with any changes usually effective from 1 January. No performance conditions apply to the payment of salary. However, when setting salaries, account is taken of an individual's specific role, duties, experience and contribution to the Company. As part of the salary review process, the Committee takes account of individual and corporate performance, increases provided to the wider workforce and the external market for UK listed companies both in the financial services sector and across all sectors.	Increases will generally be broadly in line with the average of the workforce. Higher increases may be awarded in exceptional circumstances such as a material increase in the scope of the role, following the appointment of a new Executive Director (which could also include internal promotions) to bring an initially below-market package in line with the market over time or in response to market factors.
Benefits	To provide market competitive benefits to ensure the well-being of employees.	The Company currently provides: – car allowance; – life assurance; – income protection; – private medical insurance; and – other benefits as appropriate for the role.	There is no maximum cap on benefits, as the cost of benefits may vary according to the external market.
Pension	To provide a contribution to retirement planning	Executive Directors may participate in a defined contribution plan or, if they are in excess of the HM Revenue & Customs (HMRC) annual or lifetime allowances for contributions, may elect to receive cash in lieu of all or some of such benefit.	In line with the rate receivable by the majority of the workforce, which is currently 8% of salary.

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
Annual bonus	To incentivise and reward individuals for the achievement of pre-defined, Committee-approved, annual financial, operational and individual objectives which are closely linked to the corporate strategy.	The annual bonus targets will have a 90% weighting based on performance in line with an agreed balanced scorecard which includes an element of risk appraisal. Within the scorecard, at least 50% of the bonus will be based on financial performance. 10% of the bonus will be based on personal performance targets. The objectives in the scorecard, and the weightings on each element, will be set annually and may be flexed according to role. Each element will be assessed independently, but with Committee discretion to vary the payout (including to zero) to ensure there is a strong link between payout and performance. On top of this, there is a general discretion to adjust the outturn to reflect other exceptional factors at the discretion of the Committee. 50% of any bonus earned will be delivered in shares, subject to a three year holding period. In exceptional circumstances of high bonus payments, there may be a requirement to defer a proportion of bonus with vesting staggered over three to seven years, in line with the deferral arrangements for the PSP described below. Updated clawback and malus provisions apply, as described in note 1 overleaf.	The maximum bonus opportunity is 110% of salary per annum. The threshold level for payment is 25% of maximum for any measure.
Performance Share Plan	To incentivise and recognise execution of the business strategy over the longer-term. Rewards strong financial performance over a sustained period.	PSP awards will typically be made annually at the discretion of the Committee, usually following the announcement of full-year results. Usually, awards will be based on a mixture of internal financial performance targets, risk-based measures and relative TSR. At least 50% of the PSP award will ordinarily be based on financial and relative TSR metrics. The performance targets will usually be measured over three years. Any vesting will be subject to an underpin, whereby the Committee must be satisfied: (i) that the vesting reflects the underlying performance of the Company; (ii) that the business has operated within the Board's risk appetite framework; and (iii) that individual conduct has been satisfactory. On top of this, there is a general discretion to adjust the outturn to reflect other exceptional factors at the discretion of the Committee. Awards granted after 1 January 2020 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 vest in accordance with the terms of the previous Policy.) Clawback and malus provisions apply as described in note 1 overleaf.	The maximum PSP grant limit is 110% of salary in respect of grants in any financial year. The threshold level for payment is 25% of maximum for any measure.

Directors' Remuneration Report continued

Directors' Remuneration Policy continued

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
All-employee share plan (Sharesave Plan)	All employees, including Executive Directors, are encouraged to become shareholders through the operation of an all-employee share plan.	Tax-favoured plan under which regular monthly savings may be made over a three or five-year period and can be used to fund the exercise of an option, where the exercise price is discounted by up to 20%.	Maximum permitted savings based on HMRC limits.
Share ownership guidelines	To increase alignment between Executive Directors and shareholders.	Executive Directors are expected to build and maintain a minimum holding of shares. Executive Directors must retain at least 50% of the shares acquired on vesting of any share awards (net of tax) until the required holding is attained. On cessation of employment, Executive Directors must retain the lower of the in-service shareholding requirement, or the Executive Directors' actual shareholding, for two years.	At least 250% of salary for the CEO and at least 200% of salary for the CFO or such higher level as the Committee may determine from time to time. The net of tax value of any unvested deferred awards (which are not subject to any future performance condition) may count towards the definition of a shareholding for this purpose.

1. Clawback and malus provisions apply to both the annual bonus, including amounts deferred into shares and PSP awards. These provide for the recovery of incentive payments within seven years in the event of: (i) a material misstatement of results; (ii) an error; (iii) a significant failure of risk management; (iv) regulatory censure; (v) in instances of individual gross misconduct; (vi) corporate failure; (vii) reputational damage; or (viii) any other exceptional circumstance as determined by the Board. A further three years may be applied following such a discovery, in order to allow for the investigation of any such event. In order to effect any such clawback, the Committee may use a variety of methods: withhold deferred bonus shares, future PSP awards or cash bonuses, or seek to recoup cash or shares already paid.

Choice of performance measures for Executive Directors' awards

The use of a Balanced Business Scorecard for the annual bonus reflects the balance of financial and non-financial business drivers across the Group. The combination of performance measures ties the bonus plan to 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 and People 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 of each meeting.

Awards granted prior to the effective date

Any commitments entered into with Directors prior to the effective date of this Policy will be honoured. Details of any such payments will be set out in the Annual Report on Remuneration as they arise.

Remuneration Policy for other employees

The Committee has regard to pay structures across the wider Group when setting the Remuneration Policy for Executive Directors and ensures that policies at and below the Executive level are coherent. There are no significant differences in the overall remuneration philosophy, although pay is generally more variable and linked more to the long-term for those at more senior levels. The Committee's primary reference point for the salary reviews for the Executive Directors is the average salary increase for the broader workforce.

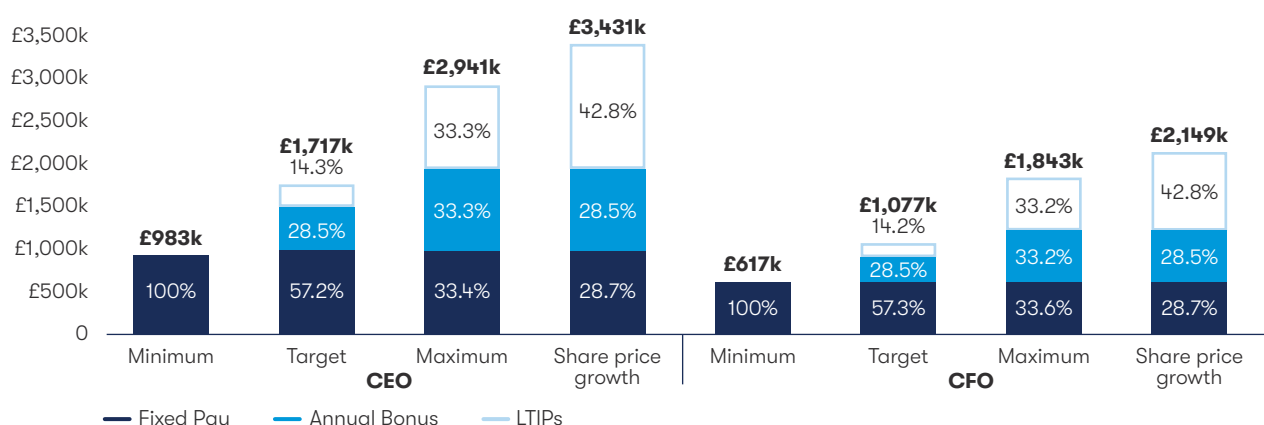
A highly collegiate approach is followed in the assessment of the annual bonus, with our Balanced Business Scorecard being used to assess bonus outcomes throughout the Group, with measures weighted according to role, where relevant.

Overall, the Remuneration Policy for the Executive Directors is more heavily weighted towards performance-related pay than for other employees. In particular, performance-related long-term incentives are not provided outside the most senior management population as they are reserved for those considered to have the greatest potential to influence overall levels of performance.

Although PSPs are awarded only to the most senior managers in the Group, the Company is committed to widespread equity ownership and a Sharesave Plan is available to all employees. Executive Directors are eligible to participate in this plan on the same basis as other employees.

Illustrations of application of Remuneration Policy

The chart below illustrates how the composition of the Executive Directors' remuneration packages would vary under various performance scenarios. This chart has been updated from the version in the Policy approved at the 2021 AGM to illustrate how it is intended the Remuneration Policy will be implemented in 2023.



1. Minimum performance assumes no award is earned under the annual bonus plan and no vesting is achieved under the PSP – only fixed pay (salary, benefits and pension are payable).
2. At on-target, half of the annual bonus is earned (i.e. 55% of salary) and 25% of maximum is achieved under the PSP (i.e. 27.5% of salary).
3. At maximum, full vesting is achieved under both plans (i.e. 110% of salary under the bonus and PSP).
4. As at maximum, but illustrating the effect of a 50% increase in the share price on PSP awards.

Other than as noted in the chart above, share price growth and all-employee share plan participation are not considered in these scenarios.

Directors' Remuneration Report continued

Directors' Remuneration Policy continued

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 Director

Element	Purpose and link to strategy	Operation and performance conditions	Maximum opportunity
Fees	To attract and retain a high-calibre Chairman and NEDs by offering a market competitive fee.	The Chairman and NEDs are entitled to an annual fee, with supplementary fees payable for additional responsibilities including the Chair of the Group Audit, Group Nomination and Governance, Group Remuneration and People and Group Risk Committees and for acting as the SID. Fees are reviewed periodically. The Chairman and NEDs are entitled to reimbursement of travel and other reasonable expenses incurred in the performance of their duties.	There is no prescribed maximum annual increase. The Committee is guided by the general increase in the non-executive market but on occasion may need to recognise, for example, change in responsibility and/or time commitments.

Letters of appointment

The NEDs are appointed by letters of appointment that set out their duties and responsibilities. The key terms are:

Provision	Policy
Period of appointment	Initial three-year term, subject to annual re-election by shareholders. On expiry of the initial term and subject to the needs of the Board, NEDs may be invited to serve a further three years. NEDs appointed beyond nine years will be at the discretion of the Group Nomination and Governance Committee.
Notice periods	Three months on either side. The appointments are also terminable with immediate effect and without compensation or payment in lieu of notice if the Chairman or NEDs are not elected or re-elected to their position as a Director of the Company by shareholders.
Payment in lieu of notice	The Company is entitled to make a payment in lieu of notice on termination.

Letters of appointment are available for inspection at the Company's registered office. The effective dates of the current NEDs' appointments are shown in the table below.

Non-Executive Director	Date of appointment
Graham Allatt	6 May 2014 ¹
Kal Atwal	7 February 2023
Noël Harwerth	4 October 2019 (appointed to the CCFS Board in June 2017) ¹
Sarah Hedger	1 February 2019 ¹
Rajan Kapoor	4 October 2019 (appointed to the CCFS Board in September 2016) ¹
Mary McNamara	6 May 2014 ¹
Simon Walker	4 January 2022
David Weymouth	1 September 2017 ¹

1. These dates reflect the date that each NED joined OneSavings Bank plc (prior to the insertion of OSB GROUP PLC as the holding company and listed entity).

Directors' Report: other information

Share capital and rights attaching to shares

The Company had 429,868,625 ordinary shares of £0.01 each in issue as at 31 December 2022.

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 12 May 2022, shareholders re-established the general authority for the Directors to allot up to £1,499,087.56 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 £539,671.22 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 44,972,602 ordinary shares. During the year, the Company repurchased 20,671,224 ordinary shares as part of its £100m share repurchase programme announced to the market on 17 March 2022 (2021: none).

Employee share schemes

The details of the Company's employee share schemes are set out on pages 159 and 160 in the Directors' Remuneration Report and in the Employee engagement section below.

Results, dividends and dividend waiver

The results for the year are set out in the Statement of Comprehensive Income on page 179. Our dividend policy for 2023 remains a payout ratio of at least 25% of underlying profit after taxation to ordinary shareholders. The Directors recommend the payment of a final dividend of 21.8 pence per share for 2022 (2021: 21.1 pence), making a total ordinary dividend of 30.5 pence per share (2021: 26 pence). The Board has also announced a special dividend of £50.3m, 11.7 pence per share (2021: nil). The recommended final dividend is subject to approval at the AGM on 11 May 2023. The final and special dividends will be paid on 17 May 2023, with an ex-dividend date of 23 March 2023 and a record date of 24 March 2023.

The OSB GROUP PLC Employee Benefit Trust, which holds 442,568 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 2022 was £149,245.

Directors and Directors' interests

The names of the Directors who served during the year can be found in the attendance chart on page 122.

Directors' interests in the shares of the Company are set out on page 154 in the Directors' Remuneration Report. None of the Directors had interests in shares of the Company greater than 0.36% of the ordinary shares in issue. There have been no changes to Directors' interests in shares since 31 December 2022.

Equal opportunities

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

Employee engagement

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

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

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

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

Further information in relation to the Board's engagement with the Group's stakeholders including customers, intermediaries, shareholders, suppliers, regulators and communities, can be found on pages 16-21.

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

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

Further details can be found on pages 111-113.

Greenhouse gas emissions

Information relating to greenhouse gas emissions, energy consumption and actions towards energy efficiency can be found on pages 91-99.

Political donations

Shareholder authority to make aggregate political donations not exceeding £50,000 was obtained at the AGM on 12 May 2022. Neither the Company nor any of its subsidiaries made any political donations during the year.

Notifiable interests in share capital

As at 31 December 2022, 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	44,811,775	9.98
abrdn plc	24,874,897	5.79
BlackRock, Inc. ²	23,204,094	5.38
Norges Bank	17,386,770	4.05
Eleva Capital SAS ³	13,190,830	2.96

Since 31 December 2022, the Company received the following notifications:

- On 18 January 2023, Jupiter Fund Management PLC notified that it had decreased its shareholding to 21,553,335 (5.01%) ordinary shares.
- On 23 January 2023, Jupiter Fund Management PLC notified that it had decreased its shareholding to 21,468,978 (4.99%) ordinary shares.
- On 30 January 2023, Jupiter Fund Management PLC notified that it had increased its shareholding to 21,662,986 (5.03%) ordinary shares.
- On 1 February 2023, GLG Partners LP notified that it had increased its shareholding to 21,575,462 (5.019%) ordinary shares.
- On 3 February 2023, Jupiter Fund Management PLC notified that it had decreased its shareholding to 21,411,775 (4.98%) ordinary shares.
- On 6 February 2023, Jupiter Fund Management PLC notified that it had increased its shareholding to 21,511,347 (5%) ordinary shares.
- On 7 February 2023, Jupiter Fund Management PLC notified that it had decreased its shareholder to 21,407,948 (4.98%) ordinary shares.

1. Includes up to 0.02% of financial instruments.

2. Includes 0.31% of financial instruments.

3. Includes 1.14 % of financial instruments.

Annual General Meeting

Accompanying this report is the Notice of the AGM which sets out the resolutions to be proposed to the meeting, together with an explanation of each. This year's AGM will be held at our offices at 90 Whitfield Street, Fitzrovia, London W1T 4EZ on 11 May 2023 at 11am.

Other information

Likely future developments in the Group are contained in the Strategic Report on pages 8-114.

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 52-77.

Details on how the Company has complied with section 172 can be found throughout the Strategic and Directors' Reports and on page 16-21.

Details relating to post-balance sheet events are set out in note 51.

Directors Report: other information continued

Going concern statement

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

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

The assessments include the following:

- Financial and capital forecasts were prepared under stress scenarios, which were assessed against the latest economic forecasts provided by the Group's external economic advisors. Reverse stress tests were also run, to assess what combinations of House Price Index (HPI), unemployment, default rates and consumer price index variables would result in the Group utilising its regulatory capital buffers in full and breaching the Group's minimum prudential requirements, along with analysis and insight from the Group's 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, with the Group maintaining sufficient liquidity throughout the going concern assessment period.
- The Group continues to assess the resilience of its business operating model and supporting infrastructure in the context of the emerging economic, business and regulatory environment. The key areas of focus continue to be on the provision of the Group's Important Business Services, minimising the impact of any service disruptions on the Group's customers or wider financial services industry. The Group's response to the COVID-19 pandemic demonstrated the inherent resilience of the Group's critical processes and infrastructure and its agility in responding to changing operational demands. The Group recognises the need to continually invest in the resilience of its services, with specific focus in 2023 on ensuring that the third parties on which it depends have the appropriate levels of resilience and in further automating those processes that are sensitive to increases in volume.

The Group's financial projections demonstrate that the Group has sufficient capital and liquidity to continue to meet its regulatory 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 ERMF and objectives and processes for mitigating risks, including liquidity risk, are set out in detail on pages 52-59.

Approved by the Board and signed on its behalf by:

Jason Elphick

Group General Counsel and Company Secretary
OSB GROUP PLC

Registered number: 11976839

16 March 2023

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 UK-adopted International Financial Reporting Standards (IFRS) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

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

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

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

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

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

Responsibility statement of the Directors in respect of the annual financial report

Each of the persons who is a Director at the date of approval of this report confirms, to the best of their knowledge, that:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report/Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board and signed on its behalf by:

Jason Elphick
Group General Counsel and Company Secretary
 16 March 2023

In this section...

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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 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company statements of cash flow;
- the related notes 1-54 of the consolidated financial statements; and
- the related notes 1-6 of the parent company financial statements.

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

2. Basis for opinion

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

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

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

3. Summary of our audit approach

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

Independent Auditor's Report

to the members of OSB Group plc continued

4. Conclusions relating to going concern

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

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

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

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

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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

5. Key audit matters

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

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

5.1. Loan impairment provisions

Refer to the judgements in applying accounting policies and critical accounting estimates on page 193 and note 23 on page 206.

Key audit matter description

IFRS 9 requires loan impairment provisions to be recognised on an expected credit loss (ECL) basis. The estimation of ECL provisions in the Group's loan portfolios is inherently uncertain and requires significant judgements and estimates. We therefore consider this to be a key audit matter due to the risk of fraud or error in respect of the Group's ECL provision. ECL provisions as at 31 December 2022 were £130.0m (2021: £101.5m), which represented 0.54% (2021: 0.48%) of loans and advances to customers. ECLs are calculated both for individually significant loans and collectively on a portfolio basis which require the use of statistical models incorporating loss data and assumptions on the recoverability of customers' outstanding balances.

As set out on page 71, the Group has implemented various model and staging enhancements during the year as well as updating the IFRS 9 models as part of the Internal Ratings Based (IRB) programme.

The uncertain economic environment continues to increase the complexity in estimating ECLs, particularly with regards to determining appropriate forward looking macroeconomic scenarios and identifying customers who have experienced significant increases in credit risk. Additionally, rising living and borrowing costs observed over the past year have increased the degree of subjectivity in estimating an appropriate probability of default (PD) for customers.

We identified four specific areas in relation to ECL that require significant judgement or relate to assumptions to which the overall ECL provision is particularly sensitive.

- **Significant increase in credit risk (SICR):** The assessment of whether there has been a significant increase in credit risk between the date of origination of the exposure and 31 December 2022. There is a risk that the Group's staging criteria does not capture SICR or are applied incorrectly.
- **Macroeconomic scenarios:** As set out on page 73, the Group sources economic forecasts from a third-party economics expert and then applies judgement to determine which scenarios to select and the probability weightings to assign. The Group considered four probability weighted scenarios, including base, upside, downside and severe downside scenarios. The key economic variables used within the macroeconomics model were determined to be the house price index (HPI) and unemployment. The estimation of these variables involves a high degree of subjectivity and estimation uncertainty.
- **Post model adjustments (PMAs):** The Group has assessed how increases in inflation and interest rates may impact customers, and has recognised separate cost of living and cost of borrowing PMAs to reflect these emerging risks. The calculation of these PMAs is inherently judgemental because there is limited recent data available to estimate how increases in inflation and interest rates may impact customers.
- **Propensity to go into possession following default (PPD) and forced sale discount (FSD) assumptions:** PPD measures the likelihood that a defaulted loan will progress into repossession. FSD measures the difference in sale proceeds between a sale under normal conditions and sale at auction. The loss given default (LGD) by loan assumed in the ECL provision calculation is highly sensitive to the PPD and FSD assumptions.

Independent Auditor's Report

to the members of OSB Group plc continued

How the scope of our audit responded to the key audit matter

We obtained an understanding of the relevant financial controls over the ECL provision with particular focus on controls over significant assumptions and judgements used in the ECL determination.

To challenge the Group's SICR criteria, we:

- Evaluated the Group's SICR policy and assessed whether it complies with IFRS 9;
- Assessed the quantitative and qualitative thresholds used in the SICR assessment by reference to standard validation metrics including the proportion of transfers to stage two driven solely by being 30 days past due, the volatility of loans in stage two and the proportion of loans that spend little or no time in stage two before moving to stage three;
- Tested the completeness and accuracy of the data used in applying the quantitative and qualitative criteria in the SICR assessment to assess whether loans were assigned to the correct stage;
- Supported by our credit risk specialists, performed a full review of the computer codes used to perform the SICR assessment;
- As part of our testing of the application of the SICR criteria within the ECL model and with support from our credit risk specialists, we independently reperformed the Group's staging assessment across all three stages using our in-house analytics tool; and
- Performed an independent assessment for a sample of loan accounts which exited forbearance, to determine whether they had been appropriately allocated to the correct stage.

To challenge the Group's macroeconomic scenarios and the probability weightings applied we:

- Agreed the macroeconomics scenarios used in the ECL model to reports prepared by the third-party economics expert;
- Assessed the competence, capability and objectivity of the third-party economics expert, which included making specific inquiries to understand their approach and modelling assumptions to derive the scenarios;
- Supported by our economic specialists, assessed and challenged the scenarios considered and the probability weightings assigned to them in light of the economic environment as at 31 December 2022;
- With the involvement of our economic specialists challenged the Group's economic outlook by reference to other available economic outlook data;
- Supported by our credit risk specialists, assessed the model methodology and performed a full review of the computer code used in the macroeconomics model which applies the scenarios to the relevant ECL components;
- Compared the appropriateness of selected macroeconomic variables (HPI and unemployment) and the four probability weightings used in the macroeconomics model to those used by peer lenders;
- Supported by our credit risk specialists, assessed the performance of the macroeconomic model to confirm whether the economic variables previously selected were still appropriate through considering the modelled macroeconomic results relative to those observed in historical recessions; and
- For a sample of loans, we independently recalculated the ECL using the macroeconomic variables to check they were being applied appropriately.

