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OSB GROUP PLC
Interim report for the six months ended 30 June 2023

OSB GROUP PLC (OSBG or the Group), the specialist lending and retail savings group, announces today its results for the six months ended 30 June 2023.

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

Highlights

- Underlying profit before tax[1] reduced to £116.6m (H1 2022: £294.1m) and statutory profit before tax was £76.7m (H1 2022: £268.1m) largely reflecting an adverse effective interest rate (EIR) adjustment of £180.7m and £208.5m on an underlying and statutory basis, respectively
- Underlying and statutory net loan book grew by 4% to £24.5bn and £24.6bn in the period (FY 2022: £23.5bn and £23.6bn, respectively). Organic originations in the first six months of 2023 were £2.3bn (H1 2022: £2.3bn)
- Underlying and statutory net interest margin (NIM)[2] reduced to 203bps and 171bps (H1 2022: 302bps and 280bps, respectively) as the benefit of base rate rises was more than offset by the adverse EIR adjustment
- Underlying and statutory cost to income ratios[3] increased to 40% and 47% (H1 2022: 23% and 25%, respectively) principally as a result of lower income due to the adverse EIR adjustment
- Underlying and statutory loan loss ratios[4] were 37bps (H1 2022: 2bps and 1bp, respectively) largely due to house price moderation, a worsening of the economic outlook and modelled IFRS 9 stage migration. Arrears balances greater than three months were broadly stable at 1.2% (31 December 2022: 1.1%)
- Underlying return on equity[5] reduced to 8% (H1 2022: 24%) and statutory return on equity was 5% (H1 2022: 22%) due to the reduction in profitability following the adverse EIR adjustment
- Basic earnings per share[6] were 19.5p and 12.8p on an underlying and statutory basis (H1 2022: 48.9p and 45.7p) primarily due to the adverse EIR adjustment
- *Excluding the impact of the adverse EIR adjustment, the underlying net loan book grew by 5%, underlying NIM would have increased to 333bps (H1 2022: 302bps), underlying cost to income would have been 24% (H1 2022: 23%), underlying return on equity would have been 22% (H1 2022: 24%) and underlying EPS would have increased to 51.3p (H1 2022: 48.9p)*
- The Common Equity Tier 1 capital ratio, which includes the full impact of the £150m share repurchase programme, remained strong at 15.7% (31 December 2022: 18.3%). As at 9 August, the Group had repurchased £107.2m worth of shares under the programme
- In April, the Group issued £250m of MREL qualifying Tier 2 debt securities making further progress in optimising its capital composition
- Interim dividend[7] of 10.2 pence per share (H1 2022: 8.7 pence per share) representing one-third of the total 2022 ordinary dividend, in line with the Group's stated policy

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

	Statutory			Underlying		
H1 2023	**as reported**	**excl. EIR**	**difference**	**as reported**	**excl. EIR**	**difference**
Net loan book growth	4%	5%	(1)pps	4%	5%	(1)pps
NIM	171bps	322bps	(151)bps	203bps	333bps	(130)bps
Cost to income ratio	47%	25%	22pps	40%	24%	16pps
Manex ratio	78bps	78bps	-	78bps	78bps	-
Pre-tax profit	£76.7m	£285.2m	£(208.5)m	£116.6m	£297.3m	£(180.7)m
EPS	12.8p	49.5p	(36.7)p	19.5p	51.3p	(31.8)p
RoE	5%	21%	(16)pps	8%	22%	(14)pps
CET1 ratio	15.7%	16.9%	(120)bps	-	-	-

Commenting on the results, Group CEO, Andy Golding said:

“I am disappointed by the results which reflect the adverse EIR adjustment announced in early July, against a backdrop of otherwise strong operational and financial performance in the first half. We continue to do the right thing by our customers by offering a full range of mortgage products, despite the volatile rate environment, resulting in strong demand and higher retention, driving net loan book growth of 4% in the period. The Group continued to increase share in its core lending sub-segments, having ranked fourth largest BTL lender in the UK in terms of gross new lending in 2022.[8] We also saw strong demand from savers and consistently high retention rates, as we continued to offer attractively priced products.

Our loan book continued to demonstrate consistently strong credit performance with balances over three months in arrears remaining broadly stable at 1.2% of the loan book at the end of June, although there was some deterioration in house prices and the macroeconomic outlook during the period, reflected in the higher IFRS 9 impairment charge. We maintained our focus on cost efficiency and discipline in the face of inflationary headwinds and planned investment in people and operations, with administrative expenses in the first half running slightly below expectation in absolute terms.

Based on our current pipeline and application volumes, we reiterate our target underlying net loan book growth of c.7% for 2023. The underlying NIM for the second half of 2023 is expected to be broadly flat to 2022, resulting in a full year NIM of c.2.6%, after the expected impact of further planned MREL qualifying debt issuance, subject to market conditions. We expect the underlying cost to income ratio to be c.29% for the second half and c.33% for the full year.

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 customer affordability, however the strength and resilience of our business model, our strong capital and liquidity positions, high-quality secured loan book and strong customer franchises and risk-management capabilities, position us well to deliver attractive and sustainable returns across the cycle and I look to the future with confidence.”

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Results presentation

A webcast presentation for analysts will be held at 9:30am on Thursday 10 August.

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

The UK dial in number is 020 4587 0498 and the password is 885709. Registration is open immediately.

Notes
1. Before acquisition-related items of £39.9m (H1 2022: £26.0m)
2. Net interest income as a percentage of a 7 point average of interest earning assets, annualised on an actual days basis
3. Administrative expenses as a percentage of total income
4. Impairment losses as a percentage of a 7 point average of gross loans and advances, annualised
5. Profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on AT1 securities, gross of tax, as a percentage of a 7 point average of shareholders' equity (excluding £150m of AT1 securities), annualised
6. 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
7. The declared interim dividend of 10.2 pence per share is based on one-third of the total 2022 dividend of 30.5 pence per share (H1 2022: 8.7 pence per share)
8. UK Finance, Annual ranking of mortgage lenders, MM11G, July 2023

About OSB GROUP PLC

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

OneSavings Bank (OSB)

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

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

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

Charter Court Financial Services Group (CCFS)

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

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

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

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Non-IFRS performance measures

OSB believes that any non-IFRS performance measures included in this document provide a more consistent basis for comparing the business' performance between financial periods and provide more detail concerning the elements of performance which OSBG is most directly able to influence or which are relevant for an assessment of OSBG. They also reflect an important aspect

of the way in which operating targets are defined and performance is monitored by the Board. However, any non-IFRS performance measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well. For further details, refer to the Alternative performance measures section in the OSBG Annual Report and Accounts 2022. Copies of this are available at www.osb.co.uk and on request from OSBG.

Key Performance Indicators - statutory

£2.3bn **Gross organic lending up 2%**
H1 2022: £2.3bn

£24.6bn **Net loan book up 4%**
FY 2022: £23.6bn

£76.7m **Profit before tax down 71%**
H1 2022: £268.1m

12.8p **Basic EPS[1] down 72%**
H1 2022: 45.7p

171bps **Net interest margin[2] down 109bps**
H1 2022: 280bps

47% **Cost to income ratio[3] increased 22pps**
H1 2022: 25%

37bps **Loan loss ratio[4] up 36bps**
H1 2022: 1bp

78bps **Management expense ratio[5] up 5bps**
H1 2022: 73bps

5% **Return on equity[6] declined 17pps**
H1 2022: 22%

15.7% **CET1 remained strong**
FY 2022: 18.3%

3 months + in arrears[7] broadly stable
OSB 1.3%, CCFS 1.0%
FY 2022: OSB 1.2%, CCFS 0.9%

Customer NPS[8] strong
OSB +71, CCFS +60
H1 2022: OSB +69, CCFS +70

1. 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
2. Net interest income as a percentage of a 7 point average of interest earning assets, annualised on an actual days basis
3. Administrative expenses as a percentage of total income
4. Impairment losses as a percentage of a 7 point average of gross loans and advances, annualised
5. Administrative expenses as a percentage of 7 point average of total assets, annualised
6. Profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on AT1 securities, gross of tax, as a percentage of a 7 point average of shareholders' equity (excluding £150m of AT1 securities), annualised
7. Portfolio arrears rate of accounts for which there are missing or overdue payments by more than three months as a percentage of gross loans
8. OSB customer Net Promoter Score relates to Kent Reliance savings customers and CCFS customer NPS relates to Charter Savings Bank customers. It is calculated based on customer responses to the question of whether they would recommend the Group's products to a friend. The responses provide a score between -100 and +100

Key Performance Indicators - underlying

Underlying key performance indicators for the six months to 30 June 2023 and 30 June 2022 reflect results for the combined Group, excluding integration costs and other acquisition-related items (see Reconciliation of statutory to underlying results in the Financial review).

£24.5bn **Net loan book up 4%**
FY 2022: £23.5bn

£116.6m **Profit before tax down 60%**
H1 2022: £294.1m

19.5p **Basic EPS[1] down 60%**
H1 2022: 48.9p

203bps **Net interest margin[2] down 99bps**
H1 2022: 302bps

40% **Cost to income ratio[3] increased 17pps**
H1 2022: 23%

37bps **Loan loss ratio[4] up 35bps**
H1 2022: 2bps

78bps **Management expense ratio[5] up 6bps**
H1 2022: 72bps

8% **Return on equity[6] down 16pps**
H1 2022: 24%

For definitions of key ratios please see footnotes in statutory KPIs above.

OSB GROUP PLC

Interim report for the six months ended 30 June 2023

CEO Report

The first half of 2023 saw strong operational performance, however our financial results were significantly impacted by the adverse effective interest rate (EIR) adjustment announced in July. The fundamentals of our business remained strong; the Group delivered underlying net loan book growth of 4% (5% excluding the impact of the adverse EIR adjustment), our loan book demonstrated strong credit performance with three months plus arrears remaining broadly stable at 1.2% compared to 1.1% at the end of 2022, and the Group's capital and liquidity positions remained robust.

The Group's proposition continues to benefit from doing the right thing for our customers, as we offered a full range of mortgages to our brokers and customers even when others struggled to do so, demonstrated by growth in the mortgage book and our increasing share in core market sub-segments. This strong demand has also been seen from our savings customers, as we rewarded our loyal savers with consistent, attractively priced products.

The Group has embedded the FCA's new Consumer Duty rules that came into force at the end of July, as we strive to deliver the best possible outcomes and experience for our customers, and we demonstrated our commitment to borrowers by becoming signatories to the Government's Mortgage Charter.

Financial performance

The Group's results for the first half of 2023 were significantly impacted by the adverse underlying EIR adjustment of £180.7m announced in the Trading update on 6 July 2023, however the Group's performance excluding this adjustment remained strong.

The Group delivered an underlying pre-tax profit of £116.6m for the first six months of 2023, down 60% from £294.1m in the first half of 2022, with the benefit of net loan book growth and improved margins more than offset by the adverse EIR adjustment and a higher impairment charge, reflecting the deterioration in house prices and the macroeconomic outlook during the period. The underlying basic earnings per share was 19.5 pence (H1 2022: 48.9 pence). On a statutory basis, profit before tax was £76.7m and basic earnings per share was 12.8 pence (H1 2022: £268.1m and 45.7 pence, respectively).

The underlying and statutory net interest margins reduced to 203bps and 171bps, respectively (H1 2022: 302bps and 280bps) as the benefit of base rate rises was more than offset by the adverse EIR adjustment. Excluding this EIR adjustment, the underlying net interest margin (NIM) for the first half of 2023 would have been marginally ahead of market expectation.

The Group continued its focus on cost efficiency and discipline, with the management expense ratio increasing to 78bps on both an underlying and statutory basis (H1 2022: 72bps and 73bps, respectively), due to the anticipated impact of inflation and investment in people and operations, which also saw underlying administrative expenses increase to £109.2m, up 23% compared to the first half of 2022. The cost to income ratio was 40% and 47% on an underlying and statutory basis respectively for the first six months of 2023 (H1 2022: 23% and 25%, respectively), however this was impacted by the reduction in income due to the adverse EIR adjustment.

The Group delivered an underlying return on equity of 8% for the first half (H1 2022: 24%) and statutory return on equity was 5% (H1 2022: 22%) reflecting the impact of the adverse EIR adjustment on profit in the period.

The Board has declared an interim dividend of 10.2 pence per share, representing one-third of the total 2022 ordinary dividend, in line with our stated dividend policy.

Our lending franchise

Throughout the first half of 2023, the macroeconomic backdrop was challenging for our owner occupier borrowers and Buy-to-Let landlords, as they dealt with inflationary headwinds and rapidly rising interest rates. However, we saw strong demand for the Group's lending products, especially in the first quarter of the year, as borrowers took advantage of more attractive mortgage rates available at that time and our service capacity. Refinancing activity was particularly strong in the period, as borrowers sought to lock in lower monthly repayments in expectation of future base rate rises and we continued to benefit from some purchase activity in both the Buy-to-Let and Residential sub-segments, despite the overall subdued market dynamic.

I am particularly pleased that our lending franchises continue to grow and we are now ranked fourth largest Buy-to-Let lender in the UK in terms of gross new lending in 2022, according to recently released data from UK Finance.[1] This strong demand continued into the first half, supporting underlying and statutory net loan book growth of 4% to £24.5bn and £24.6bn respectively (31 December 2022: £23.5bn and £23.6bn). Excluding the adverse EIR adjustment, the underlying and statutory net loan book would have increased by 5% in the first six months of 2023. Organic originations of £2.3bn were up 2% from the prior period.

In addition to the performance of our Buy-to-Let and Residential sub-segments, I am pleased that our InterBay brand, which offers bespoke commercial and semi-commercial products, had a very successful first half of 2023. The new product set introduced earlier in the year led to a more than two-fold increase in organic originations.

Our well-established Kent Reliance retention programme, Choices, saw 75% of borrowers refinance with the Group within three months of their fixed rate product ending during the first half. We established a proactive retention programme for Precise Mortgages borrowers towards the end of 2022 and we are already seeing a steady improvement in levels of retention, with 59% of borrowers refinancing with the Group within three months of their fixed rate product ending in the first half. Our customer focus was further demonstrated as our brands and mortgage products continued to win industry awards, including Best Specialist Lender from L&G Mortgage Club for Kent Reliance and Best Short-Term Lender from Mortgage Strategy Awards for Precise Mortgages. Our strong relationships with brokers were reflected in improved Net Promoter Scores (NPS) of +56 for OSB and +61 for CCFS.

Credit and risk management

Our loan book continued to demonstrate consistently strong credit performance with balances over three months in arrears remaining broadly stable at 1.2% of the loan book at the end of June (31 December 2022: 1.1%). The Group's loan to value (LTV) position remained strong with the weighted average LTV of the loan book at 63% as at 30 June 2023 (31 December 2022: 60%), reflecting a moderation in house prices in the period. The weighted average LTV of new business written by the Group improved marginally to 68% from 71% in the prior period.

The Group recorded an impairment charge of £44.5m on an underlying basis, which represented an underlying loan loss ratio of 37bps for the first six months of 2023 (H1 2022: £2.0m and 2bps, respectively). The impairment charge was primarily due to moderation in house prices and the worsening macroeconomic outlook as well as modelled IFRS 9 stage migration. The statutory impairment charge was £44.6m, equivalent to a loan loss ratio of 37bps (H1 2022: £1.6m and 1bp).

We continue to actively engage with the PRA on the timing of our IRB application, relating to rating systems covering our core Buy-to-Let and residential first charge mortgages. The Group is ready to submit module 1 when regulatory consent is provided.

Multi-channel funding model

Under our two savings brands, Kent Reliance and Charter Savings Bank, our focus is on combining excellent customer service with good value. I am pleased that our fair and competitively priced offering was popular during the first six months of 2023, which helped us grow our retail deposit book to £20.7bn from £19.8bn at the end of 2022, as we opened nearly 86,000 new savings accounts. Our actions were also reflected in the strong NPS for the first half of the year of +71 for Kent Reliance and +60 for Charter Savings Bank, as well as high retention rates; 90% for maturing fixed rate bonds and ISAs at Kent Reliance and 87% for Charter Savings Bank.

We complement retail deposits funding with our expertise in the wholesale markets, and in June we completed a £330m securitisation of owner-occupied prime mortgages, originated by Precise Mortgages under the CMF programme, demonstrating investors' demand for Group issuance. The Group's drawings under the Term Funding Scheme for SMEs remained at £4.2bn (31 December 2022: £4.2bn).