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

- Supported by our credit risk specialists, we assessed whether the risks were already captured within the existing macroeconomics models;
- Evaluated the methodology, including key assumptions and reviewed the computer codes used to determine the PMAs; and
- Tested the completeness, accuracy and relevance of the data used.

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

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

Key observations

We determined that the methodology used, and the SICR criteria and PPD and FSD assumptions in determining the ECL provision as at 31 December 2022 were reasonable.

We observed that the macroeconomic scenarios selected by the directors and the probability weightings applied generate an appropriate portfolio loss distribution, and we determined the Group's cost of living and cost of borrowing PMAs were reasonable.

We therefore determined that loan impairment provisions were appropriately stated.

5.2. Effective interest rate income recognition

Refer to the judgements in applying accounting policies and critical accounting estimates on page 194, the accounting policy on pages 184 and 185 and Notes 3 and 4 on page 195.

Key audit matter description	In accordance with the requirements of IFRS 9, directly attributable fees, discounts, incentives and commissions on a constant yield basis (effective interest rate, EIR) are required to be spread over the expected life of the loan assets. EIR is complex and the Group's approach to determining the EIR involves the use of models and significant estimation in determining the behavioural life of loan assets. Given the complexity and judgement involved in accounting for EIR and given that revenue recognition is an area susceptible to fraud, there is an opportunity for management to manipulate the amount of interest income reported in the financial statements. The Group's net interest income for the year ended 31 December 2022 was £709.9m (2021: £587.6m). EIR adjustments arise from revisions to estimated cash receipts or payments for loan assets that occur for reasons other than a movement in market interest rates or credit losses. They result in an adjustment to the carrying amount of the loan asset, with the adjustment recognised in the income statement in interest receivable and similar income. As the EIR adjustments reflect changes to the timing and volume of forecast customer redemptions, they are inherently judgemental. The level of judgement exercised is increased where there is limited availability of historical repayment information. For two of the loan portfolios, Kent Reliance and Precise, the EIR adjustments are sensitive to changes in the behavioural life curves. As set out on page 46, changes in the modelled behavioural life of these portfolios during the year resulted in an interest income loss of £31.6m (2021: £11.0m gain). The EIR adjustments have increased as a result of the rising interest rate environment. The current economic environment brings additional uncertainty with regards to forecasting expected behavioural lives and prepayment rates. We therefore considered there to be an increased level of risk in respect of this key audit matter in the current year.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over EIR, focusing on the calculation and review of EIR adjustments and the determination of prepayment curves. For the two portfolios where the EIR adjustments were most significant and sensitive to changes in behavioural life, Kent Reliance and Precise, with the involvement of our in-house analytics and modelling specialists we run the loan data for all products through our own independent EIR model, using the behavioural life curves derived by the Group. We compared our calculation of the EIR adjustment required to the amount recorded by the Group. A number of assumptions are made to adjust actual behavioural data over recent years to reflect the Group's best estimate of expected future behaviour. For material assumptions, we independently challenged the reasonableness of the assumptions considering the context of the rising rate environment that has been experienced over the last year. For the same portfolios referenced above, with the involvement of our in-house analytics and modelling specialists we independently derived a behavioural life curve using the Group's actual loan data over recent years and incorporating those assumptions that we considered reasonable. We used these curves in our own independent EIR model to calculate the EIR adjustments. We compared this output to the amounts recorded by the Group. We also tested the completeness and accuracy of a sample of inputs into the EIR model for originated loans.
Key observations	We determined that the EIR models and assumptions used were appropriate and that net interest income for the period is appropriately stated.

Independent Auditor's Report

to the members of OSB Group plc continued

6. Our application of materiality

6.1. Materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£21.6m (2021: £20.1m)	£15.8m (2021: £15.8m)
Basis for determining materiality	We determined materiality for the Group to be approximately 1% of net assets of £2,201.0m (£21.6m) which equates to 4% of statutory profit before tax of £531.5m. The basis of materiality is consistent with prior year.	We determined materiality for the parent company by reference to 1% of net assets. This is consistent with prior year.
Rationale for the benchmark applied	Consistent with the prior year, we considered both net assets and a profit before tax based measure as benchmarks for determining materiality. We determined net assets to be the most relevant and stable benchmark to determine materiality.	The parent company is principally a holding company and we have therefore determined net assets to be the most relevant benchmark to determine materiality.

6.2. Performance materiality

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

	Group financial statements	Parent company financial statements
Performance materiality	60% (2021: 60%) of Group materiality	60% (2021: 60%) of parent company materiality
Basis and rationale for determining performance materiality	Group performance materiality was set at 60% of Group materiality (2021: 60%). In determining performance materiality, we considered a number of factors, including: our understanding of the control environment; our understanding of the business; and the low number of uncorrected misstatements identified in the prior year.	

6.3. Error reporting threshold

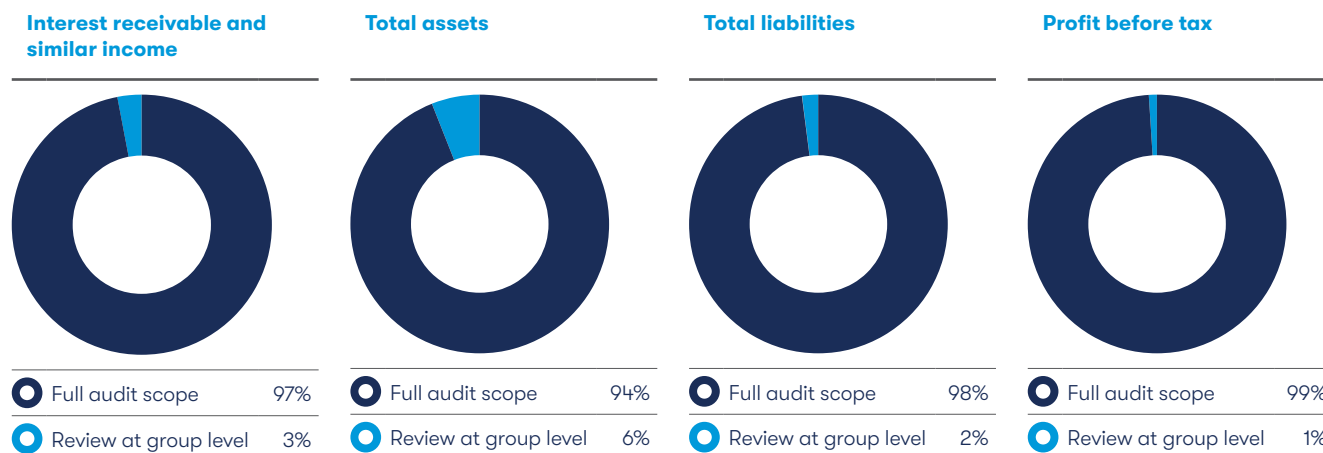
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.1m (2021: £1.0m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that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

7. An overview of the scope of our audit

7.1. Identification and scoping of components

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

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



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

7.2. Our consideration of the control environment

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

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

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the impact of climate change on the Group's operations and impact on its financial statements. The Group has set out its commitments, aligned with the goals of the Paris Climate Accord, to be a net zero bank by 2050. Further information is provided in the Group's Strategic Report and Task Force on Climate-Related Financial Disclosures ("TCFD") on pages 7 and 100. The Group sets out its assessment of the potential impact of climate change on ECL on page 71 of the Risk Management section of the Annual Report and the potential impact on the financial statements in note 23 on page 206.

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

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

Our audit work has involved:

- challenging the completeness of the physical and transition risks identified and considered in the Group's climate risk assessment and the conclusion that there is no material impact of climate change risk on current year financial reporting;
- with the involvement of our credit risk specialists, assessing management's approach to the incorporation and quantification of climate change risks within a PMA in the ECL provision, which included:
 - assessing management's selected climate pathway used in order to quantify the potential impact of physical risks on the Group's loan book and in particular how the underlying property may be impacted as a result;
 - assessing how different lending segments may be impacted by transition risks and in particular how the buy-to-let portfolio may be impacted by more stringent EPC criteria; and
 - assessing the relevance of the data used in the assessment.
- assessing disclosures in the Annual Report, and challenging the consistency between the financial statements and the remainder of the Annual Report.

We have been engaged to provide limited assurance on the description of activities undertaken to meet the Recommendations of the Task Force on Climate-Related Financial Disclosures ("TCFD") and selected Environmental, Social and Governance metrics ("Selected ESG Metrics") (together the "Assured ESG Information") in the Annual Report for the year-ended 31 December 2022. Please refer to page 248 for our separate assurance report.

Independent Auditor's Report

to the members of OSB Group plc continued

8. Other information

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

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

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

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

We have nothing to report in this regard.

9. Responsibilities of directors

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

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

10. Auditor's responsibilities for the audit of the financial statements

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

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

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

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

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

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

11.2. Audit response to risks identified

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

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

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

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

Report on other legal and regulatory requirements

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

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

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

13. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 49 to the financial statements for the financial year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified as set out on page 166;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate as set out on pages 76 and 77;
- the directors' statement on fair, balanced and understandable as set out on page 135;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks as set out on page 123;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems as set out on page 123; and
- the section describing the work of the Audit Committee as set out on pages 133 to 138.

Independent Auditor's Report

to the members of OSB Group plc continued

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

15.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

15.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

16. Other matters which we are required to address

16.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the shareholders of the OSB GROUP plc on 17 November 2020 to audit the Group financial statements for the year ending 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is three years, covering the years ending 31 December 2020 to 31 December 2022.

Prior to our appointment to audit the parent company, we were auditor of the Group headed by OneSavings Bank plc, since 9 May 2019. The period of total uninterrupted engagement for OneSavings Bank plc, including previous renewals and reappointments of the firm, is four years, covering the year ended 31 December 2019 to 31 December 2022.

16.2. Consistency of the audit report with the additional report to the Audit Committee

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

17. Use of our report

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

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

Robert Topley FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

16 March 2023

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

	Note	2022 £m	2021 £m
Interest receivable and similar income	3	1,069.3	746.8
Interest payable and similar charges	4	(359.4)	(159.2)
Net interest income		709.9	587.6
Fair value gains on financial instruments	5	58.9	29.5
Gain on sale of financial instruments	6	–	4.0
Other operating income	7	6.6	7.9
Total income		775.4	629.0
Administrative expenses	8	(207.8)	(166.5)
Provisions	37	1.6	(0.2)
Impairment of financial assets	24	(29.8)	4.4
Impairment of intangible assets	9	–	3.1
Integration costs	12	(7.9)	(5.0)
Exceptional items	13	–	(0.2)
Profit before taxation		531.5	464.6
Taxation	14	(121.5)	(119.3)
Profit for the year		410.0	345.3
Other comprehensive expense			
Items which may be reclassified to profit or loss:			
Fair value changes on financial instruments measured at fair value through other comprehensive income (FVOCI):			
Arising in the year	19	0.3	1.1
Amounts reclassified to profit or loss for investment securities at FVOCI		(0.7)	(2.0)
Tax on items in other comprehensive expense		0.1	0.5
Revaluation of foreign operations		(0.2)	(0.1)
Other comprehensive expense		(0.5)	(0.5)
Total comprehensive income for the year		409.5	344.8
Attributable to:			
Equity shareholders of the Company		409.5	340.1
Non-controlling interest		–	4.7
		409.5	344.8
Dividend, pence per share	16	42.2	26.0
Earnings per share, pence per share			
Basic	15	90.8	76.0
Diluted	15	89.8	75.2

The above results are derived wholly from continuing operations.

The notes on pages 183–238 form part of these accounts.

The financial statements on pages 180–238 were approved by the Board of Directors on 16 March 2023.

Consolidated Statement of Financial Position

As at 31 December 2022

	Note	2022 £m	2021 £m
Assets			
Cash in hand		0.4	0.5
Loans and advances to credit institutions	18	3,365.7	2,843.6
Investment securities	19	412.9	491.4
Loans and advances to customers	20	23,612.7	21,080.3
Fair value adjustments on hedged assets	26	(789.0)	(138.9)
Derivative assets	25	888.1	185.7
Other assets	27	15.0	10.2
Current taxation asset		1.7	–
Deferred taxation asset	28	6.3	5.6
Property, plant and equipment	29	40.9	35.1
Intangible assets	30	12.0	18.4
Total assets		27,566.7	24,531.9
Liabilities			
Amounts owed to credit institutions	31	5,092.9	4,319.6
Amounts owed to retail depositors	32	19,755.8	17,526.4
Fair value adjustments on hedged liabilities	26	(55.1)	(19.7)
Amounts owed to other customers	33	113.1	92.6
Debt securities in issue	34	265.9	460.3
Derivative liabilities	25	106.6	19.7
Lease liabilities	35	9.9	10.7
Other liabilities	36	38.7	29.6
Provisions	37	0.4	2.0
Current taxation liability		–	1.0
Deferred taxation liability	38	22.3	39.8
Subordinated liabilities	39	–	10.3
Perpetual Subordinated Bonds	40	15.2	15.2
		25,365.7	22,507.5
Equity			
Share capital	42	4.3	4.5
Share premium	42	2.4	0.7
Retained earnings		3,389.4	3,215.1
Other reserves	43	(1,195.1)	(1,195.9)
Shareholders' funds		2,201.0	2,024.4
Total equity and liabilities		27,566.7	24,531.9

The notes on pages 183–238 form part of these accounts. The financial statements on pages 180–238 were approved by the Board of Directors on 16 March 2023 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 2022

	Share capital ¹ £m	Share premium £m	Capital redemption and transfer reserve ² £m	Own shares ³ £m	Foreign exchange reserve £m	FVOCI reserve £m	Share-based payment reserve £m	Retained earnings £m	Additional Tier 1 (AT1) securities £m	Non-controlling interest securities £m	Total £m
At 1 January 2021	1,359.8	–	(1,355.3)	(4.0)	(1.0)	1.0	7.8	1,608.6	–	60.0	1,676.9
Profit for the year	–	–	–	–	–	–	–	345.3	–	–	345.3
Other comprehensive expense	–	–	–	–	(0.1)	(0.9)	–	–	–	–	(1.0)
Tax on items in other comprehensive expense	–	–	–	–	–	0.5	–	–	–	–	0.5
Total comprehensive (expense)/income	–	–	–	–	(0.1)	(0.4)	–	345.3	–	–	344.8
Coupon paid on non-controlling interest securities	–	–	–	–	–	–	–	(4.7)	–	–	(4.7)
Dividends paid	–	–	–	–	–	–	–	(86.7)	–	–	(86.7)
Share-based payments	–	0.7	–	–	–	–	4.0	2.9	–	–	7.6
Own shares ³	–	–	–	0.5	–	–	–	(0.5)	–	–	–
Capital reduction of OSB GROUP PLC (OSBG) share capital ¹	(1,355.3)	–	–	–	–	–	–	1,355.3	–	–	–
Redemption of non-controlling interest securities	–	–	–	–	–	–	–	–	–	(60.0)	(60.0)
Transactions costs on redemption of non-controlling interest securities	–	–	–	–	–	–	–	(3.5)	–	–	(3.5)
Issuance of AT1 securities	–	–	–	–	–	–	–	–	150.0	–	150.0
Transactions costs on issuance of AT1 securities	–	–	–	–	–	–	–	(1.6)	–	–	(1.6)
Tax recognised in equity	–	–	–	–	–	–	1.6	–	–	–	1.6
At 31 December 2021	4.5	0.7	(1,355.3)	(3.5)	(1.1)	0.6	13.4	3,215.1	150.0	–	2,024.4
Profit for the year	–	–	–	–	–	–	–	410.0	–	–	410.0
Other comprehensive expense	–	–	–	–	(0.2)	(0.4)	–	–	–	–	(0.6)
Tax on items in other comprehensive expense	–	–	–	–	–	0.1	–	–	–	–	0.1
Total comprehensive (expense)/income	–	–	–	–	(0.2)	(0.3)	–	410.0	–	–	409.5
Coupon paid on AT1 securities	–	–	–	–	–	–	–	(9.0)	–	–	(9.0)
Dividends paid	–	–	–	–	–	–	–	(133.1)	–	–	(133.1)
Share-based payments	–	1.7	–	–	–	–	(0.2)	8.4	–	–	9.9
Own shares ³	–	–	–	1.3	–	–	–	(1.3)	–	–	–
Share repurchase	(0.2)	–	0.2	–	–	–	–	(100.7)	–	–	(100.7)
At 31 December 2022	4.3	2.4	(1,355.1)	(2.2)	(1.3)	0.3	13.2	3,389.4	150.0	–	2,201.0

1. On 26 February 2021, OSBG reduced the nominal value of 447,312,780 shares from three hundred and four (304) pence each to one (1) penny each, see note 42 for further details.

2. Includes Capital redemption reserve of £0.2m (2021: nil) and Transfer reserve of £(1,355.3)m (2021: £(1,355.3)m).

3. The Group has adopted look-through accounting (see note 1 d)) and recognised the Employee Benefit Trust within OSBG.

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Note	2022 £m	Restated ¹ 2021 £m
Cash flows from operating activities			
Profit before taxation		531.5	464.6
Adjustments for non-cash items	50	63.7	(10.0)
Changes in operating assets and liabilities ¹	50	(24.2)	(683.6)
Cash generated/(used) in operating activities¹		571.0	(229.0)
Net tax paid		(142.5)	(117.3)
Net cash generated/(used) in operating activities		428.5	(346.3)
Cash flows from investing activities			
Maturity and sales of investment securities		663.7	547.7
Purchases of investment securities		(596.5)	(468.2)
Interest received on investment securities		7.7	1.9
Sales of financial instruments	6	–	4.0
Proceeds from sale of property, plant and equipment	29	–	2.0
Purchases of property, plant and equipment and intangible assets	29,30	(11.7)	(6.8)
Cash generated from investing activities		63.2	80.6
Cash flows from financing activities			
Financing received ¹	41	429.5	4,943.2
Financing repaid	41	(324.2)	(4,295.4)
Interest paid on financing	41	(45.3)	(8.4)
Share repurchase ²		(102.0)	–
Coupon paid on non-controlling interest securities		–	(4.7)
Coupon paid on AT1 securities		(9.0)	–
Dividends paid	16	(133.1)	(86.7)
Redemption of non-controlling interest securities		–	(63.5)
Issuance of AT1 securities		–	148.4
Proceeds from issuance of shares under employee Save As You Earn (SAYE) schemes		1.7	0.8
Cash payments on lease liabilities	35	(1.9)	(1.9)
Cash (used)/generated from financing activities		(184.3)	631.8
Net increase in cash and cash equivalents		307.4	366.1
Cash and cash equivalents at the beginning of the year	17	2,736.7	2,370.6
Cash and cash equivalents at the end of the year	17	3,044.1	2,736.7
Movement in cash and cash equivalents		307.4	366.1

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

2. Comprises £100.0m for shares repurchased, £0.7m transaction costs and £1.3m incentive fee.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

1. Accounting policies

a) Basis of preparation

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

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

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

b) Restatement

In the prior year, cash collateral and margin received on interest rate swaps of £115.4m was included in financing cash flows in the Consolidated Statement of Cash Flows. As the cash flows arise on hedging activities related to items classified as operating assets and liabilities within the Consolidated Statement of Cash Flows, the cash flows should be included within operating cash flows. In the current year, cash collateral and margin received on interest rate swaps has been classified as an operating cash flow in 2022 and the 2021 Consolidated Statement of Cash Flows restated to reclassify a cash inflow of £115.4m from financing activities to operating activities.

c) Going concern

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

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

The assessments include the following:

- Financial and capital forecasts were prepared under stress scenarios which were assessed against the latest economic forecasts provided by the Group's external economic advisors. Reverse stress tests were also run, to assess what combinations of House Price Index (HPI) and unemployment variables would result in the Group utilising its regulatory capital buffers in full and breaching the Group's minimum prudential requirements along with analysis and insight from the Group's Internal Capital Adequacy Assessment Process (ICAAP). The Directors assessed the likelihood of those reverse stress scenarios occurring within the next 12 months and concluded that the likelihood is remote.
- The latest liquidity and contingent liquidity positions and forecasts were assessed against the Internal Liquidity Adequacy Assessment Process (ILAAP) stress scenarios.
- The Group continues to assess the resilience of its business operating model and supporting infrastructure in the context of the emerging economic, business and regulatory environment. The key areas of focus continues to be on the provision of the Group's Important Business Services, minimising the impact of any service disruptions on the Group's customers or the wider financial services industry. The Group's response to the COVID-19 pandemic demonstrated the inherent resilience of its critical processes and infrastructure and its agility in responding to changing operational demands. The Group recognises the need to continually invest in the resilience of its services, with specific focus in 2023 on ensuring that the third parties on which it depends have the appropriate levels of resilience and in further automating those processes that are sensitive to increases in volume.

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

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

d) Basis of consolidation

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

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

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

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

d) Basis of consolidation continued

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.

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 (OCI) and accumulated in the foreign exchange reserve within equity.

f) Segmental reporting

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

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

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

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

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

g) Interest income and expense

Interest income and interest expense for all interest-bearing financial instruments measured at amortised cost and FVOCI are recognised in profit or loss using the effective interest rate (EIR) method. The EIR is the rate which discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying value of the financial asset or liability.

Interest income on financial assets categorised as stage 1 or 2 are recognised on a gross basis, with interest income on stage 3 assets recognised net of expected credit losses (ECL). For purchased or credit-impaired assets (see note 1 o) vii.), interest income is calculated by applying the credit-adjusted EIR to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis even if the credit risk of the asset improves. See note 1 p) ii. for further information on IFRS 9 stage classifications.