Capital management

The Group's capital position, which reflects fully the £150m share repurchase programme announced in March and the post-tax impact of the adverse EIR adjustment, remained strong with a CET1 ratio of 15.7% as at 30 June 2023 (31 December 2022: 18.3%). The share repurchase programme has been progressing well and as at 9 August 2023 the Group had repurchased £107.2m worth of shares.

In April, the Group issued £250m of MREL[2] qualifying Tier 2 debt securities, marking further progress on our journey to optimise its capital structure. The Group had a total capital ratio of 19.2% as at 30 June 2023 (31 December 2022: 19.7%). The Group is targeting a CET1 ratio of 14% once the capital structure has been optimised fully, and we intend to come to the market with a programme of further MREL qualifying debt issuance ahead of our July 2024 interim MREL requirement. We expect to operate above the 14% target in the meantime and as we wait for clarity on the implementation of Basel 3.1 and its timing versus the Group's IRB accreditation.

In line with our stated dividend policy, the Board has declared an interim dividend of 10.2 pence for the first half of 2023. As with previous years, the Board will make its full year dividend recommendation with the full year results, taking account of, amongst other factors, the economic outlook and continuing progress made against the Group's MREL eligible debt issuance programme.

The Board is confident that the Group's strategy and proven capital generation capability can support both strong net loan book growth and further capital returns to shareholders, supported by further planned issuance of MREL qualifying debt securities in advance of the Group's interim MREL requirement in July 2024, subject to market conditions.

Looking forward

We are making good progress on the next phase of technology investment which focuses on improving efficiency in our business operations, an enhanced user experience for our customers and further streamlining the interaction with our broker community. In 2024, we expect to launch a new deposit platform that will enhance the journey for our savers, whilst driving further operational efficiency.

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 are facing the realities of the increasing cost of living and rising interest rates, and we will continue to focus on those who require most assistance.

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 customer 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 our current pipeline and application volumes, we reiterate our target underlying net loan book growth of c.7% for 2023. The underlying NIM for the second half of 2023 is expected to be broadly flat to 2022, resulting in a full year underlying NIM of c.2.6%, after

the expected impact of further planned MREL qualifying debt issuance, subject to market conditions. We expect the underlying cost to income ratio to be c.29% for the second half and c.33% for the full year.

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 cautious optimism.

Andy Golding

Chief Executive Officer

10 August 2023

1. UK Finance, Annual ranking of mortgage lenders, MM11G, July 2023
2. Minimum requirement for own funds and eligible liabilities

Mortgage market

UK gross mortgage lending in the first five months of 2023 reduced by 28% to £89.5bn from £124.8bn in the same period of 2022.[1] Similarly, property transactions reduced by 20% during the first five months to 388,000[2] and new mortgage approvals reduced by 36% to £84.1bn from £132.1bn in the same period of 2022.[3] This decline in activity was widely attributed to rapidly rising interest rates, with the Bank of England's base rate increasing by 1.50% from 3.50% at the start of January to 5.00% by the end of June, and related increases in mortgage pricing that led to affordability challenges for some borrowers with maturing mortgages and particularly for first time buyers.

Pricing of fixed rate mortgages in the first half reflected volatile interest rate swap prices that were in turn reacting to significant changes in the outlook for inflation. The Bank of England's reported average quoted interest rates on two-year fixed rate residential mortgages at 75% loan to value illustrate this dynamic. At the end of 2022 the average rate was 5.43%, gradually falling to 4.63% in April before rising to 5.50% at the end of June.[4] This effect was mirrored by the availability of mortgage products in the market, with data from the mortgage sourcing provider Twenty7Tec indicating that c.14,000 products were available in January increasing to c.17,000 in May and falling back to c.13,500 by the end of June[5].

The rapidly rising interest rates and higher cost of living led to a greater emphasis on refinancing activity as borrowers sought to lock in fixed repayments to protect against further interest rate rises. According to UK Finance, total refinancing increased by 1.5% in the first four months of the year, compared to the same period in 2022.[6]

Within this total, product transfers, where borrowers take a new product from their existing lender, increased in popularity with volumes increasing by 12.5% to £70.5bn from £62.7bn in 2022, representing 74% of all refinancing activity (2022: 67%).[7] Notably, these transactions are not reflected in new mortgage lending and provide context for the reductions in gross lending volumes across the market during the period.

High inflation and the impact of rising interest rates have impacted prospective borrowers' confidence and affordability. Figures from the HM Land Registry demonstrate that house prices reduced by 1.4% in the five months to May 2023, in contrast to the 4.6% growth reported at the same point last year.[8]

In the Private Rented Sector, the first half of 2023 saw continued high tenant demand and tight supply, as landlords considered their options amid rising costs and potential future requirements contained in the Renter's Reform Bill introduced to Parliament in May. Respondents to the RICS Residential Market Survey have reported consistently high levels of demand for over two years, while landlord instructions have continued to decline[9]. This mismatch exerted upward pressure on rents, with private rental prices in the UK rising by 5.0% in the 12 months to May 2023, according to data from the ONS.[10]

Buy-to-Let gross advances reached £12.5bn in the five months to May 2023, a decrease of 46% compared with £23.3bn in the same period in 2022, with new purchases at c.28% of total lending, broadly stable to the prior period.[11]

1. UK Finance, New mortgage lending, UK (BOE) purpose of loan, June 2023
2. HMRC, Monthly property transactions, June 2023
3. UK Finance, Approvals for new mortgages by purpose of loan, UK (BOE), June 2023
4. BoE, 2 year (75% LTV) fixed rate mortgage to households (IUMBV34), June 2023
5. Twenty7Tec, Mortgage Market Report, May 2023
6. UK Finance, RF14 new refinancing and releveraging mortgages, June 2023
7. UK Finance, RF14 new refinancing and releveraging mortgages, June 2023
8. ONS, UK House Price Index, May 2023
9. RICS, Residential Market Survey, May 2023
10. ONS, Index of Private Housing Rental Prices, May 2023
11. UK Finance, BTL mortgages outstanding and new lending, June 2023

Segment review

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

OneSavings Bank (OSB) segment

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

Contribution to profit for the period

For the six months ended 30 June 2023	BTL/SME £m	Residential £m	Total £m
Net interest income	**196.3**	**44.8**	**241.1**
Other expense	**(7.6)**	**(2.3)**	**(9.9)**
Total income	**188.7**	**42.5**	**231.2**
Impairment of financial assets	**(34.4)**	**(4.8)**	**(39.2)**
Contribution to profit	**154.3**	**37.7**	**192.0**
For the six months ended 30 June 2022			
Net interest income	175.7	42.9	218.6
Other income	3.4	0.7	4.1
Total income	179.1	43.6	222.7
Impairment of financial assets	(2.6)	0.7	(1.9)
Contribution to profit	176.5	44.3	220.8

Loans and advances to customers

As at 30 June 2023	BTL/SME £m	Residential £m	Total £m
Gross loans and advances to customers	**11,606.7**	**2,342.1**	**13,948.8**
Expected credit losses	**(129.9)**	**(9.7)**	**(139.6)**
Net loans and advances to customers	**11,476.8**	**2,332.4**	**13,809.2**
Risk-weighted assets	**5,819.8**	**1,066.3**	**6,886.1**
As at 31 December 2022			
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

OSB Buy-to-Let/SME sub-segment

Loans and advances to customers

	30-Jun-2023 £m	31-Dec-2022 £m
Buy-to-Let	**10,287.7**	9,755.0
Commercial	**996.4**	881.3
Residential development	**237.5**	184.5
Funding lines	**85.1**	99.2
Gross loans and advances to customers	**11,606.7**	10,920.0
Expected credit losses	**(129.9)**	(95.2)
Net loans and advances to customers	**11,476.8**	10,824.8

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

The Buy-to-Let/SME net loan book increased by 6% to £11,476.8m in the first six months of 2023 supported by organic originations of £1,080.5m, which were up by 30% from £832.3m in the prior period.

Buy-to-Let/SME net interest income increased by 12% to £196.3m from £175.7m in the prior period, primarily due to growth in the loan book and the beneficial impact of base rate rises. The Group also recognised an adverse EIR adjustment of £2.6m in the period (H1 2022: £3.9m gain) based on updated customer behavioural trends.

This segment recognised £7.6m of other expenses relating to losses from the Group’s hedging activities (H1 2022: £3.4m gain) and an impairment charge of £34.4m (H1 2022: £2.6m). The impairment charge was largely due to house price moderation, changes in the macroeconomic outlook and modelled IFRS 9 stage migration. Overall, the Buy-to-Let/SME segment made a contribution to profit of £154.3m, down 13% compared with £176.5m in the first six months of 2022, largely due to the higher impairment charge in the period.

The Group remained highly focused on the risk assessment of new lending, as demonstrated by the reduction in the average loan to value (LTV) for Buy-to-Let/SME originations to 70% (H1 2022: 74%). The average book LTV in the Buy-to-Let/SME segment increased to 66% (31 December 2022: 63%) as a result of house price depreciation in the period, with 4.3% of loans exceeding 90% LTV (31 December 2022: 3.2%).

Buy-to-Let
The Buy-to-Let gross loan book increased by 5% to £10,287.7m at the end of June 2023 (31 December 2022: £9,755.0m) supported by originations of £786.9m, which increased by 17% from £673.2m in the prior period.

Rapidly rising mortgage interest rates led to a continued focus on refinancing in the first half as landlords sought to lock in lower monthly repayments in expectation of further base rate rises, and the proportion of Kent Reliance Buy-to-Let completions represented by remortgages remained broadly stable at 59% (H1 2022: 60%). In addition, there was also an increasing trend in product transfers, with 75% of existing borrowers choosing a new product, under the Choices retention programme, within three months of their initial rate ending (H1 2022: 62%).

Five-year fixed rate mortgages remained popular and represented 70% of Kent Reliance completions (H1 2022: 67%). Professional, multi-property landlords continued to add to their portfolios and optimise their businesses from a tax perspective and represented 91% of completions by value for the Kent Reliance brand (H1 2022: 83%) and 86% of mortgage purchase applications in Kent Reliance came from landlords borrowing via a limited company (H1 2022: 76%).

Research conducted by BVA BDRC, on behalf of the Group, showed that the overall proportion of landlords planning to purchase new properties had fallen to 10% from 18% in the first quarter of 2022. However, of those planning to acquire more properties, the proportion planning to do so within a limited company ownership structure, preferred by professional landlords, has continued to increase, reaching 62% in the first quarter of 2023 (Q1 2022: 50%). This was especially true for landlords with portfolios of six or more properties, who represented just under two-thirds (64%) of all landlords that intended to purchase within a limited company structure.

The weighted average LTV of the Buy-to-Let book as at 30 June 2023 increased to 65% from 62% at the end of 2022, as a result of house price depreciation in the period and the average loan size remained unchanged from the end of 2022 at £255k. The weighted average interest coverage ratio for Buy-to-Let originations during the first six months of 2023 remained high at 178% (H1 2022: 211%) despite significantly higher mortgage interest rates.

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

The Group experienced an increased level of applications following the launch of new products in February and March under the InterBay brand. Organic originations more than doubled to £193.7m in the period (H1 2022: £72.0m) supporting a 13% growth in the gross loan book to £996.4m as at 30 June 2023 (31 December 2022: £881.3m).

The weighted average LTV of the commercial book increased to 73% and the average loan size increased to £390k for the first six months of 2023 (31 December 2022: 69% and £375k).

InterBay Asset Finance, which predominantly targets UK SMEs and small corporates financing business-critical assets, continued to grow in the first half of 2023, adding to the high quality portfolio. The gross carrying amount under finance leases was £202.6m as at 30 June 2023 (31 December 2022: £163.2m).

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

The residential development finance gross loan book at the end of June 2023 was £237.5m, with a further £137.5m committed (31 December 2022: £184.5m and £162.2m, respectively). Total approved limits were £518.7m (31 December 2022: £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. The increased rates of sale experienced by Heritable's developer customers in 2022 decreased at the end of that year and loan repayments have been at a lower level during the first half of 2023.

At the end of June 2023, Heritable had commitments to finance the development of 1,971 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 headwinds in the economy.

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 30 June 2023 were £202.5m, with total loans outstanding of £85.1m (31 December 2022: £274.0m and £99.2m, respectively). During the period, the Group maintained a cautious risk approach focusing on servicing existing customers.

OSB Residential sub-segment

Loans and advances to customers

	30-Jun-2023 £m	31-Dec-2022 £m
First charge	**2,189.7**	2,152.9
Second charge	**152.4**	171.8
Gross loans and advances to customers	**2,342.1**	2,324.7
Expected credit losses	**(9.7)**	(8.0)
Net loans and advances to customers	**2,332.4**	2,316.7

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

The Residential sub-segment net loan book grew by 1% to £2,332.4m as at 30 June 2023 (31 December 2022: £2,316.7m) and organic originations reduced 27% to £179.7m during the period (H1 2022: £244.9m).

Net interest income in the Residential sub-segment increased by 4% to £44.8m (H1 2022: £42.9m) due to growth in the loan book and the beneficial impact of base rate rises. The Group recognised an adverse EIR adjustment of £0.2m (H1 2022: £2.5m gain). This segment also recognised £2.3m of other expenses (H1 2022: £0.7m) relating to losses from hedging activities and an impairment charge of £4.8m (H1 2022: £0.7m credit) largely due to house price moderation, changes in the macroeconomic outlook and modelled IFRS 9 stage migration. The contribution to profit from this segment was £37.7m, down 15% from £44.3m in the same period of 2022.

The average book LTV increased to 47% (31 December 2022: 45%) as a result of house price depreciation in the period, with only 2.1% of loans with LTVs exceeding 90% (31 December 2022: 0.8%). The average LTV of new residential origination in the first six months of 2023 remained broadly flat at 62% (H1 2022: 61%).

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 originations under Kent Reliance brand reduced by 27% to £179.7m in the first six months of 2023 (H1 2022: £244.9m) due to volatility in market pricing reducing the overall activity in this segment. The gross loan book increased by 2% to £2,189.7m from £2,152.9m at the end of 2022.

Second charge
The OSB second charge mortgage book is in run-off and managed by Precise Mortgages. Total gross loans were £152.4m as at 30 June 2023 (31 December 2022: £171.8m).

Charter Court Financial Services (CCFS) segment

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

Contribution to profit for the period

For the six months to 30 June 2023	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/(expense)	**3.1**	**20.3**	**3.8**	**2.7**	**9.3**	**39.2**	**(42.8)**	**(3.6)**
Other income	**-**	**-**	**-**	**-**	**0.5**	**0.5**	**4.0**	**4.5**
Total income	**3.1**	**20.3**	**3.8**	**2.7**	**9.8**	**39.7**	**(38.8)**	**0.9**
Impairment of financial assets	**(3.2)**	**(1.8)**	**(0.4)**	**0.1**	**-**	**(5.3)**	**(0.1)**	**(5.4)**
Contribution to profit	**(0.1)**	**18.5**	**3.4**	**2.8**	**9.8**	**34.4**	**(38.9)**	**(4.5)**

For the six months to 30 June 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/(expense)	102.4	45.6	2.1	3.0	(2.5)	150.6	(25.8)	124.8
Other income	-	-	-	-	10.7	10.7	5.3	16.0
Total income	102.4	45.6	2.1	3.0	8.2	161.3	(20.5)	140.8
Impairment of financial assets	(2.6)	2.5	(0.1)	0.1	-	(0.1)	0.4	0.3
Contribution to profit	99.8	48.1	2.0	3.1	8.2	161.2	(20.1)	141.1

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 30 June 2023	**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	**7,634.9**	**2,757.9**	**266.8**	**97.3**	**15.1**	**10,772.0**	**38.1**	**10,810.1**
Expected credit losses	**(27.0)**	**(5.7)**	**(0.9)**	**(0.1)**	**-**	**(33.7)**	**1.2**	**(32.5)**
Net loans and advances to customers	**7,607.9**	**2,752.2**	**265.9**	**97.2**	**15.1**	**10,738.3**	**39.3**	**10,777.6**
Risk-weighted assets	**3,076.6**	**1,178.9**	**139.1**	**40.7**	**5.6**	**4,440.9**	**26.9**	**4,467.8**

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

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.