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

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

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

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

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

Coupons paid on non-controlling interest securities and AT1 securities are recognised directly in equity in the period in which they are paid.

h) Fees and commissions

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

Fees received on mortgage administration services and mortgage origination activities, which are not an integral part of the EIR, are recorded in other operating income and accounted for in accordance with IFRS 15 Revenue from Contracts with Customers, with income recognised when the services are delivered and the benefits are transferred to clients and customers.

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

i) Integration costs and exceptional items

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

j) Taxation

Income tax comprises current and deferred tax. It is recognised in profit or loss, OCI or directly in equity, consistent with the recognition of items it relates to. The Group recognises tax on coupons paid on non-controlling interest securities and AT1 securities directly in profit or loss.

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences.

The Company and its tax-paying UK subsidiaries are in a group payment arrangement for corporation tax and show a net corporation tax liability and deferred tax liability accordingly, with the exception of WSE Bourton Road Limited which is applying to join the arrangement.

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

k) Dividends

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

l) Cash and cash equivalents

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

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.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

m) Intangible assets continued

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

Software-as-a-service (SaaS), is an arrangement that provides the Group with the right to receive access to the supplier's application software in the future which is treated as a service contract, rather than a software lease or the acquisition of a software intangible asset.

An intangible asset is only recognised if:

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

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

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

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

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

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

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

n) Property, plant and equipment

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

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

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

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

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

o) Investment in subsidiaries

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less provision for any impairment. A full list of the Company's subsidiaries which are included in the Group's consolidated financial statements can be found in note 2 to the Company's financial statements on page 243.

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

p) Financial instruments

i. Recognition

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

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

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

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

ii. Classification

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

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

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

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

The Group reassesses its business models each reporting period.

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

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

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

iii. Derecognition

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

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

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

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

iv. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the 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.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

p) Financial instruments continued

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

v. Amortised cost measurement

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

vi. Fair value measurement

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

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

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

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

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

vii. Identification and measurement of impairment of financial assets

The Group assesses all financial assets for impairment.

Loans and advances to customers

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

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

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

Individual assessment

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

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

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

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

IFRS 9 modelled impairment

Measurement of ECL

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

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

Significant increase in credit risk (movement to stage 2)

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

At the point of initial recognition, a loan is assigned a PD estimate. For each monthly reporting date thereafter, an updated PD estimate is computed. The Group's transfer criteria analyses relative changes in PD versus the PD assigned at the point of origination, together with qualitative triggers using both internal indicators, such as forbearance, and external information, such as changes in income and adverse credit information to assess for SICR. In the event that given early warning triggers have not already identified SICR, an account more than 30 days past due is considered to have experienced a SICR.

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

Definition of default (movement to stage 3)

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

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

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

Forward-looking macroeconomic scenarios

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

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

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

The Group sources economic forecast information from an appropriately qualified third party when determining scenarios. The Group considers four probability-weighted scenarios, base, upside, downside and severe downside scenarios.

The base case is also utilised within the Group's impairment forecasting process which in turn feeds the wider business planning processes. The ECL models are also used to set the Group's credit risk appetite thresholds and limits.

Period over which ECL is measured

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

Purchased or originated credit impaired (POCI)

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

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

Intercompany loans

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

Other financial assets

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

Share repurchase

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

q) Loans and advances to customers

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

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

Loans and advances to customers over which the Group transfers its rights to the collateral thereon to the BoE under the Term Funding Scheme with additional incentives for SMEs (TFSME) are not derecognised from the Consolidated Statement of Financial Position, as the Group retains substantially all the risks and rewards of ownership, including all cash flows arising from the loans and advances and exposure to credit risk. The Group classifies TFSME as amortised cost under IFRS 9 Financial Instruments.

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

Loans and advances to customers contain the Group's asset finance lease lending. Finance leases are initially measured at an amount equal to the net investment in the lease, using the interest rate implicit in the finance lease. Direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term. Finance income is recognised over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.

r) Investment securities

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

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

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

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

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 TFSME, asset-backed loan notes issued through the Group's securitisation programmes and subordinated liabilities. Subordinated liabilities include the Sterling PSBs where the terms allow no absolute discretion over the payment of interest. These financial liabilities are initially measured at fair value less direct transaction costs, and subsequently held at amortised cost using the EIR method.

Cash received under the TFSME 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) to manage its exposure to interest rate risk. In accordance with the Group Market and Liquidity Risk Policy, the Group does not hold or issue derivative financial instruments for proprietary trading.

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

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

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, hedge relationships are clearly documented and derivatives must be expected to be highly effective in offsetting the hedged risks. In addition, effectiveness must be tested throughout the life of the hedge relationship. This applies to all derivatives including SONIA-linked derivatives entered into to replace LIBOR-linked derivatives, as a result of IBOR reforms during 2021.

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

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

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

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

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

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

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 two banking entities defaulting. The CVA reflects the Group's risk of the counterparty's default.

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

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

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

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.

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 increase within the share-based payment reserve is reclassified to retained earnings upon exercise.

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

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

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

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

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

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

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

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

bb) Adoption of new standards**International financial reporting standards issued and adopted for the first time in the year ended 31 December 2022**

There were a number of minor amendments to financial reporting standards that are effective for the current year. There has been no material impact on the financial statements of the Group from the adoption of these financial reporting standard amendments and interpretations.

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

Certain amendments to accounting standards and interpretations that were not effective on 31 December 2022 have not been early adopted by the Group. The adoption of these amendments are not expected to have a material impact on the financial statements of the Group in future periods.

2. Judgements in applying accounting policies and critical accounting estimates

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

As set out in the Task Force on Climate-related Financial Disclosures (TCFD) report on page 100, climate change is a global challenge and an emerging risk to businesses, people and the environment. Therefore, in preparing the financial statements, the Group has considered the impact of climate-related risks on its financial position and performance, including the impact on ECL and redemption profiles included in EIR. While the effects of climate change represent a source of uncertainty, the Group does not consider there to be a material impact on its judgements and estimates from the physical or transition risks in the short term. Accordingly, there is no significant risk of material adjustment to the carrying amount of assets and liabilities within the next financial year as a result of climate change. As set out on page 71, whilst not material, the Group has recognised a post model adjustment (PMA) within the ECL provision of £4.4m in relation to climate change.

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

Judgements

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

(i) Loan book impairments**Significant increase in credit risk for classification in stage 2**

The Group's SICR rules considers changes in default risk, internal impairment measures, changes in customer credit bureau files, or whether forbearance measures had been applied. As the COVID-19 payment deferrals initiative has ceased, newly granted payment holidays are considered a SICR event.

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

(ii) IFRS 9 classification

Application of the 'business model' requirements under IFRS 9 requires the Group to conclude on the business models that it operates and is a fundamental aspect in determining the classification of the Group's financial assets.

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

The Group considers whether the contractual terms of a financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding when applying the classification criteria of IFRS 9. The majority of the Group's assets being loans and advances to customers which have been accounted for under amortised cost with the exception of one acquired mortgage book of £14.6m (2021: £17.7m) that is recognised at FVTPL.

Estimates

The Group has made the following estimates in the application of the accounting policies that have a significant risk of material adjustment to the carrying amount of assets and liabilities within the next financial year:

(i) Loan book impairments

Set out below are details of the critical accounting estimates which underpin loan impairment calculations. Less significant estimates are not discussed as they do not have a material effect. The Group has recognised total impairments of £130.0m (2021: £101.5m) at the reporting date as disclosed in note 23.

Modelled impairment

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

Notes to the Consolidated Financial Statements continued

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

Loss given default model

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

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

The Group's forecasts of HPI movements used in the impairment models are disclosed in the Risk profile performance review on page 71.

Forward-looking macroeconomic scenarios

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

The Company has adopted an approach which utilises four macroeconomic scenarios. These scenarios are provided by an industry leading economics advisory firm, that provide management and the Board with advice on which scenarios to utilise and the probability weightings to attach to each scenario. A base case forecast is provided, together with a plausible upside scenario. Two downside scenarios are also provided (downside and a severe downside). The Group's macroeconomic scenarios can be found in the Credit Risk section of the Risk profile performance overview on page 71.

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-22	Weighted (see note 23)	100% Base case scenario	100% Upside scenario	100% Downside scenario	100% Severe downside scenario
Total loans before provisions, £m	23,728.1	23,728.1	23,728.1	23,728.1	23,728.1
Modelled ECL, £m	54.4	41.7	32.8	79.3	120.0
Non-modelled ECL, £m	75.6	75.6	75.6	75.6	75.6
Total ECL, £m	130.0	117.3	108.4	154.9	195.6
ECL coverage, %	0.55	0.49	0.46	0.65	0.82

As at 31-Dec-21					
Total loans before provisions, £m	21,164.1	21,164.1	21,164.1	21,164.1	21,164.1
Modelled ECL, £m	48.3	26.5	13.1	74.0	120.3
Non-modelled ECL, £m	53.2	53.2	53.2	53.2	53.2
Total ECL, £m	101.5	79.7	66.3	127.2	173.5
ECL coverage, %	0.48	0.38	0.31	0.60	0.82

(ii) Effective interest rate on lending

Estimates are made when calculating the EIR for newly-originated loan assets. These include the likely customer redemption profiles. Mortgage products offered by the Group include directly attributable net fee income and a period on reversion rates after the fixed/ discount period. Products revert to the standard variable rate (SVR) or Base rate plus a margin for the Kent Reliance brand or a SONIA/Base rate plus a margin for the Precise brand. Subsequent to origination, changes in actual and expected customer prepayment rates are reflected as increases or decreases in the carrying value of loan assets with a corresponding increase or decrease in interest income. The Group uses historical customer behaviours, expected take-up rate of retention products and macroeconomic forecasts in its assessment of expected prepayment rates. Customer prepayments in a fixed rate or incentive period can give rise to Early Repayment Charge (ERC) income.

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

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

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

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

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

3. Interest receivable and similar income

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

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

4. Interest payable and similar charges

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

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

Notes to the Consolidated Financial Statements continued

5. Fair value gains on financial instruments

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

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

6. Gain on sales of financial instruments

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

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

7. Other operating income

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

8. Administrative expenses

	2022 £m	2021 £m
Staff costs	109.3	92.5
Facilities costs	6.4	6.0
Marketing costs	4.5	4.0
Support costs	31.2	25.3
Professional fees	30.2	16.9
Other costs	12.8	7.3
Depreciation (see note 29)	5.2	5.0
Amortisation (see note 30)	8.2	9.5
	207.8	166.5

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

	2022 £'000	2021 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	75	68
Fees payable to the Company's auditor for the audit of the accounts of subsidiaries	3,340	2,330
Total audit fees	3,415	2,398
Audit-related assurance services ¹	254	258
Other assurance services ²	259	121
Other non-audit services ³	33	240
Total non-audit fees	546	619
Total fees payable to the Company's auditor	3,961	3,017

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

Staff costs comprise the following:

	2022 £m	2021 £m
Salaries, incentive pay and other benefits	87.3	72.9
Share-based payments	8.1	6.7
Social security costs	9.5	7.7
Other pension costs	4.4	5.2
	109.3	92.5

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

	2022	2021
UK	1,274	1,220
India	622	535
	1,896	1,755

9. Impairment of intangible assets

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

10. Directors' emoluments and transactions

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

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

In addition to the total Directors' emoluments above, the Executive Directors were granted deferred bonuses of £642k (2021: £633k) in the form of shares. DSBP awards granted from April 2021 have a holding period of three to seven years with no further conditions attached other than standard clawback situations. In March 2020 and prior years, the DSBP awards were subject to either a three or five year vesting period with conditions attached, notably if the Director leaves prior to vesting, the award is forfeited unless a good leaver reason applies such as redundancy, retirement or ill-health.

The Executive Directors received a further share award under the Performance Share Plan (PSP) with a grant date fair value of £1,516k (2021: £1,458k) using a share price of £5.58 (2021: £4.94) (the mid-market quotation on the day preceding the date of grant). These shares vest annually from year three in tranches of 20 per cent, subject to performance conditions discussed in note 11 and the Annual Report on Remuneration.

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

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

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

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

Notes to the Consolidated Financial Statements continued

11. Share-based payments

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

Deferred Share Bonus Plan

The DSBP applies to Executive Directors and certain senior managers with 50% of their performance bonuses to be deferred in shares for three to seven years for Executive Directors and one year for senior managers. There are no further performance or vesting conditions attached to deferred awards for senior managers, which also applies to Executive Directors for awards granted from April 2021; the share awards are subject to clawback provisions. The DSBP awards are expensed in the year services are received with a corresponding increase in equity. Awards granted to Executive Directors in March 2020 and prior, are subject to vesting conditions and are expensed over the vesting period.

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

Performance Share Plan

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

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

The share-based expense for the year includes a charge in respect of the Sharesave Scheme, DSBP and PSP. All charges are included in employee expenses within note 8 Administrative expenses.

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

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

Movements in the number of share awards and their weighted average exercise prices are set out below:

	Sharesave Scheme		Deferred Share Bonus Plan	Performance Share Plan
	Number	Weighted average exercise price, £	Number	Number
At 1 January 2022	2,421,260	2.65	797,116	5,225,080
Granted	596,692	4.29	478,901	1,761,174
Exercised/Vested	(624,664)	2.67	(511,034)	(1,181,949)
Forfeited	(245,316)	2.82	(1,593)	(413,036)
At 31 December 2022	2,147,972	3.08	763,390	5,391,269
Exercisable at:				
31 December 2022	35,015	2.85	–	–

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

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

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

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

Sharesave Scheme

	2022	2021	2020	2019	2018	2017
Contractual life, years	3	3	3	5	3	5
Share price at issue, £	4.20	5.13	2.86	2.86	3.32	3.32
Exercise price, £	4.29	3.96	2.29	2.29	2.65	2.65
Expected volatility, %	31.4	37.9	57.6	57.6	31.9	31.9
Dividend yield, %	7.3	4.5	3.3	3.3	4.8	4.8
Grant date fair value, £	0.68	1.46	1.22	1.34	0.90	0.91

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

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

Deferred Share Bonus Plan

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

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

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

Notes to the Consolidated Financial Statements continued

11. Share-based payments continued

Performance Share Plan

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

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

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

The fair value of an option that is subject to market conditions (the relative share price element of the PSP) is determined at grant date using a Monte Carlo model at the time of grant.

The inputs into the models are as follows:

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

12. Integration costs

	2022 £m	2021 £m
Consultant fees	4.9	2.2
Staff costs	3.0	2.2
Impairment	–	0.6
	7.9	5.0

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

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

Impairment relates to a property sold during 2021.

13. Exceptional items

	2022 £m	2021 £m
Consultant fees	–	–
Legal and professional fees	–	0.2
	–	0.2

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

14. Taxation

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

	2022 £m	2021 £m
Corporation tax – current year	141.4	128.0
Corporation tax – prior year	(0.9)	–
Deferred tax – current year	(1.2)	(0.2)
Deferred tax – prior year	(0.3)	–
Release of deferred tax on CCFS Combination ¹	(17.5)	(8.5)
Total tax charge	121.5	119.3

1. Release of deferred tax on CCFS Combination relates to the unwind of the deferred tax liabilities recognised on the fair value adjustments of the CCFS assets and liabilities at the acquisition date £(12.8)m (2021: £(14.1)m) and the impact of the bank surcharge decrease on these deferred tax liabilities £(4.7)m (2021: the impact of the corporation tax rate increase £5.6m).

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

	2022 £m	2021 £m
Profit before taxation	531.5	464.6
Profit multiplied by the standard rate of UK Corporation Tax (19%)	101.0	88.3
Bank surcharge ¹	30.2	27.7
Taxation effects of:		
Expenses not deductible for taxation purposes	0.5	0.7
Securitisation profits not taxable	(2.2)	–
Impact of deferred tax rate change ²	(5.1)	5.2
Adjustments in respect of earlier years	(1.2)	–
Tax adjustments in respect of share-based payments	–	1.2
Tax on coupon paid on AT1 securities	(1.7)	–
Tax on coupon paid on non-controlling interest securities	–	(2.5)
Timing differences on capital items	–	(1.3)
Total tax charge	121.5	119.3

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

Factors affecting tax charge for the year

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

The £(4.7)m credit (2021: £5.2m charge) impact of the deferred tax rate change relates predominantly to the deferred tax liability from the CCFS combination (see note 28 and 38).

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

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

Factors that may affect future tax charges

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

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

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

15. Earnings per share

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

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

	2022 £m	2021 £m
Statutory profit after tax	410.0	345.3
Less: Coupon on non-controlling interest securities classified as equity	–	(4.7)
Less: Coupon on AT1 securities classified as equity	(9.0)	–
Statutory profit attributable to ordinary shareholders	401.0	340.6

Notes to the Consolidated Financial Statements continued

15. Earnings per share continued

	2022	2021
Weighted average number of shares, millions		
Basic	441.5	448.1
Dilutive impact of share-based payment schemes	5.1	4.6
Diluted	446.6	452.7
Earnings per share, pence per share		
Basic	90.8	76.0
Diluted	89.8	75.2

16. Dividends

	2022		2021	
	£m	Pence per share	£m	Pence per share
Final dividend for the prior year	94.8	21.1	64.8	14.5
Interim dividend for the current year	38.3	8.7	21.9	4.9
	133.1		86.7	

The Directors recommend a final dividend of £93.7m, 21.8 pence per share (2021: £94.8m, 21.1 pence per share) payable on 17 May 2023 with an ex-dividend date of 23 March 2023 and a record date of 24 March 2023. This dividend is not reflected in these financial statements as subject to approval by shareholders at the AGM on 11 May 2023.

The Directors have also announced a special dividend of £50.3m, 11.7 pence per share (2021: nil) payable on 17 May 2023 with an ex-dividend date of 23 March 2023 and a record date of 24 March 2023.

If the final dividend is approved, this will make up the total dividend for 2022 of £182.0m, 42.2 pence per share (2021: £116.6m, 26.0 pence per share).

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

	2022 £m	2021 £m
Retained earnings	1,359.3	1,358.4
Own shares ¹	(2.2)	(3.5)
Distributable reserves	1,357.1	1,354.9

1. Own Shares comprises own shares held in the Group's EBT of £2.2m (2021: £3.5m) which are recognised within OSBG under look-through accounting.

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

17. Cash and cash equivalents

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

	2022 £m	2021 £m
Cash in hand	0.4	0.5
Unencumbered loans and advances to credit institutions	2,953.7	2,636.2
Investment securities	90.0	100.0
	3,044.1	2,736.7

18. Loans and advances to credit institutions

	2022 £m	2021 £m
Unencumbered:		
BoE call account	2,806.5	2,496.4
Call accounts	73.2	43.3
Cash held in special purpose vehicles (SPVs) ¹	63.8	89.6
Term deposits	10.2	6.9
Encumbered:		
BoE cash ratio deposit	62.8	59.5
Cash held in SPVs ¹	111.8	48.0
Cash margin given	237.4	99.9
	3,365.7	2,843.6

1. Cash held in SPVs is ring-fenced for use in managing the Group's securitised debt facilities under the terms of securitisation agreements. Cash held in SPVs is treated as unencumbered in proportion to the retained interest in the SPV based on the nominal value of the bonds held by the Group to total bonds in the securitisation, and included in cash and cash equivalents. Cash retained in SPVs designated as cash reserve credit enhancement is treated as encumbered in proportion to the external holdings in the SPV and excluded from cash and cash equivalents.

19. Investment securities

	2022 £m	2021 £m
Held at amortised cost:		
UK Sovereign debt	–	100.0
RMBS loan notes	262.6	223.1
	262.6	323.1
Less: Expected credit losses	–	–
	262.6	323.1
Held at FVOCI:		
UK Sovereign debt ¹	149.8	152.1
RMBS loan notes	–	15.5
	149.8	167.6
Held at FVTPL:		
RMBS loan notes	0.5	0.7
	0.5	0.7
	412.9	491.4

1. Includes £90.0m of UK Treasury bills which had a maturity of less than three months from date of acquisition (2021: nil).

At 31 December 2022, the Group had no RMBS held at FVOCI or FVTPL (2021: nil) and £11.5m of RMBS held at amortised cost (2021: £119.5m) sold under repos.

The Directors consider that the primary purpose of holding investment securities is prudential. These securities are held as liquid assets with the intention of use on a continuing basis in the Group's activities and are classified as amortised cost, FVOCI and FVTPL in accordance with the Group's business model for each security.

The credit risk on investment securities held at amortised cost has not significantly increased since initial recognition and they are categorised as stage 1. The ECLs are less than £0.1m.

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

	2022 £m	2021 £m
At 1 January	491.4	471.2
Additions ¹	686.5	568.2
Disposals and maturities ²	(764.4)	(549.7)
Movement in accrued interest	(0.9)	0.6
Changes in fair value	0.3	1.1
At 31 December	412.9	491.4

1. Additions include £90.0m of UK Treasury bills which had a maturity of less than three months from date of acquisition (2021: £100.0m).
2. Disposals and maturities include £100.0m of UK Treasury bills which had a maturity of less than three months from date of acquisition (2021: nil).

At 31 December 2022, investment securities included investments in unconsolidated structured entities (see note 45) of £100.7m notes in PMF 2020-1B (2021: £100.7m notes in PMF 2020-1B and £21.0m notes in PMF 2017-1B). The investments represent the maximum exposure to loss from unconsolidated structured entities.

Notes to the Consolidated Financial Statements continued

20. Loans and advances to customers

	2022 £m	2021 £m
Held at amortised cost:		
Loans and advances (see note 21)	23,564.9	21,047.9
Finance leases (see note 22)	163.2	116.2
	23,728.1	21,164.1
Less: Expected credit losses (see note 23)	(130.0)	(101.5)
	23,598.1	21,062.6
Held at FVTPL:		
Residential mortgages	14.6	17.7
	23,612.7	21,080.3

21. Loans and advances

	2022			2021		
	OSB £m	CCFS £m	Total £m	OSB £m	CCFS £m	Total £m
Gross carrying amount						
Stage 1	10,188.4	8,375.5	18,563.9	10,393.2	7,685.7	18,078.9
Stage 2 ¹	2,508.9	1,907.4	4,416.3	1,142.3	1,269.8	2,412.1
Stage 3	345.7	156.0	501.7	360.4	99.1	459.5
Stage 3 (POCI)	38.5	44.5	83.0	45.2	52.2	97.4
	13,081.5	10,483.4	23,564.9	11,941.1	9,106.8	21,047.9

1. For further detail relating to movements by stage see the Risk review on pages 52-75.

The mortgage loan balances pledged as collateral for liabilities are:

	2022 £m	2021 £m
BoE under TFSME and Indexed Long-Term Repo (ILTR)	6,439.7	5,887.2
Securitisation	265.4	486.5
	6,705.1	6,373.7

The Group's securitisation programmes and use of TFSME and ILTR result in certain assets being encumbered as collateral against such funding. As at 31 December 2022, the percentage of the Group's gross loans and advances to customers that are encumbered was 28% (2021: 30%).

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2021	16,060.3	2,689.6	392.6	114.6	19,257.1
Originations ¹	4,523.4	–	–	–	4,523.4
Acquisitions ²	277.7	–	–	2.7	280.4
Disposals ²	(214.4)	–	–	–	(214.4)
Repayments and write-offs ³	(2,539.8)	(160.3)	(78.6)	(19.9)	(2,798.6)
Transfers:					
– To Stage 1	1,401.0	(1,370.2)	(30.8)	–	–
– To Stage 2	(1,339.7)	1,384.1	(44.4)	–	–
– To Stage 3	(89.6)	(131.1)	220.7	–	–
At 31 December 2021	18,078.9	2,412.1	459.5	97.4	21,047.9
Originations ¹	5,829.6	–	–	–	5,829.6
Repayments and write-offs ³	(2,855.3)	(353.6)	(89.3)	(14.4)	(3,312.6)
Transfers:					
– To Stage 1	1,121.6	(1,098.0)	(23.6)	–	–
– To Stage 2 ⁴	(3,524.0)	3,574.6	(50.6)	–	–
– To Stage 3	(86.9)	(118.8)	205.7	–	–
At 31 December 2022	18,563.9	4,416.3	501.7	83.0	23,564.9

1. Originations include further advances and drawdowns on existing commitments.
2. The Group acted as co-arranger in the re-securitisation of £229.6m of third party mortgages from the Rochester Financing No.2 PLC securitisation to the new Rochester Financing No.3 PLC securitisation on 15 June 2021. Neither securitisation is a subsidiary of the Group. Under the terms of the mortgage sale agreements, the Group recognised the mortgages as a purchase from Rochester Financing No.2 PLC and immediately derecognised them as a sale to Rochester Financing No.3 PLC. OneSavings Bank plc is the master servicer of the mortgages, and has retained 5% of these mortgages, as required under the retention rules. In addition to the Group acting as co-arranger for the re-securitisation of Rochester Financing No.2 PLC, the Group purchased an external mortgage book, a c. £55m portfolio of UK residential mortgages, at a discount to the then current balances.
3. Repayments and write-offs include customer redemptions and write-offs which are immaterial.
4. For further details relating to movements by stage see Risk review on pages 52-75.

The contractual amount outstanding on loans and advances that were written off during the reporting period and are still subject to collections and recovery activity is £0.8m at 31 December 2022 (2021: £1.5m).

As at 31 December 2022, £110.0m of loans and advances (2021: £97.4m) are in a probation period before they can move out of Stage 3, see note 1 p) for further details.

22. Finance leases

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

	2022 £m	2021 £m
Gross investment in finance leases, receivable		
Less than one year	60.7	39.7
Between one and two years	49.5	27.7
Between two and three years	36.0	27.5
Between three and four years	23.4	17.2
Between four and five years	9.9	14.6
More than five years	1.3	0.9
	180.8	127.6
Unearned finance income	(17.6)	(11.4)
Net investment in finance leases	163.2	116.2
Net investment in finance leases, receivable		
Less than one year	52.4	34.7
Between one and two years	44.4	26.0
Between two and three years	33.2	25.5
Between three and four years	22.3	15.8
Between four and five years	9.6	13.3
More than five years	1.3	0.9
	163.2	116.2

The Group has recognised £4.8m of ECLs on finance leases as at 31 December 2022 (2021: £4.3m).

Notes to the Consolidated Financial Statements continued

23. Expected credit losses

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

Scenarios	2022			2021		
	ECL provision £m	Weighting %	Weighted ECL provision £m	ECL provision £m	Weighting %	Weighted ECL provision £m
Upside	32.8	30	9.8	13.1	20	2.6
Base case	41.7	40	16.7	26.5	40	10.6
Downside scenario	79.3	20	15.9	74.0	28	20.7
Severe downside scenario	120.0	10	12.0	120.3	12	14.4
Total weighted provisions			54.4			48.3
Non-modelled provisions:						
Individually assessed provisions			45.8			40.4
Post model adjustments			29.8			12.8
Total provision			130.0			101.5

The Group reflected on the ongoing appropriateness of probabilities attached to the suite of IFRS 9 scenarios as the macroeconomic outlook evolved throughout the year. Scenarios were adjusted to a symmetrical probability, where the upside and downside scenarios carry equal weightings, as a result of separate post-model adjustments being raised to ensure that the current IFRS 9 framework adequately provisioned for the underlying portfolio risk.

As at 31 December 2022, the Group identified increases in credit risk due to the cost of living and cost of borrowing stresses caused by high inflation and increases in interest rates. As a result, the Group held an additional £16.0m of ECL in PMA for risks not sufficiently accounted for in the IFRS 9 framework (£7.3m for cost of living and £8.7m for cost of borrowing) as at 31 December 2022. The approach to identify the PMA for the cost of living is an increase in PD through analysing the effect of the increases in living costs, such as house hold bills and groceries, on affordability, which is used to increase the default risk to all customers, with those on lower income more impacted. The cost of borrowing PMA specifically identified those that are more at risk of default due to reverting onto variable rate in the near future, causing a payment increase and higher affordability risk, which is used both to apply an additional significant increase in credit risk SICR and stage 2 criteria and in some cases a higher default risk.

The Group continued to observe an elongated time to sale, which was in excess of modelled expectations and observations prior to the pandemic which accounted for an additional £8.7m as a PMA as at 31 December 2022. Whilst the Group expects the process delays to reduce in time, a PMA was held to reflect an extended time to sale in line with most recent observations for those in default.

As part of the Group's appreciation of climate risk and overall ESG agenda, the Group recognises that properties with lower energy efficiency are likely to require investment to reach minimum energy efficiency standards in the future. As a result, to reflect the expected transition risk and physical risks of climate change, the Group held £4.4m of PMA as at 31 December 2022.

To reflect the ongoing cladding concerns, the Group identified a valuation risk to a small number of properties and accounted for a further sale discount for these properties by a PMA of £0.7m as at 31 December 2022.

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

	2022			2021		
	OSB £m	CCFS £m	Total £m	OSB £m	CCFS £m	Total £m
Stage 1	5.9	1.3	7.2	9.3	2.8	12.1
Stage 2	35.3	15.6	50.9	14.2	10.8	25.0
Stage 3	60.5	7.8	68.3	56.6	3.8	60.4
Stage 3 (POCI)	1.5	2.1	3.6	2.1	1.9	4.0
	103.2	26.8	130.0	82.2	19.3	101.5

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2021	21.2	31.0	51.7	7.1	111.0
Originations	5.7	–	–	–	5.7
Acquisitions	0.1	–	–	0.1	0.2
Repayments and write-offs	(2.8)	(3.3)	(7.4)	(1.1)	(14.6)
Re-measurement of loss allowance	(21.8)	(0.8)	12.8	(2.1)	(11.9)
Transfers:					
– To Stage 1	11.3	(10.5)	(0.8)	–	–
– To Stage 2	(2.3)	5.1	(2.8)	–	–
– To Stage 3	(0.3)	(3.1)	3.4	–	–
Changes in assumptions and model parameters	1.0	6.6	3.5	–	11.1
At 31 December 2021	12.1	25.0	60.4	4.0	101.5
Originations	6.9	–	–	–	6.9
Repayments and write-offs	(1.3)	(3.0)	(6.9)	(0.3)	(11.5)
Re-measurement of loss allowance	(15.1)	26.4	17.5	(0.7)	28.1
Transfers:					
– To Stage 1	10.0	(9.2)	(0.8)	–	–
– To Stage 2	(2.0)	3.9	(1.9)	–	–
– To Stage 3	(0.1)	(2.1)	2.2	–	–
Changes in assumptions and model parameters	(3.3)	9.9	(2.2)	0.6	5.0
At 31 December 2022	7.2	50.9	68.3	3.6	130.0

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

	2022			2021		
	Carrying value £m	ECL £m	Coverage %	Carrying value £m	ECL £m	Coverage %
Criteria:						
Relative PD movement	3,090.2	42.9	1.39	1,251.6	17.1	1.37
Qualitative measures	1,277.6	7.5	0.59	1,125.0	7.4	0.66
30 days past due backstop	49.3	0.5	1.01	37.0	0.5	1.35
Total	4,417.1	50.9	1.15	2,413.6	25.0	1.04

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.

24. Impairment of financial assets

The charge/(credit) for impairment of financial assets in the Consolidated Statement of Comprehensive Income comprises:

	2022 £m	2021 £m
Write-offs in year	2.1	6.7
Increase/(decrease) in ECL provision	27.7	(11.1)
	29.8	(4.4)

Notes to the Consolidated Financial Statements continued

25. 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 2022					
Derivative assets:					
Interest rate risk hedging	888.1	888.1	(104.9)	(545.7)	237.5
Derivative liabilities:					
Interest rate risk hedging	(106.6)	(106.6)	104.9	206.9	205.2
At 31 December 2021					
Derivative assets:					
Interest rate risk hedging	185.7	185.7	(16.9)	(115.3)	53.5
Derivative liabilities:					
Interest rate risk hedging	(19.7)	(19.7)	16.9	98.3	95.5

Derivative assets and liabilities include an initial margin of £198.6m with swap counterparties.

Included within the Group's derivative assets is £203.4m (2021: £48.7m) relating to derivative contracts not covered by master netting agreements on which no cash collateral has been paid.

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

	Total nominal £m	Less than 3 months £m	3 – 12 months £m	1 – 5 years £m	More than 5 years £m
At 31 December 2022					
Derivative assets	15,662.6	464.8	3,400.3	11,590.5	207.0
Derivative liabilities	9,518.0	1,503.0	6,001.0	1,789.0	225.0
	25,180.6	1,967.8	9,401.3	13,379.5	432.0
At 31 December 2021					
Derivative assets	12,968.3	245.2	2,345.4	10,235.7	142.0
Derivative liabilities	7,378.0	1,361.0	4,747.0	1,150.0	120.0
	20,346.3	1,606.2	7,092.4	11,385.7	262.0

The Group has 916 (2021: 841) derivative contracts with an average fixed rate of 1.34% (2021: 0.34%).

26. Hedge accounting

	2022 £m	2021 £m
Hedged assets		
Current hedge relationships	(827.9)	(190.9)
Swap inception adjustment	44.1	(26.2)
Cancelled hedge relationships	(5.2)	78.2
Fair value adjustments on hedged assets	(789.0)	(138.9)
Hedged liabilities		
Current hedge relationships	58.0	19.6
Swap inception adjustment	(2.3)	3.3
Cancelled hedge relationships	(0.6)	(1.4)
De-designated hedge relationships	–	(1.8)
Fair value adjustments on hedged liabilities	55.1	19.7

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

De-designated hedge relationships relates to hedge accounting adjustments on failed hedge accounting relationships. These adjustments are amortised over the remaining lives of the original hedged items.

Cancelled hedge relationships predominantly represent the unamortised fair value adjustment for interest rate risk hedges that have been cancelled and replaced due to securitisation activities, legacy long-term fixed rate mortgages (c. 25 years at origination) and during 2021 IBOR transition.

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

	2022		2021	
	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	14,493.8	14,667.7	12,364.3	12,550.2
Cumulative fair value adjustments of hedged item/fair value of hedging instrument	(827.9)	833.2	(190.9)	187.4
Changes in the fair value adjustment of hedged item/hedging instrument used for recognising the hedge ineffectiveness for the period	(620.6)	621.9	(297.8)	298.9
Cumulative fair value on cancelled hedge relationships	(5.2)	–	78.2	–

In the Consolidated Statement of Financial Position, £854.3m (2021: £187.7m) of hedging instruments were recognised within derivative assets; and £21.1m (2021: £0.3m) within derivative liabilities.

The movement in cancelled hedge relationships is as follows:

	2022 £m	2021 £m
Hedged assets		
At 1 January	78.2	84.6
New cancellations ¹	(49.3)	33.5
Amortisation	(34.1)	(39.9)
At 31 December	(5.2)	78.2

1. Following the securitisation of mortgages during the year and LIBOR swaps transferred to SONIA swaps through the IBOR transition during 2021, the Group cancelled swaps which were effective prior to the event, with the designated hedge moved to cancelled hedge relationships to be amortised over the original life of the swap.

Notes to the Consolidated Financial Statements continued

26. Hedge accounting continued

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

	2022		2021	
	Hedged item £m	Hedging instrument £m	Hedged item £m	Hedging instrument £m
Customer deposits				
Carrying amount of hedged item/nominal value of hedging instrument	9,167.3	9,180.0	6,386.0	6,390.0
Cumulative fair value adjustments of hedged item/fair value of hedging instrument	58.0	(67.9)	19.6	(18.5)
Changes in the fair value adjustment of hedged item/hedging instrument used for recognising the hedge ineffectiveness for the period	33.0	(42.4)	27.4	(26.1)

In the Consolidated Statement of Financial Position, £2.4m (2021: £0.3m) of hedging instruments were recognised within derivative assets; and £70.3m (2021: £18.8m) within derivative liabilities.

27. Other assets

	2022 £m	2021 £m
Falling due within one year:		
Prepayments	7.8	7.1
Other assets	1.8	0.9
Falling due more than one year:		
Prepayments	5.4	2.2
	15.0	10.2

28. Deferred taxation asset

	Losses carried forward £m	Accelerated depreciation £m	Share-based payments £m	IFRS 9 transitional adjustments £m	Others ¹ £m	Total £m
At 1 January 2021	0.9	0.4	3.1	0.7	(0.4)	4.7
Profit or loss (charge)/credit	(0.4)	0.1	1.7	–	(1.2)	0.2
Transferred to corporation tax liability	–	–	(1.4)	–	–	(1.4)
Tax taken directly to OCI	–	–	–	–	0.5	0.5
Tax taken directly to equity	–	–	1.6	–	–	1.6
At 31 December 2021	0.5	0.5	5.0	0.7	(1.1)	5.6
Profit or loss (charge)/credit ²	–	(0.5)	0.5	(0.1)	1.6	1.5
Tax taken directly to OCI	–	–	–	–	0.1	0.1
Tax taken directly to equity	–	–	(0.9)	–	–	(0.9)
At 31 December 2022	0.5	–	4.6	0.6	0.6	6.3

1. Others includes deferred taxation assets recognised on financial assets classified as FVOCI, derivatives and short-term timing differences.

2. Includes £0.3m in respect of prior year deferred tax.

In 2022, the profit or loss credit for deferred tax includes a credit of £0.2m from the corporation tax rate change (2021: credit of £0.4m).

As at 31 December 2022, the Group had £3.5m (2021: £3.5m) of losses for which a deferred tax asset has not been recognised as the Group does not expect sufficient future profits to be available to utilise the losses.

As at 31 December 2022 deferred tax assets of £2.3m (2021: £3.0m) of are expected to be utilised within 12 months and £4.0m (2021: £2.6m) utilised after 12 months.

29. 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 2021	19.2	3.0	13.8	13.1	1.3	50.4
Additions ¹	–	–	2.6	0.6	0.1	3.3
Disposals and write-offs ²	(2.8)	(0.1)	(1.3)	(0.5)	(0.2)	(4.9)
Foreign exchange difference	0.1	–	0.1	–	–	0.2
At 31 December 2021	16.5	2.9	15.2	13.2	1.2	49.0
Additions¹	3.5	0.1	2.9	0.9	3.5	10.9
Disposals and write-offs²	–	–	(1.7)	(0.3)	(0.1)	(2.1)
Foreign exchange difference	–	–	0.1	–	–	0.1
At 31 December 2022	20.0	3.0	16.5	13.8	4.6	57.9
Depreciation						
At 1 January 2021	1.4	0.9	6.0	2.6	0.3	11.2
Charged in year ³	0.9	0.2	2.9	1.5	0.1	5.6
Disposals and write-offs ²	(0.8)	(0.1)	(1.3)	(0.5)	(0.2)	(2.9)
At 31 December 2021	1.5	1.0	7.6	3.6	0.2	13.9
Charged in year	0.2	0.2	3.0	1.6	0.2	5.2
Disposals and write-offs²	–	–	(1.7)	(0.3)	(0.1)	(2.1)
At 31 December 2022	1.7	1.2	8.9	4.9	0.3	17.0
Net book value						
At 31 December 2022	18.3	1.8	7.6	8.9	4.3	40.9
At 31 December 2021	15.0	1.9	7.6	9.6	1.0	35.1

1. Additions include property leases modifications of £0.5m (2021: £0.4m) of right of use assets.

2. In 2022, the Group wrote off fully depreciated assets of £2.1m. During 2021 the Group disposed of a property for proceeds of £2.0m and wrote off fully depreciated assets of £2.9m.

3. 2021 includes £0.6m of impairment on property sold during the year which is included in note 12 Integration costs.

Notes to the Consolidated Financial Statements continued

30. Intangible assets

	Development costs £m	Computer software and licences £m	Assets arising on Combination ² £m	Total £m
Cost				
At 1 January 2021	2.3	16.7	23.6	42.6
Additions	1.4	2.8	–	4.2
Disposals and write-offs ¹	–	(3.5)	(0.2)	(3.7)
At 31 December 2021	3.7	16.0	23.4	43.1
Additions	0.1	1.7	–	1.8
Disposals and write-offs¹	–	(3.6)	(1.9)	(5.5)
At 31 December 2022	3.8	14.1	21.5	39.4
Amortisation				
At 1 January 2021	0.1	9.1	12.8	22.0
Charged in year	0.5	3.2	5.8	9.5
Impairment in the year	–	–	(3.1)	(3.1)
Disposals and write-offs ¹	–	(3.5)	(0.2)	(3.7)
At 31 December 2021	0.6	8.8	15.3	24.7
Charged in year	0.7	3.2	4.3	8.2
Disposals and write-offs¹	–	(3.6)	(1.9)	(5.5)
At 31 December 2022	1.3	8.4	17.7	27.4
Net book value				
At 31 December 2022	2.5	5.7	3.8	12.0
At 31 December 2021	3.1	7.2	8.1	18.4

1. During the year the Group wrote off fully amortised assets.
 2. Assets arising on Combination comprise broker relationships of £2.0m (2021: £5.0m), technology of £0.4m (2021: £1.9m), brand name of £0.3m (2021: £0.8m) and banking licence of nil (2021: £0.4m). The carrying value of the intangible assets are reviewed each reporting period, no impairment reversal (2021: £3.1m impairment reversal) was recognised in relation to broker relationships due to less severe impacts of the COVID-19 pandemic than originally estimated.

The Directors have considered the carrying value of intangible assets and determined that there are no indications of impairment at the year end.

31. Amounts owed to credit institutions

	2022 £m	2021 £m
BoE TFSME	4,232.0	4,203.1
BoE ILTR	300.9	–
Cash collateral and margin received	549.7	115.4
Commercial repo	10.2	0.5
Loans from credit institutions	0.1	0.6
	4,543.2	4,204.2
Cash collateral and margin received	549.7	115.4
	5,092.9	4,319.6

32. Amounts owed to retail depositors

	2022			2021		
	OSB £m	CCFS £m	Total £m	OSB £m	CCFS £m	Total £m
Fixed rate deposits	8,085.9	5,899.6	13,985.5	6,221.7	4,703.4	10,925.1
Variable rate deposits	3,046.3	2,724.0	5,770.3	3,517.7	3,083.6	6,601.3
	11,132.2	8,623.6	19,755.8	9,739.4	7,787.0	17,526.4

33. Amounts owed to other customers

	2022 £m	2021 £m
Fixed rate deposits	100.9	50.3
Variable rate deposits	12.2	42.3
	113.1	92.6

34. Debt securities in issue

	2022 £m	2021 £m
Asset-backed loan notes at amortised cost	265.9	460.3
Amount due for settlement after 12 months	265.9	460.3
	265.9	460.3

The asset-backed loan notes are secured on fixed and variable rate mortgages and are redeemable in part from time to time, but such redemptions are mainly from the net principal received from borrowers in respect of underlying mortgage assets. The maturity date of the funds matches the contractual maturity date of the underlying mortgage assets. The Group expects that a large proportion of the underlying mortgage assets, and therefore these notes, will be repaid within five years.

Where the Group owns the call rights for a transaction, it may repurchase the asset-backed loan notes on any interest payment date on or after the call dates, or on any interest payment date when the current balance of the mortgages outstanding is less than or equal to 10% of the principal amount outstanding on the loan notes on the date they were issued.

Interest is payable at fixed margins above SONIA.

As at 31 December 2022, notes were issued through the following funding vehicles:

	2022 £m	2021 £m
CMF 2020-1 plc	141.8	199.8
Canterbury Finance No.3 plc	21.0	76.9
Canterbury Finance No.4 plc	103.1	183.6
	265.9	460.3

35. Lease liabilities

	2022 £m	2021 £m
At 1 January	10.7	11.7
New leases	0.9	0.7
Lease termination	–	(0.1)
Lease repayments	(1.9)	(1.9)
Interest accruals	0.2	0.3
At 31 December	9.9	10.7

During the year, the Group incurred expenses of £0.3m (2021: £0.2m) in relation to short-term leases.