CCFS segment

Underlying loans and advances to customers

	30-Jun-2023 £m	31-Dec-2022 £m
Buy-to-Let	**7,634.9**	7,468.8
Residential	**2,757.9**	2,671.3
Bridging	**266.8**	149.7
Second charge	**97.3**	111.9
Other[1]	**15.1**	14.6
Gross loans and advances to customers	**10,772.0**	10,416.3
Expected credit losses	**(33.7)**	(28.0)
Net loans and advances to customers	**10,738.3**	10,388.3

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 loans, secured against residential property in both the regulated and unregulated sectors.

The CCFS underlying net loan book grew by 3% to £10,738.3m at the end of June 2023 (31 December 2022: £10,388.3m) supported by organic originations of £1,060.3m, which decreased by 12% from £1,204.8m of new business written in the same period last year.

Buy-to-Let sub-segment
In the first half of 2023, CCFS' organic originations in the Buy-to-Let sub-segment through the Precise Mortgages brand decreased by 40% to £516.4m (H1 2022: £867.5m) however the underlying gross Buy-to-Let loan book grew by 2% in the period to £7,634.9m from £7,468.8m at the end of 2022.

Rapidly rising mortgage interest rates led to an increase in refinancing activity in the first half of the year as landlords sought to lock in lower monthly repayments in expectation of further base rate rises, consequently the proportion of remortgages increased to 53% of completions under the Precise Mortgages brand as at 30 June 2023 (H1 2022: 50%). In October 2022, the Group established a proactive retention programme for Precise Mortgages borrowers that contributed to 59% of customers choosing a new product with the Group within three months of their initial rate coming to an end.

Five-year fixed rate mortgages continued to be popular and accounted for 66% of Precise Mortgages completions in the period (H1 2022: 69%). Borrowing via a limited company made up 65% of Buy-to-Let completions (H1 2022: 66%) and loans for specialist property types, including houses of multiple occupation and multi-unit properties, represented 18% of completions in this sub-segment (H1 2022: 21%).

Research conducted by BVA BDRC on behalf of the Group for the first quarter of 2023, found that 67% of landlords reported an increase in rental demand.

The weighted average LTV of the loan book and the average loan size in this segment remained broadly stable at 67% and £190k, respectively (31 December 2022: 66% and £191k). The new lending average LTV reduced to 71% (H1 2022: 74%) and the weighted average interest coverage ratio for Buy-to-Let origination remained high at 154% (H1 2022: 197%) despite significantly higher mortgage interest rates.

Underlying net interest income in this sub-segment reduced to £3.1m compared with £102.4m in the prior period, as the benefit of loan book growth and base rate rises were more than offset by the underlying adverse EIR adjustment of £137.7m (H1 2022: £6.2m) due to the expectation that Precise Mortgages borrowers would spend less time on the higher reversionary rate before refinancing, based on recently observed customer behavioural trends. This segment recognised an impairment charge of £3.2m (H1 2022: £2.6m) largely due to house price moderation, changes in the macroeconomic outlook and modelled IFRS 9 stage migration. On an underlying basis, the Buy-to-Let sub-segment made a negative contribution to profit of £0.1m in the first half of 2023 (H1 2022: £99.8m).

On a statutory basis, the Buy-to-Let sub-segment made a negative contribution to profit of £30.8m (H1 2022: £81.8m).

Residential sub-segment
The underlying gross loan book in CCFS' Residential sub-segment increased by 3% to £2,757.9m at the end of June 2023 (31 December 2022: £2,671.3m) supported by a 23% increase in organic originations to £317.2m in the first half of 2023 (H1 2022: £257.1m).

The Group continued to benefit from CCFS' expertise, with a strong focus on first time buyers, including self-employed individuals and those with minor adverse credit records. Strong application levels were observed throughout the period following the relaunch of several products in January, including products supporting the Right to Buy scheme.

The average loan size in this sub-segment increased to £152k with the average book LTV remaining broadly stable at 58% as at 30 June 2023 (31 December 2022: £147k and 57%, respectively). The average LTV for new lending reduced to 62% in the period (H1 2022: 66%) as the Group continued to focus on the risk assessment of new lending.

Underlying net interest income reduced to £20.3m (H1 2022: £45.6m) as the benefits of loan book growth and base rate rises were more than offset by the underlying adverse EIR adjustment of £40.3m (H1 2022: £0.5m) due to the expectation that Precise Mortgages borrowers would spend less time on the higher reversionary rate before refinancing, based on observed customer behavioural trends. The Residential sub-segment recorded an impairment charge of £1.8m versus a £2.5m credit in the first half of 2022 largely due to house price moderation, changes in the macroeconomic outlook and modelled IFRS 9 stage migration. On an underlying basis, the Residential sub-segment made a contribution to profit of £18.5m, compared with £48.1m in the same period in 2022.

On a statutory basis, the Residential sub-segment made a contribution to profit of £7.5m (H1 2022: £41.3m).

Bridging sub-segment
Short-term bridging originations increased to £226.7m compared with £77.0m in the first half of 2022 as the Group continued to enhance and promote its bridging product offering throughout the period. The gross loan book in this sub-segment increased by 78% to £266.8m as at 30 June 2023 (31 December 2022: £149.7m).

Underlying net interest income increased to £3.8m from £2.1m in the first half of 2022, primarily due to strong new business volumes in the period. The bridging sub-segment recorded an impairment charge of £0.4m (H1 2022: £0.1m) largely due to portfolio growth as the Group became more active in this sector and overall made a contribution to profit of £3.4m in the first half of 2023 (H1 2022: £2.0m).

On a statutory basis, the bridging sub-segment made a contribution to profit of £2.6m (H1 2022: £1.8m).

Second charge sub-segment
The second charge gross loan book reduced to £97.3m compared with £111.9m as at 31 December 2022, as the Group no longer offers second charge products and the book is in run-off.

Underlying net interest income in the second charge sub-segment was £2.7m (H1 2022: £3.0m) and the contribution to profit was £2.8m (H1 2022: £3.1m) after an impairment credit of £0.1m, unchanged from the first half of 2022.

On a statutory basis, the contribution to profit from the second charge sub-segment was £2.4m (H1 2022: £2.7m).

Impact of the rapidly changing interest rate environment on customer behaviour and EIR accounting

Rapidly rising rates and volatile outlook

The Bank of England raised the UK's base rate (BBR) 12 times from the start of 2022 through to 30 June 2023, as summarised in Table 1 below. The interest rate outlook was also volatile across the same period and Table 2 below shows the futures implied BBR peak since 30 June 2021 by quarter.

Table 1

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

Table 2

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

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

Impact on customer behaviour

These rapid BBR rises and fluctuating interest rate expectations led to customer behavioural changes. Precise Mortgages (Precise) fixed rate products were designed to revert to a rate which was similar to the initial fixed rate and open market rates. This led to borrowers spending significant time on the variable reversion rate before choosing a new fixed rate product or refinancing. Precise customers generally contractually revert to a margin over BBR at the end of their fixed rate term. Over the course of the first half of 2023, the Group observed a step change in how long these customers were spending on the reversion rate in particular the attrition rate of borrowers who stayed on the reversion rate for several months. As BBR has continued to rise, customers have seen steep increases in the BBR linked reversion rate, and as the Group has continued to develop its Precise retention programme, customers are choosing to refinance earlier and spend less time on the higher reversion rate, compared to previously observed behavioural trends.

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

The following table illustrates the different way in which Precise and KR mortgages have reverted since 2020, by showing the difference between the average fixed and reversion rates for 5 year fixed Buy-to-Let products when they reached the end of their initial fixed rate term.

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

The above table shows that the Precise Buy-to-Let 5 year fixed rate products on average reverted to a variable rate broadly consistent with the fixed rate prior to the recent rapid rise in BBR. Conversely the KR 5 year fixed rate products have consistently had a higher step-up in reversion providing an incentive to refinance quickly.

The step-change in customer behavioural trends observed over the course of the first half of 2023, led to a decrease of c.12 months in the weighted average number of months Precise borrowers who reach the end of their fixed term are expected to spend on the reversion rate before refinancing to c.5 months as at 30 June 2023.

The Group has estimated that assuming 12 months less on reversion for Precise borrowers and keeping all other assumptions (including pricing, swap spreads, cost of funds and product mix) unchanged leads to a reduction of 11bps in the Group's net interest margin for new origination based on actual applications for Precise Mortgages in the month of June 2023.

Kent Reliance borrowers, who reach the end of their fixed term are expected on average to spend c.1 month on the reversion rate.

Impact of the step-change in behaviour in reversion for Precise customers
The reduction in the expected time spent on reversion by Precise customers from c.17 to c.5 months, resulted in an adverse underlying EIR adjustment to the carrying value of Loans and Advances to Customers through Net Interest Income of £178.0m in the first half of 2023. This moved the Precise EIR asset to an EIR liability as explained in the EIR accounting overview below. Other Group EIR adjustments totalled £2.7m in the first half.

The following table details Precise Mortgages' underlying EIR assets and liabilities, with the movement in the balance sheet recognised in Net Interest Income in each period.

Precise Mortgages EIR	Movement recognised through Net Interest Income £m	Net £m	Underlying EIR asset/(liability) £m
As at 31 December 2019			**5.6**
Recognition of interest income	16.8		
Behavioural adjustment	(2.0)		
As at 31 December 2020		**14.8**	**20.4**
Recognition of interest income	12.6		
Behavioural adjustment	(14.7)		
As at 31 December 2021		**(2.1)**	**18.3**
Recognition of interest income	70.6		
Behavioural adjustment	(41.7)		
As at 31 December 2022		**28.9**	**47.3**
Recognition of interest income	58.9		
Behavioural adjustment	(178.0)		
As at 30 June 2023		**(119.1)**	**(71.9)**

Precise has historically had an EIR asset, primarily reflecting the expected time spent on reversion and early repayment charges (ERC) income which moved to a liability of £71.9m as at 30 June 2023 following the adverse EIR adjustment. This liability will unwind over the remaining life of the mortgages (see EIR accounting overview for more detail below).

Kent Reliance had a net EIR liability of £13.0m as at 30 June 2023 (31 December 2022: £17.2m) due to the deferral of net fee income outweighing the impact of expected ERC income and time spent in reversion.

The Group's commercial brand, InterBay, had an EIR asset of £13.4m as at 30 June 2023 (31 December 2022: £8.8m) in relation to expected ERC income and time spent in reversion. InterBay products did not change in reversion versus the initial fixed rate until 2022 when BBR and LIBOR replacement first exceeded interest rate floors in the products.

Behavioural sensitivities
The sensitivity for Precise is +/- 3 months for those customers expected to move onto the reversion rate. Applying a +/- 3 months movement in the time spent on reversion would lead to a +/- c.£70m impact on the underlying Net Interest Income and +/- c.£80m impact on the statutory Net Interest Income.
This sensitivity will increase/decrease as BBR rises/falls.

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

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

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

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

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

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

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

The Group's retention programmes
Kent Reliance has a long and well-established broker led retention programme, Choices, to encourage borrowers to switch to a new product quickly rather than refinance away from the Group after a period on the higher reversion rate. This programme has been successful in retaining borrowers by engaging with them before the end of their fixed rate term and offering preferential terms compared to new customer offers to reflect the Group's lower processing costs. In the first half of 2023, 75% (2022: 72%) of borrowers chose a new KR product within 3 months of their initial product maturing.

The Group introduced a similar proactive retention programme for Precise borrowers in October 2022 in reaction to the BBR increases and the resulting step-up in rates on reversion, and we are seeing a steady improvement in levels of retention, with 59% of borrowers refinancing with the brand within three months of their fixed rate product ending during the first half.

Financial review

Summary statutory results

Review of the Group's performance on a statutory basis for the six months to 30 June 2023 and 2022.

	H1 2023 £m	H1 2022 £m
Summary Profit or Loss		
Net interest income	**237.5**	343.4
Net fair value (loss)/gain on financial instruments	**(8.1)**	16.4
Other operating income	**2.7**	3.7
Administrative expenses	**(110.2)**	(91.3)
Provisions	**(0.6)**	1.2
Impairment of financial assets	**(44.6)**	(1.6)
Integration costs	**-**	(3.7)
Profit before tax	**76.7**	268.1
Profit after tax	**59.3**	208.9

	H1 2023	H1 2022
Key ratios[1]		
Net interest margin	**171bps**	280bps
Cost to income ratio	**47%**	25%
Management expense ratio	**78bps**	73bps
Loan loss ratio	**37bps**	1bp
Return on equity	**5%**	22%
Basic earnings per share, pence	**12.8**	45.7
Dividend per share, pence	**10.2**	8.7

	30-Jun-23 £m	31-Dec-22 £m
Extracts from the Statement of Financial Position		
Loans and advances to customers	**24,586.8**	23,612.7
Retail deposits	**20,713.7**	19,755.8
Total assets	**28,784.9**	27,566.7
Key ratios		
Common equity tier 1 ratio	**15.7%**	18.3%
Total capital ratio	**19.2%**	19.7%
Leverage ratio	**7.5%**	8.4%

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

Statutory profit
The Group's statutory profit before tax decreased by 71% to £76.7m in the first half of 2023 (H1 2022: £268.1m), after integration costs and other acquisition-related items of £39.9m[1] (H1 2022: £26.0m), with the benefit of net loan book growth and improved margins more than offset by the adverse statutory effective interest rate (EIR) adjustment of £208.5m, as well as higher impairment provisions and higher administrative expenses.

Statutory profit after tax was £59.3m for the first half of 2023, a decrease of 72% (H1 2022: £208.9m) and included after-tax acquisition-related items of £28.6m[1] (H1 2022: £14.4m). The Group's effective tax rate for the first six months of 2023 was 22.9%[2], broadly stable compared to 22.2% in the prior period.

Statutory return on equity for the first half of 2023 reduced to 5% (H1 2022: 22%) reflecting the reduction in profitability in the period. Statutory basic earnings per share reduced to 12.8 pence (H1 2022: 45.7 pence), in line with the decrease in profit after taxation.

Net interest income
Statutory net interest income decreased by 31% in the period to £237.5m (H1 2022: £343.4m), as the benefit of net loan book growth and improved margins was more than offset by the adverse EIR adjustment of £208.5m on a statutory basis (H1 2022: £2.6m). The adverse EIR adjustment primarily related to the expectation that Precise Mortgages borrowers would spend less time on the higher reversionary rate before refinancing based on recently observed customer behavioural trends.

Statutory net interest margin (NIM) decreased by 109bps to 171bps in the first half (H1 2022: 280bps), as the benefit of base rate rises was more than offset by the adverse EIR adjustment which accounted for 151bps of statutory NIM.

Net fair value loss on financial instruments
Net fair value loss on financial instruments of £8.1m in the first half of 2023 (H1 2022: £16.4m gain) included a net loss of £29.0m (H1 2022: £4.3m) from hedge ineffectiveness, a gain on unmatched swaps of £17.1m (H1 2022: £14.0m). The Group also recorded a £5.1m gain (H1 2022: £5.3m) from the amortisation of acquisition-related hedge accounting inception adjustments, a £2.4m loss from the amortisation of hedge accounting inception adjustments (H1 2022: £6.5m gain) and a £1.1m net gain from other items (H1 2022: £5.1m loss).

The loss in respect of the ineffective portion of hedges arose from recent swap volatility and will unwind over the remaining life of the hedged fixed rate retail savings bonds and mortgages.

The net gain on unmatched swaps related primarily to fair value movements on mortgage pipeline swaps, prior to them being matched against completed mortgages, and was caused by an increase in interest rate outlook on the SONIA yield curve. 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.

Other operating income
Statutory other operating income of £2.7m (H1 2022: £3.7m) mainly comprised CCFS' commissions and servicing fees, including those relating to securitised loans, which have been derecognised from the Group's balance sheet.

Administrative expenses
Statutory administrative expenses increased by 21% to £110.2m in the first half of 2023 (H1 2022: £91.3m) largely due to the anticipated impact of inflation and planned investment in people and operations.

The Group's statutory management expense ratio increased to 78bps in the first half of 2023 (H1 2022: 73bps) reflecting higher administrative expenses and the statutory cost to income ratio increased to 47% (H1 2022: 25%) primarily as a result of lower income in the period, following the adverse EIR adjustment.

Impairment of financial assets
The Group recognised an impairment charge of £44.6m for the first six months of 2023 (H1 2022: £1.6m) which represented a statutory loan loss ratio of 37bps compared to 1bp in the first half of 2022.