36. Other liabilities

	2022 £m	2021 £m
Falling due within one year:		
Accruals	28.0	23.2
Deferred income	0.6	0.9
Other creditors	10.1	5.5
	38.7	29.6

Notes to the Consolidated Financial Statements continued

37. Provisions and contingent liabilities

The Financial Services Compensation Scheme (FSCS) provides protection of deposits for the customers of authorised financial services firms, should a firm collapse. FSCS protects retail deposits of up to £85k for single account holders and £170k for joint holders. As OSB and CCFS both hold banking licences, the full FSCS protection is available to customers of each Bank.

The compensation paid out to consumers is initially funded through loans from the BoE and HM Treasury. In order to repay the loans and cover its costs, the FSCS charges levies on firms regulated by the PRA and the Financial Conduct Authority (FCA). The Group is among those firms and pays the FSCS a levy based on its share of total UK deposits.

The Group has reviewed its current exposure to Payment Protection Insurance (PPI) claims, following the FCA deadline for PPI claims on 29 August 2019 and has reduced its provision to less than £0.1m as at 31 December 2022 (2021: £0.3m).

The Group has released its provision for conduct related exposures of £1.2m following completion of an internal review.

An analysis of the Group's FSCS and other provisions is presented below:

	2022				2021			
	FSCS £m	Other regulatory provisions £m	ECL on undrawn loan facilities £m	Total £m	FSCS £m	Other regulatory provisions £m	ECL on undrawn loan facilities £m	Total £m
At 1 January	0.1	1.5	0.4	2.0	0.1	1.5	0.2	1.8
(Credit)/charge	(0.1)	(1.5)	–	(1.6)	–	–	0.2	0.2
At 31 December	–	–	0.4	0.4	0.1	1.5	0.4	2.0

In January 2020, the Group was contacted by the FCA in connection with a multi-firm thematic review into forbearance measures adopted by lenders in respect of a portion of the mortgage market. The Group has responded to information requests from the FCA. It is not possible to reliably predict or estimate the outcome of the review and therefore its financial effect, if any, on the Group.

38. Deferred taxation liability

The deferred tax liability recognised on the Combination relates to the timing differences of the recognition of assets and liabilities at fair value, where the fair values will unwind in future periods in line with the underlying asset or liability. The deferred tax liability has been measured using the relevant rates for the expected periods of utilisation.

	CCFS Combination £m
At 1 January 2021	48.3
Profit or loss credit	(8.5)
At 31 December 2021	39.8
Profit or loss credit	(17.5)
At 31 December 2022	22.3

In 2022, the profit or loss credit includes £4.7m impact of the corporation tax rate change (2021: a debit of £5.6m).

As at 31 December 2022 deferred tax liabilities of £5.6m (2021: £17.5m) are expected to be due within 12 months and £16.7m (2021: £22.3m) due after 12 months.

39. Subordinated liabilities

The Group's outstanding subordinated liabilities are summarised below:

	2022 £m	2021 £m
At 1 January	10.3	10.5
Repayment of debt	(10.3)	(0.2)
At 31 December	–	10.3

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

	2022 £m	2021 £m
Linked to LIBOR:		
Floating rate subordinated loans 2022 (LIBOR +2%)	–	0.1
Fixed rate:		
Subordinated liabilities 2024 (7.45%)	–	10.2
	–	10.3

During the year, the fixed rate subordinated liabilities were fully repaid at a premium of £0.7m, which is recognised in interest payable and similar charges.

The LIBOR linked subordinated liabilities were redeemed in September 2022.

40. Perpetual Subordinated Bonds

	2022 £m	2021 £m
Sterling PSBs (4.6007%)	15.2	15.2

The bonds are listed on the London Stock Exchange.

The 4.6007% bonds were issued with no discretion over the payment of interest and may not be settled in the Group's own equity. They are therefore classified as financial liabilities. The coupon rate is 4.6007% until the next reset date on 27 August 2024.

41. Reconciliation of cash flows for financing activities

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

	Restated ¹ Amounts owed to credit institutions (see note 31) £m	Debt securities in issue (see note 34) £m	Subordinated liabilities (see note 39) £m	PSBs (see note 40) £m	Total £m
At 1 January 2021	3,570.2	421.9	10.5	37.6	4,040.2
Cash movements:					
Principal drawdowns ¹	4,747.6	195.6	–	–	4,943.2
Principal repayments	(4,113.7)	(159.5)	(0.2)	(22.0)	(4,295.4)
Interest paid	(4.4)	(1.6)	(0.8)	(1.6)	(8.4)
Non-cash movements:					
Interest charged	4.5	3.9	0.8	1.2	10.4
At 31 December 2021 ¹	4,204.2	460.3	10.3	15.2	4,690.0
Cash movements:					
Principal drawdowns	429.5	–	–	–	429.5
Principal repayments	(120.5)	(193.6)	(10.1)	–	(324.2)
Interest paid	(34.8)	(8.5)	(1.3)	(0.7)	(45.3)
Non-cash movements:					
Interest charged	64.8	7.7	1.1	0.7	74.3
At 31 December 2022	4,543.2	265.9	–	15.2	4,824.3

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

Notes to the Consolidated Financial Statements continued

42. Share capital

Ordinary shares	Number of shares issued and fully paid	Nominal value £m	Premium £m
At 1 January 2021	447,312,780	1,359.8	–
Capital reduction of £3.04 nominal value shares to £0.01 nominal value shares	–	(1,355.3)	–
Shares issued under OSBG employee share plans	1,315,075	–	0.7
At 31 December 2021	448,627,855	4.5	0.7
Shares cancelled under repurchase programme	(20,671,224)	(0.2)	–
Shares issued under OSBG employee share plans	1,911,994	–	1.7
At 31 December 2022	429,868,625	4.3	2.4

The Group's share repurchase programme commenced on 18 March 2022, and allowed the Group to repurchase a maximum of 44,799,505 shares, restricted by a total cost of £100m. The programme completed during the year and 20,671,224 shares, representing 4.6% of the issued share capital, have been repurchased and cancelled at an average price of £4.84 per share and a total cost of £100m excluding transaction costs.

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

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

43. Other reserves

The Group's other reserves are as follows:

	2022 £m	2021 £m
Share-based payment	13.2	13.4
Capital redemption & transfer	(1,355.1)	(1,355.3)
Own shares	(2.2)	(3.5)
FVOCI	0.3	0.6
Foreign exchange	(1.3)	(1.1)
AT1 securities	150.0	150.0
	(1,195.1)	(1,195.9)

Capital redemption and transfer reserve

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

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

Own shares

The Company has adopted the look-through approach for the EBT, including the EBT within the Company. As at 31 December 2022, the EBT held 442,568 OSBG shares (2021: 848,221 OSBG shares). The Group and Company show these shares as a deduction from equity, being the cost at which the shares were acquired of £2.2m (2021: £3.5m).

FVOCI reserve

The FVOCI reserve represents the cumulative net change in the fair value of investment securities measured at FVOCI.

Foreign exchange reserve

The foreign exchange reserve relates to the revaluation of the Group's Indian subsidiary, OSB India Private Limited.

AT1 Securities

On 5 October 2021, OSBG issued AT1 securities. AT1 securities comprise £150.0m of Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities that qualify as AT1 capital under CRD IV. The securities will be subject to full conversion into ordinary shares of OSBG in the event that the Group's Common Equity Tier 1 (CET1) capital ratio falls below 7%. The securities will pay interest at a rate of 6% per annum until the first reset date of 7 April 2027, with the reset interest rate equal to 539.3 basis points over the 5-year Gilt Rate (benchmark gilt) for such a period. Interest is paid semi-annually in April and October. OSBG may, at any time, cancel any interest payment at its full discretion and must cancel interest payments in certain circumstances specified in the terms and conditions of the securities. The securities are perpetual with no fixed redemption date. OSBG may, in its discretion and subject to satisfying certain conditions, redeem all (but not some) of the AT1 securities at the principal amount outstanding plus any accrued but unpaid interest from the first reset date and on any interest payment date thereafter.

44. Financial commitments and guarantees

a) The Group did not have any contracted or anticipated capital expenditure commitments not provided for as at 31 December 2022 (2021: nil).

b) The Group's minimum lease commitments under operating leases not subject to IFRS 16 are summarised in the table below:

	2022 £m	2021 £m
Land and buildings: due within:		
One year	0.3	–
Two to five years	0.3	–
	0.6	–

c) Undrawn loan facilities:

	2022 £m	2021 £m
OSB mortgages	741.6	706.4
CCFS mortgages	455.1	434.5
Asset finance	15.5	14.4
	1,212.2	1,155.3

Undrawn loan facilities are approved loan applications which have not yet been exercised. They are payable on demand and are usually drawn down or expire within three months.

d) The Group did not have any issued financial guarantees as at 31 December 2022 (2021: nil).

45. Risk management

Overview

Financial instruments form the vast majority of the Group's assets and liabilities. The Group manages risk on a consolidated basis and risk disclosures that follow are provided on this basis.

Types of financial instrument

Financial instruments are a broad definition which includes financial assets, financial liabilities and equity instruments. The main financial assets of the Group are loans to customers and liquid assets, which in turn consist of cash in the BoE call accounts, call accounts with other credit institutions, RMBS and UK sovereign debt. These are funded by a combination of financial liabilities and equity instruments. Financial liability funding comes predominantly from retail deposits and drawdowns under the BoE TFSME and ILTR, supported by debt securities, wholesale and other funding. Equity instruments include own shares and AT1 securities meeting the equity classification criteria. The Group's main activity is mortgage lending; it raises funds or invests in particular types of financial assets to meet customer demand and manage the risks arising from its operations. The Group does not trade in financial instruments for speculative purposes.

The Group uses derivative instruments to manage its financial risks. Derivative financial instruments (derivatives) are financial instruments whose value changes in response to changes in underlying variables such as interest rates. The most common derivatives are futures, forwards and swaps. Of these, the Group only uses swaps.

Derivatives are used by the Group solely to reduce (hedge) the risk of loss arising from changes in market rates. Derivatives are not used for speculative purposes.

Types of derivatives and uses

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

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

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

Types of risk

The principal financial risks to which the Group is exposed are credit, liquidity and market risks, the latter comprising interest and exchange rate risk. In addition to financial risks, the Group is exposed to various other risks, most notably operational, conduct and compliance/regulatory, which are covered in the Risk review on pages 52-75.

Notes to the Consolidated Financial Statements continued

45. Risk management continued

Credit risk

Credit risk is the risk that losses may arise as a result of the Group's borrowers or market counterparties failing to meet their obligations to repay.

The Group has adopted the Standardised Approach for assessment of credit risk regulatory capital requirements. This approach considers risk weightings as defined under Basel II and Basel III principles.

The classes of financial instruments to which the Group is most exposed are loans and advances to customers, loans and advances to credit institutions, cash in the BoE call account, call and current accounts with other credit institutions and investment securities. The maximum credit risk exposure equals the total carrying amount of the above categories plus off-balance sheet undrawn committed mortgage facilities.

The change, during the period and cumulatively, in the fair value of investments in debt securities and loans and advances to customers at FVOCI and FVTPL that is attributable to changes in credit risk is not material.

Credit risk – loans and advances to customers

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

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

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

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

	2022					
	OSB		CCFS		Total	
	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m
Stage 1	10,346.8	10,320.4	8,375.5	8,374.4	18,722.3	18,694.8
Stage 2 ¹	2,509.7	2,508.5	1,907.4	1,907.1	4,417.1	4,415.6
Stage 3	349.7	319.2	156.0	156.0	505.7	475.2
Stage 3 (POCI)	38.5	37.5	44.5	44.4	83.0	81.9
	13,244.7	13,185.6	10,483.4	10,481.9	23,728.1	23,667.5

1. For further detail relating to movements by stage see Risk review on pages 52-75.

	2021					
	OSB		CCFS		Total	
	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m
Stage 1	10,502.7	10,478.1	7,685.7	7,684.6	18,188.4	18,162.7
Stage 2	1,143.8	1,141.9	1,269.8	1,269.7	2,413.6	2,411.6
Stage 3	365.6	337.9	99.1	99.1	464.7	437.0
Stage 3 (POCI)	45.2	43.6	52.2	52.2	97.4	95.8
	12,057.3	12,001.5	9,106.8	9,105.6	21,164.1	21,107.1

The Group's main form of collateral held is property, based in the UK and the Channel Islands.

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

	2022				2021			
	OSB £m	CCFS £m	Total £m	%	OSB £m	CCFS £m	Total £m	%
Band								
0% – 50%	2,768.8	914.7	3,683.5	16	2,293.3	428.2	2,721.5	13
50% – 60%	2,770.7	1,361.1	4,131.8	17	1,935.3	490.1	2,425.4	11
60% – 70%	4,647.5	3,561.7	8,209.2	35	4,179.0	1,241.9	5,420.9	26
70% – 80%	2,150.7	4,277.3	6,428.0	26	2,887.7	6,100.7	8,988.4	43
80% – 90%	548.3	365.5	913.8	4	513.2	844.4	1,357.6	6
90% – 100%	181.3	2.5	183.8	1	77.8	1.5	79.3	–
>100%	177.4	0.6	178.0	1	171.0	–	171.0	1
Total loans before provisions	13,244.7	10,483.4	23,728.1	100	12,057.3	9,106.8	21,164.1	100

The table below shows the LTV banding for the OSB segments' two major lending streams:

OSB	2022				2021			
	BTL/SME £m	Residential £m	Total £m	%	BTL/SME £m	Residential £m	Total £m	%
Band								
0% – 50%	1,301.4	1,467.4	2,768.8	21	1,007.6	1,285.7	2,293.3	19
50% – 60%	2,497.2	273.5	2,770.7	21	1,693.7	241.6	1,935.3	16
60% – 70%	4,386.0	261.5	4,647.5	36	3,903.0	276.0	4,179.0	35
70% – 80%	1,977.1	173.6	2,150.7	16	2,647.7	240.0	2,887.7	24
80% – 90%	418.1	130.2	548.3	4	452.8	60.4	513.2	4
90% – 100%	167.3	14.0	181.3	1	66.2	11.6	77.8	1
>100%	172.9	4.5	177.4	1	165.1	5.9	171.0	1
Total loans before provisions	10,920.0	2,324.7	13,244.7	100	9,936.1	2,121.2	12,057.3	100

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

OSB	2022				
	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% – 50%	1,137.6	114.7	16.1	33.0	1,301.4
50% – 60%	2,324.1	112.8	57.2	3.1	2,497.2
60% – 70%	4,111.4	164.4	110.2	–	4,386.0
70% – 80%	1,741.5	235.6	–	–	1,977.1
80% – 90%	232.8	151.6	–	33.7	418.1
90% – 100%	77.1	63.8	–	26.4	167.3
>100%	130.5	38.4	1.0	3.0	172.9
Total loans before provisions	9,755.0	881.3	184.5	99.2	10,920.0

Notes to the Consolidated Financial Statements continued

45. Risk management continued

OSB	2021				
	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% – 50%	804.0	118.9	19.0	65.7	1,007.6
50% – 60%	1,532.0	105.1	40.1	16.5	1,693.7
60% – 70%	3,708.1	130.1	61.6	3.2	3,903.0
70% – 80%	2,423.7	224.0	–	–	2,647.7
80% – 90%	249.5	165.9	–	37.4	452.8
90% – 100%	46.4	19.8	–	–	66.2
>100%	104.0	30.6	–	30.5	165.1
Total loans before provisions	8,867.7	794.4	120.7	153.3	9,936.1

The tables below show the LTV analysis of the OSB Residential sub-segment:

OSB	2022				2021			
	First charge £m	Second charge £m	Funding lines £m	Total £m	First charge £m	Second charge £m	Funding lines £m	Total £m
Band								
0% – 50%	1,357.6	109.8	–	1,467.4	1,173.3	111.8	0.6	1,285.7
50% – 60%	238.1	35.4	–	273.5	189.8	51.8	–	241.6
60% – 70%	242.9	18.6	–	261.5	240.2	35.8	–	276.0
70% – 80%	168.3	5.3	–	173.6	221.3	18.7	–	240.0
80% – 90%	128.8	1.4	–	130.2	56.5	3.9	–	60.4
90% – 100%	13.4	0.6	–	14.0	10.3	1.3	–	11.6
>100%	3.8	0.7	–	4.5	4.5	1.4	–	5.9
Total loans before provisions	2,152.9	171.8	–	2,324.7	1,895.9	224.7	0.6	2,121.2

The table below shows the LTV analysis of the four CCFS sub-segment:

CCFS	2022					
	Buy-to-Let £m	Residential £m	Bridging £m	Second charge lending £m	Total £m	%
Band						
0% – 50%	308.6	498.3	62.9	44.9	914.7	9
50% – 60%	799.5	501.8	29.9	29.9	1,361.1	13
60% – 70%	2,587.6	924.2	25.6	24.3	3,561.7	34
70% – 80%	3,613.8	622.9	26.9	13.7	4,277.3	41
80% – 90%	215.1	146.8	2.4	1.2	365.5	3
90% – 100%	0.2	0.8	1.5	–	2.5	–
>100%	–	0.1	0.5	–	0.6	–
Total loans before provisions	7,524.8	2,694.9	149.7	114.0	10,483.4	100

CCFS	2021					%
	Buy-to-Let £m	Residential £m	Bridging £m	Second charge lending £m	Total £m	
Band						
0% – 50%	104.8	261.0	30.2	32.2	428.2	5
50% – 60%	205.4	246.8	9.3	28.6	490.1	5
60% – 70%	702.4	480.1	14.9	44.5	1,241.9	14
70% – 80%	4,827.7	1,234.5	1.4	37.1	6,100.7	67
80% – 90%	560.5	268.9	0.5	14.5	844.4	9
90% – 100%	0.1	1.4	–	–	1.5	–
Total loans before provisions	6,400.9	2,492.7	56.3	156.9	9,106.8	100

Forbearance measures undertaken

The Group has a range of options available where borrowers experience financial difficulties that impact their ability to service their financial commitments under the loan agreement. These options are explained in the Risk review on pages 52-75.

A summary of the forbearance measures undertaken (excluding COVID-19 related payment deferrals) during the year is shown below. The balances disclosed reflect the year end balance of the accounts where a forbearance measure was undertaken during the year.

Forbearance type	Number of accounts 2022	At 31 December 2022 £m	Number of accounts 2021	At 31 December 2021 £m
Interest-only switch	70	12.2	159	18.6
Interest rate reduction	91	7.5	437	8.1
Term extension	53	2.9	271	16.6
Payment deferral	194	34.0	499	43.0
Voluntary-assisted sale	5	1.2	7	0.8
Payment concession (reduced monthly payments)	55	12.0	51	12.1
Capitalisation of interest	27	9.0	65	1.1
Full or partial debt forgiveness	359	9.6	1,078	22.6
Total	854	88.4	2,567	122.9
Loan type				
First charge owner-occupier	217	27.8	424	34.8
Second charge owner-occupier ¹	460	8.9	1,931	38.7
Buy-to-Let	107	37.1	160	34.6
Commercial	70	14.6	52	14.8
Total	854	88.4	2,567	122.9

1. Through 2021 and the first quarter of 2022, the Group undertook an exercise and provided a series of forbearance solutions and options to long-term arrears customers on the Second charge portfolio to support and remedy the accrued delinquency.

Notes to the Consolidated Financial Statements continued

45. Risk management continued

Geographical analysis by region

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

Region	2022				2021			
	OSB £m	CCFS £m	Total £m	%	OSB £m	CCFS £m	Total £m	%
East Anglia	453.5	1,136.4	1,589.9	7	361.8	967.1	1,328.9	6
East Midlands	609.9	691.6	1,301.5	6	543.8	555.8	1,099.6	5
Greater London	5,559.3	3,293.0	8,852.3	38	4,983.7	3,052.6	8,036.3	39
Guernsey	21.5	–	21.5	–	26.3	–	26.3	–
Jersey	75.6	–	75.6	–	99.3	–	99.3	–
North East	169.8	274.5	444.3	2	153.9	244.4	398.3	2
North West	906.6	921.8	1,828.4	7	762.3	755.0	1,517.3	7
Northern Ireland	10.0	–	10.0	–	10.9	–	10.9	–
Scotland	36.9	261.3	298.2	1	35.2	226.0	261.2	1
South East	2,802.8	1,681.5	4,484.3	19	2,792.6	1,452.4	4,245.0	20
South West	893.7	659.6	1,553.3	7	825.5	544.3	1,369.8	7
Wales	297.5	284.7	582.2	2	272.1	240.6	512.7	2
West Midlands	908.9	761.3	1,670.2	7	706.9	629.8	1,336.7	7
Yorks and Humberside	335.5	517.7	853.2	4	366.8	438.8	805.6	4
Total loans before provisions	13,081.5	10,483.4	23,564.9	100	11,941.1	9,106.8	21,047.9	100

Approach to measurement of credit quality

The Group categorises the credit quality of loans and advances to customers into internal risk grades based on the 12 month PD calculated at the reporting date. The PDs include a combination of internal behavioural and credit bureau characteristics and are aligned with Capital models to generate the risk grades which are then further grouped into the following credit quality segments:

- Excellent quality – where there is a very high likelihood the asset will be recovered in full with a negligible or very low risk of default.
- Good quality – where there is a high likelihood the asset will be recovered in full with a low risk of default.
- Satisfactory quality – where the assets demonstrate a moderate default risk.
- Lower quality – where the assets require closer monitoring and the risk of default is of greater concern.

The following tables disclose the credit risk quality ratings of loans and advances to customers by IFRS 9 stage. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period for the life of the loan. Loans and advances to customers initially booked on very low PDs and graded as excellent quality loans can experience a SICR and therefore be moved to Stage 2. Such loans may still be graded as excellent quality, if they meet the overall criteria.