The Group adopted more adverse forward-looking macroeconomic scenarios in its IFRS 9 models which together with house price moderation in the period accounted for a £12.6m increase in provisions. Enhancements to models and updates to post model adjustments to reflect the deterioration in the outlook led to an increase of £8.4m. In addition, a £4.5m increase in provisions related to accounts with arrears of three months or more and a further increase of £15.8m related to changes in the credit profile of borrowers as they transitioned through modelled IFRS 9 impairment stages. Individually assessed provision increases and other items totalled £3.3m.

Integration costs
The Group ceased recognising expenses as related to integration on the third anniversary of combination with CCFS in October 2022.

In the prior period, £3.7m of integration expenses largely related to advice on the Group's future operating structure and redundancy costs due to the transition to the new operating model.

Dividend
The Group's dividend policy is to declare interim dividends equal to one-third of the prior year's total dividend. The Board has therefore declared an interim dividend of 10.2 pence per share for the first half of 2023, based on the 2022 total dividend of 30.5 pence per share.

The declared dividend will be paid on 20 September 2023, with an ex-dividend date of 24 August 2023 and a record date of 25 August 2023.

Balance sheet growth
On a statutory basis, net loans and advances to customers grew by 4% to £24,586.8m as at 30 June 2023 (31 December 2022: £23,612.7m) reflecting originations of £2.3bn in the first half. Excluding the impact of the adverse EIR adjustment, the statutory net loans and advances to customers would have grown by 5%.

Total assets grew by 4% to £28,784.9m (31 December 2022: £27,566.7m) largely due to the growth in loans and advances to customers and higher liquid assets.

On a statutory basis, retail deposits increased by 5% to £20,713.7m as at 30 June 2023 (31 December 2022: £19,755.8m) as the Group continued to attract new savers. The Group complemented its retail deposits funding with drawings under the Bank of England's schemes. During the first half, the Group repaid £300.9m of funding under the Indexed Long-Term Repo scheme and drawings under the Term Funding Scheme for SMEs remained unchanged from £4.2bn at the end of 2022.

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

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

As at 30 June 2023, OSB had £1,401.2m and CCFS had £1,760.0m of HQLA (31 December 2022: £1,494.1m and £1,522.8m, respectively).

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

As at 30 June 2023, OSB had a liquidity coverage ratio of 234% and CCFS 162% (31 December 2022: 229% and 148%, respectively) and the Group LCR was 196% (31 December 2022: 185%), all significantly in excess of the regulatory minimum of 100% plus Individual Liquidity Guidance.

Capital

The Group's capital position remained strong, with a CET1 ratio of 15.7% and a total capital ratio of 19.2% as at the end of June 2023 (31 December 2022: 18.3% and 19.7%, respectively). Both ratios reflect the impact of lower profit in the period due to the adverse EIR adjustment, which reduced the CET1 ratio by 1.2% and the £150m share repurchase programme announced in March 2023 which reduced it by 1.4%.

The Group had a leverage ratio of 7.5% as at 30 June 2023 (31 December 2022: 8.4%).

The combined Group had a Pillar 2a requirement of 1.27% of risk-weighted assets (excluding a static integration add-on of £19.5m) as at 30 June 2023, unchanged from the requirement as at 31 December 2022.

1. See the reconciliation of statutory to underlying results below.
2. Effective tax rate excludes £0.2m (H1 2022: £0.4m) of adjustments relating to prior periods.

Summary underlying results

Alternative performance measures
The Group presents alternative performance measures (APMs) below, as Management believe they provide a more consistent basis for comparing the Group's performance between financial periods.

Underlying results for the six months to 30 June 2023 and 30 June 2022 exclude integration costs and other acquisition-related items.

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

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

Summary Profit or Loss	H1 2023 £m	H1 2022 £m
Net interest income	**280.3**	369.2
Net fair value (loss)/gain on financial instruments	**(12.1)**	11.1
Other operating income	**2.7**	3.7
Administrative expenses	**(109.2)**	(89.1)
Provisions	**(0.6)**	1.2
Impairment of financial assets	**(44.5)**	(2.0)
Profit before tax	**116.6**	294.1
Profit after tax	**87.9**	223.3

Key ratios[1]	H1 2023	H1 2022
Net interest margin	**203bps**	302bps
Cost to income ratio	**40%**	23%
Management expense ratio	**78bps**	72bps
Loan loss ratio	**37bps**	2bps
Return on equity	**8%**	24%
Basic earnings per share, pence	**19.5**	48.9

Extracts from the Statement of Financial Position	30-Jun-23 £m	31-Dec-22 £m
Loans and advances to customers	**24,547.5**	23,529.8
Retail deposits	**20,713.5**	19,755.2
Total assets	**28,749.1**	27,487.6

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

Underlying profit
The Group's underlying profit before tax decreased by 60% to £116.6m compared with £294.1m in the first half of 2022, with the benefit of net loan book growth and improved margins more than offset by the adverse underlying effective interest rate (EIR) adjustment of £180.7m as well as a higher impairment charge and higher administrative expenses.

Underlying profit after tax was £87.9m, down 61% (H1 2022: £223.3m) broadly in line with the decrease in profit before tax. The Group's effective tax rate on an underlying basis remained broadly stable at 24.6% for the first half of 2023 (H1 2022: 24.1%).

On an underlying basis, return on equity for the first half of 2023 reduced to 8% from 24% in the prior period reflecting the reduction in profitability. Underlying basic earnings per share decreased to 19.5 pence (H1 2022: 48.9 pence), broadly in line with profit after tax.

Net interest income
Underlying net interest income decreased by 24% to £280.3m in the first half of 2023 (H1 2022: £369.2m) as the benefit of net loan book growth and improved margins was more than offset by the adverse EIR adjustment of £180.7m on an underlying basis (H1 2022: £0.3m). The adverse EIR adjustment primarily related to the expectation that Precise Mortgages borrowers would spend less time on the higher reversionary rate before refinancing based on recently observed behavioural trends.

Underlying net interest margin reduced by 99bps to 203bps in the first half (H1 2022: 302bps), as the benefit of base rate rises was more than offset primarily by the adverse EIR adjustment which accounted for 130bps of underlying NIM.

Net fair value loss on financial instruments
Underlying net fair value loss on financial instruments of £12.1m in the first half of 2023 (H1 2022: £11.1m gain) included a loss of £29.0m (H1 2022: £4.3m) from hedge ineffectiveness, a gain on unmatched swaps of £17.1m (H1 2022: £14.0m) and a £1.2m loss from the amortisation of hedge accounting inception adjustments (H1 2022: £6.5m gain). Other hedging and fair value movements amounted to a gain of £1.0m (H1 2022: £5.1m loss).

The loss in respect of the ineffective portion of hedges arose from recent swap volatility and will unwind over the remaining life of the hedged fixed rate retail savings bonds and mortgages.

The net gain on unmatched swaps relates primarily to fair value movements on mortgage pipeline swaps, prior to them being matched against completed mortgages, and was due to an increase in outlook on the SONIA yield curve. 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.

Other operating income
On an underlying basis, other operating income was £2.7m in the first half of 2023 (H1 2022: £3.7m) and mainly comprised CCFS' commissions and servicing fees, including those relating to securitised loans which have been deconsolidated from the Group's balance sheet.

Administrative expenses
Underlying administrative expenses increased by 23% to £109.2m in the first half of 2023 (H1 2022: £89.1m) largely due to the anticipated impact of inflation and planned investment in people and operations.

The Group's underlying management expense ratio increased to 78bps for the first half of 2023 (H1 2022: 72bps) reflecting higher administrative expenses and the underlying cost to income ratio increased to 40% (H1 2022: 23%) as a result of lower income in the period, following the adverse EIR adjustment.

Impairment of financial assets
The Group recorded an underlying impairment charge of £44.5m in the first half of 2023 (H1 2022: £2.0m) representing an underlying loan loss ratio of 37bps (H1 2022: 2bps).

The Group adopted more adverse forward-looking macroeconomic scenarios in its IFRS 9 models which together with house price moderation in the period accounted for a £12.6m increase in provisions. Enhancements to models and updates to post model adjustments to reflect the deterioration in the outlook, led to an increase of £8.4m. In addition, a £4.5m increase in provisions related to accounts with arrears of three months or more and a further increase of £15.8m related to the change in the credit profile of borrowers as they transitioned through modelled IFRS 9 impairment stages. Individually assessed provision increases and other items totalled £3.2m.