During 2022, the Group developed capital models as part of the IRB programme. As a result, the disclosures provided below are now aligned to internal capital models and rating systems. The 2021 figures were updated to reflect the revised alignment with capital models which, compared to 2021 Annual report disclosures, resulted in a reduction of 11% from OSB segment's Excellent quality, a 6% increase in Good, a 3% increase in Satisfactory and a 2% increase in Lower. CCFS segment figures remain largely aligned with minor movements across segments.

2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m	PD lower range %	PD upper range %
OSB							
Excellent	4,136.6	470.6	–	–	4,607.2	–	0.3
Good	5,848.5	1,248.4	–	–	7,096.9	0.3	2.0
Satisfactory	331.8	374.2	–	–	706.0	2.0	7.4
Lower	29.9	416.5	–	–	446.4	7.4	100.0
Impaired	–	–	349.7	–	349.7	100.0	100.0
POCI	–	–	–	38.5	38.5	100.0	100.0
CCFS							
Excellent	5,800.2	910.1	–	–	6,710.3	–	0.3
Good	2,394.2	668.2	–	–	3,062.4	0.3	2.0
Satisfactory	151.4	143.9	–	–	295.3	2.0	7.4
Lower	29.7	185.2	–	–	214.9	7.4	100.0
Impaired	–	–	156.0	–	156.0	100.0	100.0
POCI	–	–	–	44.5	44.5	100.0	100.0
	18,722.3	4,417.1	505.7	83.0	23,728.1		

2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m	PD lower range %	PD upper range %
OSB							
Excellent	3,949.2	159.6	–	–	4,108.8	–	0.3
Good	6,045.0	486.8	–	–	6,531.8	0.3	2.0
Satisfactory	435.9	237.2	–	–	673.1	2.0	7.4
Lower	72.6	260.2	–	–	332.8	7.4	100.0
Impaired	–	–	365.6	–	365.6	100.0	100.0
POCI	–	–	–	45.2	45.2	100.0	100.0
CCFS							
Excellent	5,102.2	443.2	–	–	5,545.4	–	0.3
Good	2,468.5	487.5	–	–	2,956.0	0.3	2.0
Satisfactory	96.2	171.5	–	–	267.7	2.0	7.4
Lower	18.8	167.6	–	–	186.4	7.4	100.0
Impaired	–	–	99.1	–	99.1	100.0	100.0
POCI	–	–	–	52.2	52.2	100.0	100.0
	18,188.4	2,413.6	464.7	97.4	21,164.1		

The tables below show the Group's other financial assets and derivatives by credit risk rating grade. The credit grade is based on the external credit rating of the counterparty; AAA to AA- are rated Excellent; A+ to A- are rated Good; and BBB+ to BBB- are rated Satisfactory.

2022	Excellent £m	Good £m	Satisfactory £m	Total £m
Investment securities	412.9	–	–	412.9
Loans and advances to credit institutions	2,923.2	435.4	7.1	3,365.7
Derivative assets	400.1	488.0	–	888.1
	3,736.2	923.4	7.1	4,666.7
2021	Excellent £m	Good £m	Satisfactory £m	Total £m
Investment securities	491.4	–	–	491.4
Loans and advances to credit institutions	2,688.9	151.8	2.9	2,843.6
Derivative assets	43.0	142.7	–	185.7
	3,223.3	294.5	2.9	3,520.7

Notes to the Consolidated Financial Statements continued

45. Risk management continued

Credit risk – loans and advances to credit institutions and investment securities

The Group holds treasury instruments in order to meet liquidity requirements and for general business purposes. The credit risk arising from these investments is closely monitored and managed by the Group's Treasury function. In managing these assets, Group Treasury operates within guidelines laid down in the Group Market and Liquidity Risk Policy approved by ALCO and performance is monitored and reported to ALCO monthly, including through the use of an internally developed rating model based on counterparty credit default swap spreads.

The Group has limited exposure to emerging markets (Indian operations) and non-investment grade debt. ALCO is responsible for approving treasury counterparties.

During the year, the average balance of cash in hand, loans and advances to credit institutions and investment securities on a monthly basis was £3,496.9m (2021: £2,926.0m).

The tables below show the industry sector of the Group's loans and advances to credit institutions and investment securities:

	2022		2021	
	£m	%	£m	%
BoE ¹	2,869.3	76	2,555.9	76
Other banks	496.4	13	287.7	9
Central government	149.8	4	252.1	8
Securitisation	263.1	7	239.3	7
Total	3,778.6	100	3,335.0	100

1. Balances with the BoE include £62.8m (2021: £59.5m) 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:

	2022		2021	
	£m	%	£m	%
United Kingdom	3,765.7	100	3,328.0	100
India	12.9	–	7.0	–
Total	3,778.6	100	3,335.0	100

The Group monitors exposure concentrations against a variety of criteria, including asset class, sector and geography. To avoid refinancing risks associated with any one counterparty, sector or geographical region, the Board has set appropriate limits.

For further information on credit risk see page 71.

Liquidity risk

Liquidity risk is the risk of having insufficient liquid assets to fulfil obligations as they become due or the cost of raising liquid funds becoming too expensive.

The Group's approach to managing liquidity risk is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations as they fall due. This is achieved through maintaining a prudent level of liquid assets and control of the growth of the business. The Group has established call accounts with the BoE and has access to its contingent liquidity facilities.

The Board has delegated the responsibility for liquidity management to the Chief Executive Officer, assisted by ALCO, with day-to-day management delegated to Treasury as detailed in the Group Market and Liquidity Risk Policy. The Board is responsible for setting risk appetite limits over the level and maturity profile of funding and for monitoring the composition of the Group financial position. The tables below analyse the financial assets and liabilities of the Group based on the contractual maturity on the remaining period at balance sheet date.

The Group also monitors a range of triggers, defined in the recovery plan, which are designed to capture liquidity stresses in advance in order to allow sufficient time for management action to take effect. These are monitored daily by the Risk team, with breaches immediately reported to the Group Chief Risk Officer, Chief Executive Officer, Chief Financial Officer and the Group Treasurer.

The tables below show the maturity profile for the Group's financial assets and liabilities based on contractual maturities at the reporting date:

	Carrying amount £m	On demand £m	Less than 3 months £m	3 – 12 months £m	1 – 5 years £m	More than 5 years £m
2022						
Financial liability by type						
Amounts owed to retail depositors	19,755.8	6,770.7	2,632.4	7,807.7	2,545.0	–
Amounts owed to credit institutions	5,092.9	–	191.4	310.3	4,218.9	372.3
Amounts owed to other customers	113.1	–	29.7	76.5	6.9	–
Derivative liabilities	106.6	–	7.5	46.3	43.8	9.0
Debt securities in issue	265.9	–	0.3	–	265.6	–
Lease liabilities	9.9	–	0.4	1.3	7.6	0.6
Subordinated liabilities	–	–	–	–	–	–
PSBs	15.2	–	–	–	15.2	–
Total liabilities	25,359.4	6,770.7	2,861.7	8,242.1	7,103.0	381.9
Financial asset by type						
Cash in hand	0.4	0.4	–	–	–	–
Loans and advances to credit institutions	3,365.7	3,104.0	71.4	–	–	190.3
Investment securities	412.9	0.5	144.8	22.1	245.5	–
Loans and advances to customers	23,612.7	2.3	223.8	421.8	1,341.6	21,623.2
Derivative assets	888.1	–	2.7	55.5	828.2	1.7
Total assets	28,279.8	3,107.2	442.7	499.4	2,415.3	21,815.2
Cumulative liquidity gap		(3,663.5)	(6,082.6)	(13,825.2)	(18,512.9)	2,920.4
	Carrying amount £m	On demand £m	Less than 3 months £m	3 – 12 months £m	1 – 5 years £m	More than 5 years £m
2021						
Financial liability by type						
Amounts owed to retail depositors	17,526.4	5,004.6	2,350.3	7,458.5	2,713.0	–
Amounts owed to credit institutions	4,319.6	42.1	1.0	–	4,203.2	73.3
Amounts owed to other customers	92.6	14.8	8.1	45.0	24.7	–
Derivative liabilities	19.7	–	0.7	10.4	8.6	–
Debt securities in issue	460.3	–	–	–	460.3	–
Lease liabilities	10.7	–	0.3	0.6	3.7	6.1
Subordinated liabilities	10.3	–	–	0.1	10.2	–
PSBs	15.2	–	–	–	15.2	–
Total liabilities	22,454.8	5,061.5	2,360.4	7,514.6	7,438.9	79.4
Financial asset by type						
Cash in hand	0.5	0.5	–	–	–	–
Loans and advances to credit institutions	2,843.6	2,667.8	52.0	10.1	–	113.7
Investment securities	491.4	–	172.7	6.1	312.6	–
Loans and advances to customers	21,080.3	3.3	163.8	383.5	1,327.4	19,202.3
Derivative assets	185.7	–	0.1	5.4	179.9	0.3
Total assets	24,601.5	2,671.6	388.6	405.1	1,819.9	19,316.3
Cumulative liquidity gap		(2,389.9)	(4,361.7)	(11,471.2)	(17,090.2)	2,146.7

Notes to the Consolidated Financial Statements continued

45. Risk management continued

Liquidity risk – undiscounted contractual cash flows

The following tables provide an analysis of the Group's gross contractual undiscounted cash flows, derived using interest rates and contractual maturities at the reporting date and excluding impacts of early payments or non-payments:

	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
2022						
Financial liability by type						
Amounts owed to retail depositors	19,755.8	20,083.0	9,566.2	7,911.0	2,605.8	–
Amounts owed to credit institutions	5,092.9	5,459.8	227.1	410.9	4,449.5	372.3
Amounts owed to other customers	113.1	113.1	29.7	76.5	6.9	–
Derivative liabilities	106.6	103.9	16.2	39.1	46.7	1.9
Debt securities in issue	265.9	277.3	34.4	64.5	178.4	–
Lease liabilities	9.9	11.4	0.5	1.5	8.8	0.6
Subordinated liabilities	–	–	–	–	–	–
PSBs	15.2	16.1	0.3	0.3	15.5	–
Total liabilities	25,359.4	26,064.6	9,874.4	8,503.8	7,311.6	374.8
Off-balance sheet loan commitments	1,212.2	1,212.2	1,212.2	–	–	–
Financial asset by type						
Cash in hand	0.4	0.4	0.4	–	–	–
Loans and advances to credit institutions	3,365.7	3,365.7	3,175.4	–	–	190.3
Investment securities	412.9	444.3	148.2	30.2	265.9	–
Loans and advances to customers	23,612.7	57,940.1	430.7	1,657.2	8,028.9	47,823.3
Derivative assets	888.1	820.5	76.9	259.4	484.6	(0.4)
Total assets	28,279.8	62,571.0	3,831.6	1,946.8	8,779.4	48,013.2
2021						
Financial liability by type						
Amounts owed to retail depositors	17,526.4	17,554.7	9,305.7	5,883.7	2,365.3	–
Amounts owed to credit institutions	4,319.6	4,359.8	45.2	5.2	4,236.1	73.3
Amounts owed to other customers	92.6	92.6	22.9	45.0	24.7	–
Derivative liabilities	19.7	6.0	(0.4)	5.1	1.2	0.1
Debt securities in issue	460.3	473.2	25.1	75.0	373.1	–
Lease liabilities	10.7	13.1	0.6	1.6	7.7	3.2
Subordinated liabilities	10.3	12.2	0.2	0.7	11.3	–
PSBs	15.2	16.8	0.2	0.5	16.1	–
Total liabilities	22,454.8	22,528.4	9,399.5	6,016.8	7,035.5	76.6
Off-balance sheet loan commitments	1,155.3	1,155.3	1,155.3	–	–	–
Financial asset by type						
Cash in hand	0.5	0.5	0.5	–	–	–
Loans and advances to credit institutions	2,843.6	2,843.6	2,756.3	10.1	–	77.2
Investment securities	491.4	497.0	172.6	108.8	215.6	–
Loans and advances to customers	21,080.3	41,290.2	374.4	1,331.0	5,711.9	33,872.9
Derivative assets	185.7	75.8	(1.4)	11.2	66.0	–
Total assets	24,601.5	44,707.1	3,302.4	1,461.1	5,993.5	33,950.1

The actual repayment profile of retail deposits may differ from the analysis above due to the option of early withdrawal with a penalty.

Cash flows on PSBs are disclosed up to the next interest rate reset date.

The actual repayment profile of loans and advances to customers may differ from the analysis above since many mortgage loans are repaid prior to the contractual end date.

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:

	2022				
	Encumbered		Unencumbered		Total £m
	Pledged as collateral £m	Other ¹ £m	Available as collateral £m	Other £m	
Cash in hand	–	–	0.4	–	0.4
Loans and advances to credit institutions	237.4	174.6	2,806.5	147.2	3,365.7
Investment securities	46.4	–	366.5	–	412.9
Loans and advances to customers ²	6,705.1	–	16,424.5	483.1	23,612.7
Derivative assets	–	–	–	888.1	888.1
Non-financial assets	–	–	–	(713.1)	(713.1)
	6,988.9	174.6	19,597.9	805.3	27,566.7

	2021				
	Encumbered		Unencumbered		Total £m
	Pledged as collateral £m	Other ¹ £m	Available as collateral £m	Other £m	
Cash in hand	–	–	0.5	–	0.5
Loans and advances to credit institutions	99.9	107.5	2,496.4	139.8	2,843.6
Investment securities	121.8	–	369.6	–	491.4
Loans and advances to customers ²	6,373.7	–	2,746.3	11,960.3	21,080.3
Derivative assets	–	–	–	185.7	185.7
Non-financial assets	–	–	–	(69.6)	(69.6)
	6,595.4	107.5	5,612.8	12,216.2	24,531.9

1. Represents assets that are not pledged but that the Group believes it is restricted from using to secure funding for legal or other reasons.

2. Unencumbered loans and advances to customers classified as other are restricted for use as collateral as they are; registered outside of UK (Jersey and Guernsey), not secured by immovable property or are non-performing.

Liquidity risk – liquidity reserves

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

	2022 £m	2021 £m
Unencumbered balances with central banks	2,806.5	2,496.4
Unencumbered cash and balances with other banks	147.2	139.8
Other cash and cash equivalents	0.4	0.5
Unencumbered investment securities	366.5	369.6
	3,320.6	3,006.3

Market risk

Market risk is the risk of an adverse change in the Group's income or the Group's net worth arising from movement in interest rates, exchange rates or other market prices. Market risk exists, to some extent, in all the Group's businesses. The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings and preservation of shareholder value.

Interest rate risk

The primary market risk faced by the Group is interest rate risk. Interest rate risk is the risk of loss from adverse movement in the overall level of interest rates. It arises from mismatches in the timing of repricing of assets and liabilities, both on and off-balance sheet. The Group does not run a trading book or take speculative interest rate positions and therefore all interest rate risk resides in the banking book (interest rate risk in the banking book (IRRBB)). IRRBB is most prevalent in mortgage lending and in fixed rate retail deposits. Exposure is mitigated on a continuous basis through the use of natural offsets between mortgages and savings with a similar tenor, interest rate derivatives and reserve allocations.

Currently interest rate risk is managed separately for OSB and CCFS due to the use of different treasury management and asset and liability management (ALM) systems. However, the methodology applied to the setting of risk appetites was aligned across the Group in 2020. Both Banks apply an economic value at risk approach as well as an earnings at risk approach for interest rate risk and basis risk. The interest rate sensitivity is impacted by behavioural assumptions used by the Group; the most significant of which are prepayments and pipeline take up. Expected prepayments are monitored and modelled on a regular basis based upon historical analysis. The reserve allocation strategy is approved by ALCO and set to reflect the current balance sheet and future plans.

Notes to the Consolidated Financial Statements continued

45. Risk management continued

Interest rate risk continued

Economic value at risk is measured using the impact of six different internally derived interest rate scenarios. The internal scenarios are defined by ALCO and are based on three 'shapes' of curve movement (shift, twist and flex). Historical data is used to calibrate the severity of the scenarios to the Group's risk appetite. The Board has set limits on interest rate risk exposure of 2.25% and 1% of CET1 for OSB and CCFS, respectively. The table below shows the maximum decreases to net interest income under these scenarios after taking into account the derivatives:

	2022 £m	2021 £m
OSB	13.5	9.9
CCFS	1.9	1.1
	15.4	11.0

Exposure for earnings at risk as at 31 December 2022 is measured by the impact of a +/-100bps parallel shift in interest rates on the expected profitability of the Group in the next 12 months. The risk appetite limit is 4% of full year net interest income. The table below shows the maximum decreases after taking into account the derivatives:

	2022 £m	2021 £m
OSB ¹	7.5	0.5
CCFS ^{1,2}	8.8	(0.4)
	16.3	0.1

1. Exposure for earnings at risk as at 31 December 2021 was measured by the impact of a +/-50bps parallel shift in interest rates on the expected profitability of the Group in the next 12 months. The risk appetite limit was 2% of full year net interest income.
2. Increases for CCFS 2021 due to product floors earnings increases in both the +50bps and -50bps scenarios.

Exposure for earnings at risk measured by the impact of a +/-100bps parallel shift in interest rates on the expected profitability of the Group in the next 3 years. The risk appetite limit is 4% of full year net interest income.

	2022 £m	2021 ¹ £m
OSB	26.2	—
CCFS	24.1	—
	50.3	—

1. Not measured during 2021.

The Group is also exposed to basis risk. Basis risk is the risk of loss from an adverse divergence in interest rates. It arises where assets and liabilities reprice from different variable rate indices. These indices may be market rates (e.g. bank base rate or SONIA) or administered (e.g. the Group's SVR, other discretionary variable rates, or that received on call accounts with other banks).

The Group measures basis risk using the impact of four scenarios on net interest income over a one-year period including movements such as diverging base, overnight and term SONIA rates. Historical data is used to calibrate the severity of the scenarios to the Group's risk appetite. The Board has set a limit on basis risk exposure of 2.5% of full year net interest income. The table below shows the maximum decreases to net interest income at 31 December 2022 and 2021:

	2022 £m	2021 £m
OSB	5.8	3.2
CCFS	4.5	3.8
	10.3	7.0

Foreign exchange rate risk

The Group has limited exposure to foreign exchange risk in respect of its Indian operations. A 5% increase in exchange rates would result in a £0.7m (2021: £0.4m) effect in profit or loss and £0.5m (2021: £0.5m) in equity.

Structured entities

The structured entities consolidated within the Group at 31 December 2022 were Canterbury Finance No.2 plc, Canterbury Finance No.3 plc, Canterbury Finance No.4 plc, Canterbury Finance No.5 plc and CMF 2020-1 plc. These entities hold legal title to a pool of mortgages which are used as a security for issued debt. The transfer of mortgages fails derecognition criteria because the Group retained the subordinated notes and residual certificates issued and as such did not transfer substantially the risks and rewards of ownership of the securitised mortgages. Therefore, the Group is exposed to credit, interest rate and other risks on the securitised mortgages.

Cash flows generated from the structured entities are ring-fenced and are used to pay interest and principal of the issued debt securities in a waterfall order according to the seniority of the bonds. The structured entities are self-funded and the Group is not contractually or constructively obliged to provide further liquidity or financial support.

The structured entities consolidated within the Group at 31 December 2021 were Canterbury Finance No.2 plc, Canterbury Finance No.3 plc, Canterbury Finance No.4 plc and CMF 2020-1 plc.

Unconsolidated structured entities

Structured entities, which were sponsored by the Group include Precise Mortgage Funding 2017-1B plc, Charter Mortgage Funding 2017-1 plc, Precise Mortgage Funding 2018-1B plc, Charter Mortgage Funding 2018-1 plc, Precise Mortgage Funding 2019-1B plc, Canterbury Finance No.1 plc and Precise Mortgage Funding 2020-1B plc.

These structured entities are not consolidated by the Group, as the Group does not control the entities and is not exposed to the risks and rewards of ownership from the securitised mortgages. The Group has no contractual arrangements with the unconsolidated structured entities other than the investments disclosed in note 19 and servicing the structured entities' mortgage portfolios.

The Group has not provided any support to the unconsolidated structured entities listed and has no obligation or intention to do so.

During 2022 the Group received £2.6m interest income (2021: £1.8m) and £4.3m servicing income (2021: £4.4m) from unconsolidated structured entities.

46. Financial instruments and fair values

i. Financial assets and financial liabilities

The following table sets out the classification of financial instruments in the Consolidated Statement of Financial Position:

	Note	2022				
		Designated	Mandatorily		Amortised	Total carrying
		FVTPL	FVTPL	FVOCI	cost	amount
		£m	£m	£m	£m	£m
Assets						
Cash in hand		–	–	–	0.4	0.4
Loans and advances to credit institutions	18	–	–	–	3,365.7	3,365.7
Investment securities	19	0.5	–	149.8	262.6	412.9
Loans and advances to customers	20	14.6	–	–	23,598.1	23,612.7
Derivative assets	25	–	888.1	–	–	888.1
Other assets ¹	27	–	–	–	1.8	1.8
		15.1	888.1	149.8	27,228.6	28,281.6
Liabilities						
Amounts owed to retail depositors	32	–	–	–	19,755.8	19,755.8
Amounts owed to credit institutions	31	–	–	–	5,092.9	5,092.9
Amounts owed to other customers	33	–	–	–	113.1	113.1
Debt securities in issue	34	–	–	–	265.9	265.9
Derivative liabilities	25	–	106.6	–	–	106.6
Other liabilities ²	36	–	–	–	38.1	38.1
Subordinated liabilities	39	–	–	–	–	–
PSBs	40	–	–	–	15.2	15.2
		–	106.6	–	25,281.0	25,387.6

1. Balance excludes prepayments.

2. Balance excludes deferred income.

Notes to the Consolidated Financial Statements continued

46. Financial instruments and fair values continued

i. Financial assets and financial liabilities continued

		2021				
	Note	Designated FVTPL £m	Mandatorily FVTPL £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Assets						
Cash in hand		–	–	–	0.5	0.5
Loans and advances to credit institutions	18	–	–	–	2,843.6	2,843.6
Investment securities	19	0.7	–	167.6	323.1	491.4
Loans and advances to customers	20	17.7	–	–	21,062.6	21,080.3
Derivative assets	25	–	185.7	–	–	185.7
Other assets ¹	27	–	–	–	0.9	0.9
		18.4	185.7	167.6	24,230.7	24,602.4
Liabilities						
Amounts owed to retail depositors	32	–	–	–	17,526.4	17,526.4
Amounts owed to credit institutions	31	–	–	–	4,319.6	4,319.6
Amounts owed to other customers	33	–	–	–	92.6	92.6
Debt securities in issue	34	–	–	–	460.3	460.3
Derivative liabilities	25	–	19.7	–	–	19.7
Other liabilities ²	36	–	–	–	28.8	28.8
Subordinated liabilities	39	–	–	–	10.3	10.3
PSBs	40	–	–	–	15.2	15.2
		–	19.7	–	22,453.2	22,472.9

1. Balance excludes prepayments.

2. Balance excludes deferred income.

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

ii. Fair values

The following tables summarise the carrying value and estimated fair value of financial instruments not measured at fair value in the Consolidated Statement of Financial Position:

	2022		2021	
	Carrying value £m	Estimated fair value £m	Carrying value £m	Estimated fair value £m
Assets				
Cash in hand	0.4	0.4	0.5	0.5
Loans and advances to credit institutions	3,365.7	3,365.7	2,843.6	2,843.6
Investment securities	262.6	260.5	323.1	323.8
Loans and advances to customers	23,598.1	22,746.0	21,062.6	21,079.5
Other assets ¹	1.8	1.8	0.9	0.9
	27,228.6	26,374.4	24,230.7	24,248.3
Liabilities				
Amounts owed to retail depositors	19,755.8	19,693.0	17,526.4	17,524.9
Amounts owed to credit institutions	5,092.9	5,092.9	4,319.6	4,319.6
Amounts owed to other customers	113.1	113.1	92.6	92.6
Debt securities in issue	265.9	265.9	460.3	460.3
Other liabilities ²	38.1	38.1	28.8	28.8
Subordinated liabilities	–	–	10.3	10.6
PSBs	15.2	14.0	15.2	14.7
	25,281.0	25,217.0	22,453.2	22,451.5

1. Balance excludes prepayments.

2. Balance excludes deferred income.

The fair values in these tables are estimated using the valuation techniques below. The estimated fair value is stated as at 31 December and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of each financial instrument.

Cash in hand

This represents physical cash across the Group's branch network where fair value is considered to be equal to carrying value.

Loans and advances to credit institutions

This mainly represents the Group's working capital current accounts and call accounts with central governments and other banks with an original maturity of less than three months. Fair value is not considered to be materially different to carrying value.

Investment securities

Investment securities' fair values are provided by a third party and are based on the market values of similar financial instruments. The fair value of investment securities held at FVTPL is measured using a discounted cash flow model.

Loans and advances to customers

This mainly represents secured mortgage lending to customers. The fair value of fixed rate mortgages has been estimated by discounting future cash flows at current market rates of interest. Future cash flows include the impact of ECL. The interest rate on variable rate mortgages is considered to be equal to current market product rates and as such fair value is estimated to be equal to carrying value.

Other assets

Other assets disclosed in the table above exclude prepayments and the fair value is considered to be equal to carrying value.

Amounts owed to retail depositors

The fair value of fixed rate retail deposits has been estimated by discounting future cash flows at current market rates of interest. Retail deposits at variable rates and deposits payable on demand are considered to be at current market rates and as such fair value is estimated to be equal to carrying value.

Amounts owed to credit institutions

This mainly represents amounts drawn down under the BoE TFSME and commercial repos. Fair value is considered to be equal to carrying value.

Amounts owed to other customers

This represents saving products to corporations and local authorities. The fair value of fixed rate deposits is estimated by discounting future cash flows at current market rates of interest. Deposits at variable rates are considered to be at current market rates and the fair value is estimated to be equal to carrying value.

Debt securities in issue

While the Group's debt securities in issue are listed, the quoted prices for an individual note may not be indicative of the fair value of the issue as a whole, due to the specialised nature of the market in such instruments and the limited number of investors participating in it. Fair value is not considered to be materially different to carrying value.

Other liabilities

Other liabilities disclosed in the table above exclude deferred income and the fair value is considered to be equal to carrying value.

Subordinated liabilities and PSBs

The fair value of subordinated liabilities is estimated by using quoted market prices of similar instruments at the reporting date. The PSBs are listed on the London Stock Exchange with fair value being the quoted market price at the reporting date.

Notes to the Consolidated Financial Statements continued

46. Financial instruments and fair values continued

iii. Fair value classification

The following tables provide an analysis of financial assets and financial liabilities measured at fair value in the Consolidated Statement of Financial Position grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

2022	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	150.3	150.5	149.8	–	0.5	150.3
Loans and advances to customers	14.6	17.7	–	–	14.6	14.6
Derivative assets	888.1	15,662.6	–	888.1	–	888.1
	1,053.0	15,830.8	149.8	888.1	15.1	1,053.0
Financial liabilities						
Derivative liabilities	106.6	9,518.0	–	106.6	–	106.6
2021	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	168.3	166.2	152.1	15.5	0.7	168.3
Loans and advances to customers	17.7	19.7	–	–	17.7	17.7
Derivative assets	185.7	12,968.3	–	185.7	–	185.7
	371.7	13,154.2	152.1	201.2	18.4	371.7
Financial liabilities						
Derivative liabilities	19.7	7,378.0	–	19.7	–	19.7

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.

The following tables provide an analysis of financial assets and financial liabilities not measured at fair value in the Consolidated Statement of Financial Position grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

	Carrying amount £m	Principal amount £m	Estimated fair value			Total £m
			Level 1 £m	Level 2 £m	Level 3 £m	
2022						
Financial assets						
Cash in hand	0.4	0.4	–	0.4	–	0.4
Loans and advances to credit institutions	3,365.7	3,360.9	–	3,365.7	–	3,365.7
Investment securities	262.6	262.1	–	260.5	–	260.5
Loans and advances to customers	23,598.1	23,646.2	–	2,515.0	20,231.0	22,746.0
Other assets ¹	1.8	1.8	–	1.8	–	1.8
	27,228.6	27,271.4	–	6,143.4	20,231.0	26,374.4
Financial liabilities						
Amounts owed to retail depositors	19,755.8	19,620.8	–	5,770.3	13,922.7	19,693.0
Amounts owed to credit institutions	5,092.9	5,057.8	–	5,092.9	–	5,092.9
Amounts owed to other customers	113.1	112.1	–	–	113.1	113.1
Debt securities in issue	265.9	265.4	–	265.9	–	265.9
Other liabilities ²	38.1	38.1	–	38.1	–	38.1
Subordinated liabilities	–	–	–	–	–	–
PSBs	15.2	15.0	14.0	–	–	14.0
	25,281.0	25,109.2	14.0	11,167.2	14,035.8	25,217.0

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

	Carrying amount £m	Principal amount £m	Estimated fair value			Total £m
			Level 1 £m	Level 2 £m	Level 3 £m	
2021						
Financial assets						
Cash in hand	0.5	0.5	–	0.5	–	0.5
Loans and advances to credit institutions	2,843.6	2,843.6	–	2,843.6	–	2,843.6
Investment securities	323.1	322.9	–	323.8	–	323.8
Loans and advances to customers	21,062.6	21,076.7	–	3,323.0	17,756.5	21,079.5
Other assets ¹	0.9	0.9	–	0.9	–	0.9
	24,230.7	24,244.6	–	6,491.8	17,756.5	24,248.3
Financial liabilities						
Amounts owed to retail depositors	17,526.4	17,469.0	–	6,601.3	10,923.6	17,524.9
Amounts owed to credit institutions	4,319.6	4,318.5	–	4,319.6	–	4,319.6
Amounts owed to other customers	92.6	92.5	–	–	92.6	92.6
Debt securities in issue	460.3	460.2	–	460.3	–	460.3
Other liabilities ²	28.8	28.8	–	28.8	–	28.8
Subordinated liabilities	10.3	10.1	–	–	10.6	10.6
PSBs	15.2	15.0	14.7	–	–	14.7
	22,453.2	22,394.1	14.7	11,410.0	11,026.8	22,451.5

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

47. Pension scheme

Defined contribution scheme

The amount charged to profit or loss in respect of contributions to the Group's defined contribution and stakeholder pension arrangements is the contribution payable in the period. The total pension cost in the year amounted to £4.4m (2021: £5.2m).

Notes to the Consolidated Financial Statements continued

48. Operating segments

The Group segments its lending business and operates under two segments in line with internal reporting to the Board:

- OSB
- CCFS

The Group separately discloses the impact of Combination accounting but does not consider this a business segment.

The financial position and results of operations of the above segments are summarised below:

2022	OSB £m	CCFS £m	Combination £m	Total £m
Balances at the reporting date				
Gross loans and advances to customers	13,244.7	10,416.3	81.7	23,742.7
Expected credit losses	(103.2)	(28.0)	1.2	(130.0)
Loans and advances to customers	13,141.5	10,388.3	82.9	23,612.7
Capital expenditure	7.6	0.7	–	8.3
Depreciation and amortisation	6.2	3.4	3.8	13.4
Profit or loss for the year				
Net interest income/(expense)	460.7	308.4	(59.2)	709.9
Other income	8.9	46.2	10.4	65.5
Total income/(expense)	469.6	354.6	(48.8)	775.4
Impairment of financial assets	(22.3)	(8.4)	0.9	(29.8)
Contribution to profit	447.3	346.2	(47.9)	745.6
Administrative expenses	(130.9)	(73.1)	(3.8)	(207.8)
Provisions	1.6	–	–	1.6
Integration costs	(6.8)	(1.1)	–	(7.9)
Profit/(loss) before taxation	311.2	272.0	(51.7)	531.5
Taxation ¹	(70.1)	(70.2)	18.8	(121.5)
Profit/(loss) for the year	241.1	201.8	(32.9)	410.0

1. The taxation on Combination credit includes release of deferred taxation on CCFS Combination relating to the unwind of the deferred tax liabilities recognised on the fair value adjustments of the CCFS assets and liabilities at the acquisition date of £17.5m and the release of other deferred tax assets on Combination adjustments of £1.3m.

2021	OSB £m	CCFS £m	Combination £m	Total £m
Balances at the reporting date				
Gross loans and advances to customers	12,057.3	8,981.4	143.1	21,181.8
Expected credit losses	(82.2)	(19.6)	0.3	(101.5)
Loans and advances to customers	11,975.1	8,961.8	143.4	21,080.3
Capital expenditure	5.0	1.8	–	6.8
Depreciation and amortisation	6.5	3.2	4.8	14.5
Profit or loss for the year				
Net interest income/(expense)	414.8	235.7	(62.9)	587.6
Other income	8.7	20.0	12.7	41.4
Total income/(expense)	423.5	255.7	(50.2)	629.0
Impairment of financial assets	(3.5)	8.4	(0.5)	4.4
Contribution to profit	420.0	264.1	(50.7)	633.4
Administrative expenses	(97.9)	(63.8)	(4.8)	(166.5)
Provisions	(0.3)	0.1	–	(0.2)
Impairment of intangible assets	–	–	3.1	3.1
Integration costs	(4.0)	(1.0)	–	(5.0)
Exceptional items	(0.2)	–	–	(0.2)
Profit/(loss) before taxation	317.6	199.4	(52.4)	464.6
Taxation ¹	(76.0)	(51.8)	8.5	(119.3)
Profit/(loss) for the year	241.6	147.6	(43.9)	345.3

1. The tax on Combination credit includes a credit of £14.1m relating to the unwind of the deferred tax liabilities recognised on the fair value adjustments of the CCFS assets and liabilities at the acquisition date, offset by a £5.6m deferred tax charge due to the 6% increase in the main rate of the corporation tax liability from 1 April 2023.

49. Country by country reporting (CBCR)

CBCR was introduced through Article 89 of CRD IV, aimed at the banking and capital markets industry.

The name, nature of activities and geographic location of the Group's companies are presented below:

Jurisdiction	Country	Name	Activities
UK ¹	England	OSB GROUP PLC	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	
	Guernsey	Guernsey Home Loans Limited	
	Jersey	Jersey Home Loans Limited	
UK	England	Canterbury Finance No. 2 plc	Special purpose vehicle
		Canterbury Finance No. 3 plc	
		Canterbury Finance No. 4 plc	
		Canterbury Finance No. 5 plc	
		CMF 2020-1 plc	
UK	England	WSE Bourton Road Limited	Land lease investment
India	India	OSB India Private Limited	Back office processing

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

Other disclosures required by the CBCR directive are provided below:

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

2021	UK	India	Consolidation ²	Total
Average number of employees	1,220	535	–	1,755
Turnover ¹ , £m	628.9	9.6	(9.5)	629.0
Profit/(loss) before tax, £m	464.4	1.2	(1.0)	464.6
Corporation tax paid, £m	117.0	0.3	–	117.3

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

Notes to the Consolidated Financial Statements continued

49. Country by country reporting (CBCR) continued

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

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

2021	UK £m	India £m	Total £m
Tax charge	118.9	0.4	119.3
Effects of:			
Other timing differences	9.6	(0.1)	9.5
Tax outside of profit or loss	(1.3)	–	(1.3)
Current period tax paid in prior years	(9.1)	–	(9.1)
Tax in relation to future periods prepaid	(1.1)	–	(1.1)
Tax paid	117.0	0.3	117.3

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

	2022 £m	Restated ¹ 2021 £m
Adjustments for non-cash items:		
Depreciation and amortisation	13.4	14.5
Interest on investment securities	(6.8)	(2.5)
Integration cost	–	0.6
Interest on subordinated liabilities	1.1	0.8
Interest on PSBs	0.7	1.2
Interest on securitised debt	7.7	3.9
Interest on financing debt	68.7	5.3
Impairment charge/(credit) on loans	29.8	(4.4)
Impairment credit on intangible assets acquired on Combination	–	(3.1)
Gain on sale of financial instruments	–	(4.0)
Administrative expenses	1.3	–
Provisions	(1.6)	0.2
Interest on lease liabilities	0.2	0.3
Fair value gains on financial instruments	(58.9)	(29.5)
Share-based payments	8.1	6.7
Total adjustments for non-cash items	63.7	(10.0)
Changes in operating assets and liabilities:		
(Increase)/decrease in loans and advances to credit institutions	(204.6)	98.7
Increase in loans and advances to customers	(2,563.1)	(1,844.0)
Increase in amounts owed to retail depositors	2,229.4	923.3
Increase in cash collateral and margin received ¹	434.3	115.4
Net increase in other assets	(4.7)	(1.1)
Net increase in derivatives and hedged items	59.1	3.6
Net increase in amounts owed to other customers	16.6	18.9
Net increase in other liabilities	9.1	1.7
Exchange differences on working capital	(0.3)	(0.1)
Total changes in operating assets and liabilities¹	(24.2)	(683.6)

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

51. Events after the reporting date

The Board has authorised a share repurchase of up to £150.0m of shares in the market from 17 March 2023. The Company has authority to make such purchases under a resolution approved by shareholders at the AGM on 11 May 2023. Any purchases made under this programme will be announced to the market each day in line with regulatory requirements.

52. Controlling party

As at 31 December 2022 there was no controlling party of the ultimate parent company of the Group, OSB GROUP PLC.

53. Transactions with key management personnel

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

The Directors and Group Executive team are considered to be key management personnel.

Directors' remuneration is disclosed in note 10 and in the Directors' Remuneration Report on page 142. The Group Executive team are all employees of OSB, the table below shows their aggregate remuneration:

	2022 £'000	2021 £'000
Short-term employee benefits	4,000	5,144
Post-employment benefits	62	44
Share-based payments	2,667	2,414
	6,729	7,602

Key management personnel and connected persons held deposits with the Group of £2.1m (2021: £0.9m).

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

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

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

Notes to the Consolidated Financial Statements continued

54. Capital management continued

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

	(Unaudited) 2022 £m	(Unaudited) 2021 £m
CET1 capital		
Called up share capital	4.3	4.5
Share premium, capital contribution and share-based payment reserve	15.6	14.1
Retained earnings	3,389.4	3,215.1
Transfer reserve	(1,355.1)	(1,355.3)
Other reserves	(3.2)	(4.0)
Total equity attributable to ordinary shareholders	2,051.0	1,874.4
Foreseeable dividends ¹	(144.0)	(94.7)
IFRS 9 transitional adjustment ²	1.4	2.9
COVID-19 ECL transitional adjustment ³	25.9	19.0
Deductions from CET1 capital		
Prudent valuation adjustment ⁴	(1.0)	(1.0)
Intangible assets	(12.0)	(18.4)
Deferred tax asset	(0.6)	(0.5)
CET1 capital	1,920.7	1,781.7
AT1 capital		
AT1 securities	150.0	150.0
Total Tier 1 capital	2,070.7	1,931.7
Total regulatory capital	2,070.7	1,931.7
Risk-weighted assets (unaudited)	10,494.7	9,101.6

- 2022 includes special dividend of £50.3m (£50.0m announced by the Board rounded up on a pence per share basis totals £50.3m).
- The regulatory capital includes a £1.4m add-back under IFRS 9 transitional arrangements. This represents 25.0% of the IFRS 9 transitional adjustment booked directly to retained earnings of £5.9m.
- The COVID-19 ECL transitional adjustment relates to 75% of 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.
- The Group has adopted the simplified approach under the Prudent Valuation rules, recognising a deduction equal to sum of absolute value to 0.1% of fair value assets and liabilities excluding offsetting fair-valued assets and liabilities.

The movement in CET1 during the year was as follows:

	(Unaudited) 2022 £m	(Unaudited) 2021 £m
At 1 January	1,781.7	1,566.0
Movement in retained earnings	174.3	1,606.5
Share premium from Sharesave Scheme vesting	1.7	0.7
Movement in other reserves	0.6	(1,349.7)
Movement in foreseeable dividends	(49.3)	(29.8)
IFRS 9 transitional adjustment	(1.5)	(2.0)
COVID-19 ECL transitional adjustment	6.9	(12.0)
Movement in prudent valuation adjustment	-	(0.6)
Net decrease in intangible assets	6.4	2.2
Movement in deferred tax asset for carried forward losses	(0.1)	0.4
At 31 December	1,920.7	1,781.7

Company Statement of Financial Position

As at 31 December 2022

	Note	2022 £m	2021 £m
Assets			
Investments in subsidiaries and intercompany loans	2	1,590.7	1,582.6
Current taxation asset		–	0.3
Total assets		1,590.7	1,582.9
Liabilities			
Intercompany loans	2	0.8	0.6
Other liabilities		–	0.2
		0.8	0.8
Equity			
Share capital	3	4.3	4.5
Share premium	3	2.4	0.7
Retained earnings		1,359.3	1,358.4
Other reserves	4	223.9	218.5
		1,589.9	1,582.1
Total equity and liabilities		1,590.7	1,582.9

The profit after tax for the year ended 31 December 2022 of OSBG was £240.8m (2021: £87.0m). As permitted by section 408 of the Companies Act 2006, no separate Statement of Comprehensive Income is presented in respect of the Company.

The notes on pages 242-245 form an integral part of the Company financial statements.

The financial statements were approved by the Board of Directors on 16 March 2023 and were signed on its behalf by:

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 11976839

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Company Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital £m	Share premium £m	Capital redemption and transfer reserve ¹ £m	Own shares ² £m	Share-based payment reserve £m	AT1 securities £m	Retained earnings £m	Total £m
At 1 January 2021	1,359.8	–	65.7	(4.0)	0.4	–	4.0	1,425.9
Profit for the year	–	–	–	–	–	–	87.0	87.0
Dividend paid	–	–	–	–	–	–	(86.7)	(86.7)
Share-based payments	–	0.7	–	–	5.9	–	0.9	7.5
Issuance of AT1 securities	–	–	–	–	–	150.0	–	150.0
Transactions costs on issuance of AT1 securities	–	–	–	–	–	–	(1.6)	(1.6)
Own shares ²	–	–	–	0.5	–	–	(0.5)	–
Capital reduction	(1,355.3)	–	–	–	–	–	1,355.3	–
At 31 December 2021	4.5	0.7	65.7	(3.5)	6.3	150.0	1,358.4	1,582.1
Profit for the year	–	–	–	–	–	–	240.8	240.8
Dividend paid	–	–	–	–	–	–	(133.1)	(133.1)
Share-based payments	–	1.7	–	–	3.9	–	4.2	9.8
Own shares ²	–	–	–	1.3	–	–	(1.3)	–
Coupon paid on AT1 securities	–	–	–	–	–	–	(9.0)	(9.0)
Share repurchase	(0.2)	–	0.2	–	–	–	(100.7)	(100.7)
At 31 December 2022	4.3	2.4	65.9	(2.2)	10.2	150.0	1,359.3	1,589.9

1. Includes Capital redemption reserve of £0.2m (2021: nil) and Transfer reserve of £65.7m (2021: £(65.7)m).

2. The Company has adopted look-through accounting (see note 1 to the Group's consolidated financial statements) and recognised the Employee Benefit Trusts within OSBG.

Company Statement of Cash Flows

For the year ended 31 December 2022

	2022 £m	2021 £m
Cash flows from operating activities		
Profit before taxation	240.8	86.7
Adjustments for non-cash items:		
Administrative expenses	1.3	–
Changes in operating assets and liabilities:		
Net (decrease)/increase in other liabilities	(0.2)	0.2
Change in intercompany loans ¹	0.5	0.6
Cash generated in operating activities	242.4	87.5
Cash flows from investing activities		
Change in investments in subsidiaries	–	(150.0)
Cash used in investing activities	–	(150.0)
Cash flows from financing activities		
Share repurchase ²	(102.0)	–
Dividend paid	(133.1)	(86.7)
Coupon paid on AT1 securities	(9.0)	–
Issuance of AT1 securities	–	148.4
Proceeds from issuance of shares under employee SAYE scheme	1.7	0.8
Cash (used)/generated from financing activities	(242.4)	62.5
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 year³	–	–
Movement in cash and cash equivalents	–	–

1. Includes £0.3m of current taxation asset surrendered to OSB.
2. Includes £100.0m for shares repurchased, £0.7m transaction costs and £1.3m success fee.
3. The Company's bank balance is swept to OneSavings Bank plc daily resulting in a nil balance.

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Notes to the Company Financial Statements

For the year ended 31 December 2022

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 IFRSs as adopted by the UK, and are presented in Pounds Sterling.

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

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

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

2. Investments in subsidiaries and intercompany loans

The Company holds an investment in ordinary shares of £1,440.7m (2021: £1,432.6m) and in AT1 securities of £90.0m (2021: £90.0m) in its direct subsidiary, OneSavings Bank plc (OSB). The Company also holds an investment in AT1 securities of £60.0m (2021: £60.0m) in an indirect subsidiary, Charter Court Financial Services Limited.

	Investment in subsidiaries £m	Intercompany loans payable £m
At 1 January 2021	1,425.9	–
Additions ¹	156.7	(1.4)
Repayments	–	0.8
At 31 December 2021	1,582.6	(0.6)
Additions ¹	8.1	(2.1)
Repayments	–	1.9
At 31 December 2022	1,590.7	(0.8)

1. Additions in investment in subsidiaries include £8.1m relating to share-based payments (2021: includes purchase of AT1 securities of £90.0m issued by OSB and £60.0m issued by Charter Court Financial Services Limited; and £6.7m relating to share-based payments).

The transactions with OSB during the year include £2.1m of additions in relation to costs on shares repurchased funded by OSB. Repayments of £1.9m comprise £1.6m of cash received from issuing shares under SAYE and £0.3m of tax losses surrendered to OSB (2021: additions comprised £1.4m transaction costs for the issuance of AT1 securities funded by OSB and repayments of £0.8m comprised cash received from issuing shares under SAYE).

Investments in subsidiaries are financial assets and intercompany loans are financial liabilities, all carried at amortised cost. Intercompany loans are payable on demand and no interest is charged on these loans.

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

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

Notes to the Company Financial Statements continued

2. Investments in subsidiaries and intercompany loans continued

A list of the Company's direct and indirect subsidiaries as at 31 December 2021 is shown below:

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

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.

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

All of the entities listed above have been consolidated into the Group's consolidated financial statements. The location of the entities listed above are disclosed in note 49 to the Group's consolidated financial statements.

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

The following are the registered offices of the subsidiaries:

Charter Court – 2 Charter Court, Broadlands, Wolverhampton, WV10 6TD

Churchill Place – 5 Churchill Place, 10th Floor, London, E14 5HU

Guernsey – 1st Floor, Tudor House, Le Bordage, St Peter Port, Guernsey, GY1 1DB

India – Salarpuria Magnificia No. 78, 9th & 10th floor, Old Madras Road, Bangalore, India, 560016

Jersey – 26 New Street, St Helier, Jersey, JE2 3RA

OSB House – Quayside, Chatham Maritime, Chatham, England, ME4 4QZ

Reliance House – Reliance House, Sun Pier, Chatham, Kent, ME4 4ET

3. Share capital

	Number of shares issued and fully paid	Nominal value £m	Premium £m
At 1 January 2021	447,312,780	1,359.8	–
Capital reduction of £3.04 nominal value shares to £0.01 nominal value shares	–	(1,355.3)	–
Shares issued under employee share plans	1,315,075	–	0.7
At 31 December 2021	448,627,855	4.5	0.7
Share cancelled under repurchase programme	(20,671,224)	(0.2)	–
Shares issued under employee share plans	1,911,994	–	1.7
At 31 December 2022	429,868,625	4.3	2.4

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

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

4. Other reserves

The Company's distributable reserves are disclosed in note 43 of the Group's consolidated financial statements.

The Company's other reserves are as follows:

	2022 £m	2021 £m
Share-based payment	10.2	6.3
Capital redemption and transfer	65.9	65.7
Own shares	(2.2)	(3.5)
AT1 securities	150.0	150.0
	223.9	218.5

Capital redemption and transfer reserve

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

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

For own shares and AT1 securities see note 43 of the Group's consolidated financial statements.

5. Directors and employees

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

6. Controlling party

As at 31 December 2022 there was no controlling party of OSB GROUP PLC.

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Appendix 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 2022. The assured APMs are highlighted with the symbol Δ throughout the OSB GROUP PLC (OSB Group) 2022 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 2022 ARA on pages 250-252 (OSB Group's APM Definitions and Basis of Preparation).

Statutory basis

- Gross new lending
- Net interest margin
- Cost to income
- Management expense ratio
- Loan loss ratio
- Dividend per share
- Basic earnings per share
- Return on equity

Underlying basis

- Net interest margin
- Cost to income
- Management expense ratio
- Loan loss ratio
- Basic earnings per share
- Return on equity

In our opinion the assured APMs for the financial year ended 31 December 2022, 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, issued by the International Auditing and Assurance Standards Board (IAASB), in order to state whether the Selected KPIs have been prepared, in all material respects, in accordance with the applicable criteria.

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 2022 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 2022 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 2022 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's 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

16 March 2023

Appendix 2

Independent Limited Assurance Report to the Board of Directors of OSB GROUP PLC

Independent Limited Assurance Report by Deloitte LLP to the Directors of OSB GROUP PLC on the description of activities undertaken to meet the Recommendations of the Task Force on Climate-Related Financial Disclosures (“TCFD”) and selected Environmental, Social and Governance (“Selected ESG Metrics”) (together the “Assured ESG Information”) within the Annual Report for the reporting year ended 31 December 2022.

What we found: our limited assurance conclusion

Based on our procedures described in this report, and evidence we have obtained, nothing has come to our attention that causes us to believe that the Assured ESG Information, as listed below, for the year ended 31 December 2022, has not been prepared, in all material respects, in accordance with the Basis of Reporting (“Applicable Criteria”) defined by the Directors.

The Applicable Criteria can found at:

<https://www.osb.co.uk/corporate-responsibility/focused-on-the-environment/>.

Assured ESG Information	Reported Value	Applicable Criteria
Greenhouse Gas (“GHG”) emissions:		
– Total direct (Scope 1) emissions	153.87 tCO ₂	Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition (2004). Plus, any applicable methodology as published by the company (commonly referred to as a ‘basis of reporting’).
– Total indirect (Scope 2) emissions – Market-based	0 tCO ₂	
– Total indirect (Scope 2) emissions – Location-based	322.13 tCO ₂	
GHG Intensity:		
– Metric tonnes of CO ₂ e per employee	0.38	Section D (“Supplemental Guidance for the Financial Sector”) part 1 (Banks) of the TCFD Annex entitled “Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures (October 2021)”, incorporating Guidance for All Sectors and Supplemental Guidance for Banks
– Metric tonnes of CO ₂ e per £m turnover	0.61	
TCFD		
The description of activities undertaken to meet the Recommendations of the TCFD included within the 2022 Annual Report.	Page 100-107 in the Annual Report	

In relation to the Assured ESG Information, as listed in the above table, the Assured ESG Information needs to be read and understood together with the Applicable Criteria available here:

<https://www.osb.co.uk/corporate-responsibility/focused-on-the-environment/>

Inherent limitations of the Assured ESG Information

We obtained limited assurance over the preparation of the Assured ESG Information in accordance with the Applicable Criteria. Inherent limitations exist in all assurance engagements. Any internal control structure, no matter how effective, cannot eliminate the possibility that fraud, errors or irregularities may occur and remain undetected and because we use selective testing in our engagement, we cannot guarantee that errors or irregularities, if present, will be detected.

The self-defined Applicable Criteria, the nature of the Assured ESG Information, and absence of consistent external standards allow for different, but acceptable, measurement methodologies to be adopted which may result in variances between entities. The adopted measurement methodologies may also impact comparability of the Assured ESG Information reported by different organisations and from year to year within an organisation as methodologies develop.

TCFD as applied by all companies includes information based on climate-related scenarios that are subject to inherent uncertainty because of incomplete scientific and economic knowledge about the likelihood, timing, or effect of possible future physical and transitional climate-related impacts. The scope of our engagement and our responsibilities do not involve us performing work necessary for any assurance on the reliability, proper compilation or accuracy of the prospective information provided as part of the TCFD scenario analysis and transition plans.

What we looked at: scope of our work

OSB GROUP PLC has engaged us to provide independent limited assurance in accordance with the International Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information (“ISAE 3000 (Revised)”) and the International Standard on Assurance Engagements 3410 Assurance Engagements on Greenhouse Gas Statements (“ISAE 3410”), issued by the International Auditing and Assurance Standards Board (“IAASB”) and our agreed terms of engagement.

The Assured ESG Information in scope of our engagement includes the ESG Metrics listed in the table below and as indicated with a ♦ in the Annual Report, and the TCFD as disclosed on pages 100-107 in the Annual Report:

Directors’ responsibilities

The Directors are responsible for preparing an Annual Report which complies with the requirements of the Companies Act 2006 and for being satisfied that the Annual Report, taken as a whole, is fair, balanced and understandable.

The Directors are also responsible for:

- Selecting and establishing the Applicable Criteria;
- Preparing, measuring, presenting and reporting the Assured ESG Information in accordance with the Applicable Criteria;
- Publishing the Applicable Criteria publicly in advance of, or at the same time as, the publication of the Assured ESG Information;
- Designing, implementing, and maintaining internal processes and controls over information relevant to the preparation of the Assured ESG Information to ensure that they are free from material misstatement, including whether due to fraud or error;
- Providing sufficient access and making available all necessary records, correspondence, information and explanations to allow the successful completion of the Services; and
- Confirming to us through written representations that you have provided us with all information relevant to our Services of which you are aware, and that the measurement or evaluation of the underlying subject matter against the Applicable Criteria, including that all relevant matters, are reflected in the Assured ESG Information.

Our responsibilities

We are responsible for:

- Planning and performing procedures to obtain sufficient appropriate evidence in order to express an independent limited assurance conclusion on the Assured ESG Information;
- Forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained;

- Communicating matters that may be relevant to the Assured ESG Information, including identified or suspected non-compliance with laws and regulations, fraud or suspected fraud, and bias in the preparation of the Assured ESG Information; and
- Reporting our conclusion in the form of an independent limited Assurance Report to the Directors.

Our independence and competence

In conducting our engagement, we complied with the independence requirements of the FRC's Ethical Standard and the ICAEW Code of Ethics. The ICAEW Code is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We applied the International Standard on Quality Management (UK) 1 ("ISQM (UK) 1"), issued by the Financial Reporting Council. Accordingly, we maintained a comprehensive system of quality including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

What we did: key procedures

We are required to plan and perform our work to address the areas where we have identified that a material misstatement of the description of activities undertaken in respect of the Assured ESG Information is likely to arise. The procedures we performed were based on our professional judgment.

In carrying out our limited assurance engagement on the description of activities undertaken in respect of the Assured ESG Information, we performed the following procedures:

- Evaluated the suitability of the criteria as the basis for preparing the Assured ESG Information;
- Considered the risks of material misstatement of the Assured ESG Information, including performing analytical review procedures;
- Through inquiries of management, obtained an understanding of the Group, its environment, processes and information systems relevant to the preparation of the Assured ESG Information sufficient to identify and assess risks of material misstatement in the Assured ESG Information, and provide a basis for designing and performing procedures to respond to assessed risks and to obtain limited assurance to support a conclusion;
- Through inquiries of management, obtained an understanding of internal controls relevant to the Assured ESG Information, the quantification process and data used in preparing the Assured ESG Information, the methodology for gathering qualitative information, and the process for preparing and reporting the Assured ESG Information. We did not evaluate the design of particular internal control activities, obtain evidence about their implementation or test their operating effectiveness;
- Inspected documents relating to the Assured ESG Information, including board committee minutes and where applicable internal audit outputs to understand the level of management awareness and oversight of the Assured ESG Information;
- Read the narrative accompanying the Assured ESG Information with regard to the Applicable Criteria, and for consistency with our findings; and
- Accumulated misstatements and control deficiencies identified, assessing whether material.

Additionally, in relation to TCFD only, we:

- Reviewed documentation relating to the governance, strategy and financial planning and risk management processes;
- Interviewed those responsible within the organisation to understand:
 - the role of the Board in relation to climate-related risk and opportunities and management's role in assessing and managing climate-related risks and opportunities;

- the nature of climate-related risk and opportunities identified including time horizons; the impact of climate-related risks and opportunities on the business, strategy and financial planning; and the impact of identified and considered climate scenarios on the strategy;
- the process for identifying climate-related risks; the process for managing climate-related risks; and how these processes are integrated into the overall risk management; and
- Evaluated and reviewed the TCFD disclosure for consistency of knowledge and understanding obtained during the course of our work.

Additionally, in relation to the Selected ESG Metrics only, we:

- Performed enquires and interviews with management to understand how the applicable criteria were applied in the preparation of the Selected ESG Metrics;
- Performed procedures over the Selected ESG Metrics, including recalculation of relevant formulae used in manual calculations and assessed whether the data has been appropriately consolidated; and
- Performed procedures over underlying data on a statistical sample basis to assess whether the data has been collected and reported in accordance with the Applicable Criteria, including verifying to source documentation.

We were not engaged to and did not perform the following procedures as part of our assurance work:

- An assessment as to if the activities undertaken, as described in the TCFD disclosures, fulfil the requirements to comply in full with TCFD.
- An assessment as to the appropriateness of assumptions made including those made in preparation and application of climate scenarios and setting of targets.
- Testing of the design, implementation and operating effectiveness of controls over the underlying data, nor have we sought to obtain an understanding of the systems and controls beyond those relevant to the Assured ESG Information.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Use of our report

This report is made solely to the Board of Directors of the Company in accordance with ISAE 3000 (Revised) and ISAE3410 and our agreed terms of engagement. Our work has been undertaken so that we might state to the Board of Directors of the Company those matters we have agreed to state to them in this report and for no other purpose.

Without assuming or accepting any responsibility or liability in respect of this report to any party other than the Company, we acknowledge that the Board of Directors of the Company may choose to make this report publicly available for others wishing to have access to it, which does not and will not affect or extend for any purpose or on any basis our responsibilities. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Board of Directors of the Company as a body, for our work, for this report, or for the conclusions we have formed.

Deloitte LLP, London

London

16 March 2023

Appendix 3

Alternative Performance Measures (APMs)

In this Annual report, the Group used APMs when presenting underlying results in 2022 and 2021 as Management believe they provide a more consistent basis for comparing the Group's performance between financial periods. Underlying results exclude exceptional items, integration costs and other acquisition-related items.

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

Below we provide definitions and the calculation of APMs used throughout this Annual report both on a statutory basis and underlying basis for 2022 and 2021.

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.

	2022 £m	2021 £m
Net interest income – statutory	709.9	587.6
Add back: acquisition-related items ²	59.2	62.9
Net interest income – underlying	769.1	650.5
13 point average of interest earning assets – statutory C	25,518.8	23,207.7
13 point average of interest earning assets – underlying D	25,403.2	23,033.7
NIM statutory equals A/C	2.78%	2.53%
NIM underlying equals B/D	3.03%	2.82%

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.

Administrative expenses – statutory A	207.8	166.5
Add back: acquisition-related items ²	(3.8)	(4.8)
Administrative expenses – underlying B	204.0	161.7
Total income – statutory C	775.4	629.0
Add back: acquisition-related items ²	48.8	50.2
Total income underlying D	824.2	679.2
Cost to income statutory equals A/C	27%	26%
Cost to income underlying equals B/D	25%	24%

Management expense ratio

The management expense ratio is defined as administrative expenses as a percentage of a 13 point average¹ of total assets.

Administrative expenses – statutory (as in cost to income ratio above) A	207.8	166.5
Administrative expenses – underlying (as in cost to income ratio above) B	204.0	161.7
13 point average of total assets – statutory C	25,641.5	23,382.6
13 point average of total assets – underlying D	25,537.4	23,231.5
Management expense ratio statutory equals A/C on an annualised basis	0.81%	0.71%
Management expense ratio underlying equals B/D on an annualised basis	0.80%	0.70%

Loan loss ratio

The loan loss ratio is defined as impairment losses 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.

	2022 £m	2021 £m
Impairment losses – statutory A	29.8	(4.4)
Add back: acquisition-related items ²	0.9	(0.5)
Impairment losses – underlying B	30.7	(4.9)
13 point average of gross loans – statutory C	22,120.4	20,327.5
13 point average of gross loans – underlying D	22,005.4	20,164.3
Loan loss ratio statutory equals A/C on an annualised basis	0.13%	(0.02)%
Loan loss ratio underlying equals B/D on an annualised basis	0.14%	(0.02)%

Return on equity (RoE)

RoE is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on AT1 securities as a percentage of a 13 point average¹ of shareholders' equity (excluding £60m of non-controlling interest securities up to September 2021 and £150m of AT1 securities from October 2021).

Profit after tax – statutory	410.0	345.3
Coupons on AT1 securities	(9.0)	–
Coupons on non-controlling interest securities	–	(4.7)
Profit attributable to ordinary shareholders – statutory A	401.0	340.6
Add back: acquisition related items ²	38.7	47.8
Profit attributable to ordinary shareholders – underlying B	439.7	388.4
13 point average of shareholders' equity (excluding AT1 and non-controlling interest securities) – statutory C	1,943.4	1,741.1
13 point average of shareholders' equity (excluding AT1 and non-controlling interest securities) – underlying D	1,869.9	1,632.4
Return on equity statutory equals A/C on an annualised basis	21%	20%
Return on equity underlying equals B/D on an annualised basis	24%	24%

Basic earnings per share

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

Profit attributable to ordinary shareholders – statutory (as in RoE ratio above) A	401.0	340.6
Profit attributable to ordinary shareholders – underlying (as in RoE ratio above) B	439.7	388.4
Weighted average number of ordinary shares in issue – statutory C	441.5	448.1
Weighted average number of ordinary shares in issue – underlying D	441.5	448.1
Basic earnings per share statutory equals A/C	90.8	76.0
Basic earnings per share underlying equals B/D	99.6	86.7

1. 13 point average is calculated as an average of opening balance and closing balances for 12 months of the financial year.

2. The acquisition-related items are detailed in the reconciliation of statutory to underlying results in the Financial review.

Appendix 3 continued

Calculation of 2022 final dividend

The table below shows the basis of calculation of the Company's recommended final dividend for 2022:

	2022 £m	2021 £m
Statutory profit after tax	410.0	345.3
Less: coupons on AT1 securities (2021: non-controlling interest securities) classified as equity	(9.0)	(4.7)
Statutory profit attributable to ordinary shareholders	401.0	340.6
Add back: Group's integration costs	7.9	5.0
Tax on Group's integration costs	(2.1)	(1.3)
Add back: Group's exceptional items	–	0.2
Add back: amortisation of fair value adjustment	60.4	64.5
Add back: amortisation of inception adjustment	(10.4)	(11.0)
Add back: amortisation of cancelled swaps	(1.2)	(1.6)
Add back: amortisation of intangible assets acquired	3.8	4.8
Less: Impairment reversal of intangible assets recognised on Combination	–	(3.1)
Release of deferred taxation on the above amortisation adjustments	(18.8)	(8.5)
Gain on sale of financial assets	–	(1.7)
Add back: ECL on Combination	(0.9)	0.5
Underlying profit attributable to ordinary shareholders	439.7	388.4
Total dividend: 30% (2021: 30%) of underlying profit attributable to ordinary shareholders	131.9	116.6
Less: interim dividends paid	(38.3)	(21.9)
Recommended final dividend	93.6	94.7
Number of ordinary shares in issue	429,868,625	448,627,855
Recommended final dividend per share (pence)	21.8	21.1

Glossary

AGM	Annual General Meeting	IRB	Internal Ratings-Based approach to credit risk
ALCO	Group Assets and Liabilities Committee	ISA	Individual Savings Account
BoE	Bank of England	KRFI	Kent Reliance for Intermediaries
CCFS	Charter Court Financial Services	KRPS	Kent Reliance Provident Society Limited
CEO	Chief Executive Officer	LCR	Liquidity Coverage Ratio
CET1	Common Equity Tier 1	LGD	Loss Given Default
CFO	Chief Financial Officer	LIBOR	London Interbank Offered Rate
CRD IV	Capital Requirements Directive and Regulation	LTIP	Long-Term Incentive Plan
CRO	Chief Risk Officer	LTV	Loan to value
DSBP	Deferred Share Bonus Plan	NIM	Net Interest Margin
EAD	Exposure at Default	NPS	Net Promoter Score
ECL	Expected Credit Loss	OSB	OneSavings Bank plc
EIR	Effective Interest Rate	OSBG	OSB GROUP PLC
EPS	Earnings Per Share	PD	Probability of Default
EU	European Union	PPD	Propensity to go to Possession Given Default
FCA	Financial Conduct Authority	PRA	Prudential Regulation Authority
FRC	Financial Reporting Council	PSBs	Perpetual Subordinated Bonds
FSCS	Financial Services Compensation Scheme	PSP	Performance Share Plan
FSD	Forced Sale Discount	RMBS	Residential Mortgage-Backed Securities
FTSE	Financial Times Stock Exchange	RoE	Return on equity
HMRC	Her Majesty's Revenue and Customs	RWA	Risk weighted assets
HPI	House Price Index	SAYE	Save As You Earn or Sharesave
IAS	International Accounting Standards	SDLT	Stamp Duty Land Tax
IBOR	Interbank Offered Rate	SICR	Significant Increase in Credit Risk
ICAAP	Internal Capital Adequacy Assessment Process	SID	Senior Independent Director
ICR	Interest Coverage Ratio	SME	Small and Medium Enterprises
IFRS	International Financial Reporting Standards	SONIA	Sterling Overnight Index Average
ILAAP	Internal Liquidity Adequacy Assessment Process	SRMF	Strategic Risk Management Framework
ILTR	Indexed Long-Term Repo	TFS	Term Funding Scheme
IPO	Initial Public Offering	TFSME	Term Funding Scheme with additional incentives for SMEs

Company Information

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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.

Notes

Overview
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