Balance sheet growth
On an underlying basis, net loans and advances to customers were £24,547.5m (31 December 2022: £23,529.8m) an increase of 4%, reflecting gross originations of £2.3bn in the first six months of 2023. Excluding the impact of the adverse underlying EIR adjustment, underlying net loans and advances to customers would have grown by 5%.

Total underlying assets grew by 5% to £28,749.1m (31 December 2022: £27,487.6m) largely due to the growth in loans and advances to customers and higher liquid assets.

On an underlying basis, retail deposits increased by 5% to £20,713.5m as at 30 June 2023 (31 December 2022: £19,755.2m) as the Group continued to attract new savers.

Reconciliation of statutory to underlying results

	HY 2023			HY 2022		
	Statutory results £m	Reverse acquisition-related and exceptional items £m	Underlying results £m	Statutory results £m	Reverse acquisition-related and exceptional items £m	Underlying results £m
Net interest income	**237.5**	**42.8**[1]	**280.3**	343.4	25.8	369.2
Net fair value (loss)/gain on financial instruments	**(8.1)**	**(4.0)**[2]	**(12.1)**	16.4	(5.3)	11.1
Other operating income	**2.7**	**–**	**2.7**	3.7	–	3.7
Total income	**232.1**	**38.8**	**270.9**	363.5	20.5	384.0
Administrative expenses	**(110.2)**	**1.0**[3]	**(109.2)**	(91.3)	2.2	(89.1)
Provisions	**(0.6)**	**–**	**(0.6)**	1.2	–	1.2
Impairment of financial assets	**(44.6)**	**0.1**[4]	**(44.5)**	(1.6)	(0.4)	(2.0)
Integration costs	**–**	**–**	**–**	(3.7)	3.7	–
Profit before tax	**76.7**	**39.9**	**116.6**	268.1	26.0	294.1
Profit after tax	**59.3**	**28.6**	**87.9**	208.9	14.4	223.3
Summary Balance Sheet					FY 2022	
Loans and advances to customers	**24,586.8**	**(39.3)**[5]	**24,547.5**	23,612.7	(82.9)	23,529.8
Other financial assets	**4,067.9**	**4.2**[6]	**4,072.1**	3,878.1	9.1	3,887.2
Other non-financial assets	**130.2**	**(0.7)**[7]	**129.5**	75.9	(5.3)	70.6
Total assets	**28,784.9**	**(35.8)**	**28,749.1**	27,566.7	(79.1)	27,487.6
Amounts owed to retail depositors	**20,713.7**	**(0.2)**[8]	**20,713.5**	19,755.8	(0.6)	19,755.2
Other financial liabilities	**5,952.9**	**0.2**[9]	**5,953.1**	5,548.5	0.8	5,549.3
Other non-financial liabilities	**155.1**	**(9.4)**[10]	**145.7**	61.4	(30.2)	31.2
Total liabilities	**26,821.7**	**(9.4)**	**26,812.3**	25,365.7	(30.0)	25,335.7
Net assets	**1,963.2**	**(26.4)**	**1,936.8**	2,201.0	(49.1)	2,151.9

Notes to the reconciliation of statutory to underlying results table:

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

Risk review

Key areas of focus during the six months to 30 June 2023

The Group continued to deliver against all key strategic risk objectives during the first six months of 2023, including the priority areas set out in the 2022 Annual Report and Accounts. The Group continues to perform within the confines of a prudent risk appetite.

The macroeconomic outlook for the United Kingdom has deteriorated since the end of 2022, with continued inflationary pressure resulting in further tightening of monetary policy. Consequently, inflation and interest rate levels are expected to remain at a high level over a more protracted time frame.

The Group's credit performance has continued to exhibit underlying resilience due to the credit profile of its borrowers, robust affordability assessments and supporting security. The macroeconomic outlook has been reflected in the Group's modelled credit risk assessment, with actual portfolio performance starting to show modest increases in arrears and staging migrations. The Group remains confident in its cautious and proactive approach to expected credit loss provisioning.

The business impact of an extended period of economic stress, in particular rising inflation and interest rates has impacted mortgage affordability and refinancing. The rapid and unplanned Bank Base Rate rises and volatile swap spreads led to unexpected and unpredictable customer behavioural changes resulting in an adverse EIR adjustment. The Group continues to actively monitor observed customer behaviours and reflect them in its risk based analytics.

The Group's risk management framework ensured that risks continue to be identified, monitored and managed effectively, and has enabled the Group to actively manage its risk profile. The Group continues to take appropriate actions to support its customers through this challenging period.

A full review of the risk appetite statements and limits across all principal risk types was undertaken during the six months to 30 June 2023, in the context of the Group's available financial resources, strategic objectives and regulatory expectations. The Group's risk appetite is underpinned by detailed stress testing analysis which considers performance over a range of extreme but plausible scenarios, and therefore provides the Board with confidence that the Group has more than sufficient financial resources and operational capacity to manage the impact of the ongoing economic and operating uncertainty.

In the context of the deteriorating macroeconomic outlook, the Group's underlying credit profile remained resilient. Loan book growth has been subject to strict lending criteria, whilst loan to value levels have been adjusted to reflect recent reductions in property prices, where average loan to value levels remain strong. The loan to value profile of the Group's lending portfolios protects the Group from realising losses, should an account have to be repossessed and the property sold. Rising interest rates have impacted loan affordability and therefore interest coverage ratios for new lending have been impacted, but remain at acceptable levels. The Group has successfully leveraged its improved credit risk analytics and governance arrangements to actively monitor and manage the Group's credit profile, taking timely actions where required.

During the six months to 30 June 2023 the Group continued to organically generate capital and funded growth through retail and wholesale channels. The Group continued to operate with material capital and liquidity surpluses to its regulatory and internal stress based requirements. A number of reverse stress tests were performed to identify the severity of macroeconomic scenarios that would be required to result in the Group and its entities breaching minimum regulatory requirements. These assessments were utilised in the going concern assessment, which demonstrated the Group's inherent resilience to implausible stress scenarios.

The Group experienced heightened operational activity as a result of the level and frequency of base rate increases. The Group's operating model performed resiliently, benefiting from the continued investment in operational capabilities.

During the six months to 30 June 2023 the Group continued to make good progress across a number of key regulatory initiatives.

The Group continues to actively engage with the PRA on the timing of the IRB application relating to rating systems covering the core Buy-to-let and residential first charge mortgages. The Group is ready to submit module 1 when regulatory consent is provided.

Preparations for achieving compliance with the FCA's new Consumer Duty regulations, which came into force at the end of July, have progressed as planned, and the Group is well positioned to demonstrate compliance. The Group continued to enhance its resolution capabilities through the issuance of Tier 2 capital and further embedding of capabilities across all aspects of the Resolvability Assessment Framework.

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 considered if these were adequately accounted for in IFRS 9 models and frameworks. The Group identified a number of areas that continued to require post-model adjustments, most notably to account for the heightened and extended cost of borrowing pressure, which in combination with updated macroeconomic scenarios, resulted in an increase in provisions and a more pronounced increase in the balances of accounts in stage 2. Expected credit loss provisions were assessed using the Group's 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.

The Group made progress in its approach to managing climate risk by further embedding its climate risk management framework. A dedicated ESG Technical Committee ensures that enhancements are delivered as required.

Principal risks and uncertainties

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in order to achieve its strategic objectives.

During the six months to 30 June 2023, notwithstanding the economic and business uncertainties the Board did not see a significant change in the principal risks and uncertainties disclosed in the Risk review section of the 2022 Annual Report on pages 60 to 69, which can be accessed via our website at www.osb.co.uk.

The table below provides a high-level overview of the principal risks which the Board believes are the most material with respect to potential adverse impact on the business model, future financial performance, solvency and liquidity.

Principal risks	Key mitigating actions
Strategic and business risk	• Regular monitoring by the Board and the Group Executive Committee of business and financial performance against the Group's strategic agenda and risk appetite. • The financial plan is subject to regular reforecasts. • The Group continued to utilise and enhance its stress testing capabilities to assess and minimise potential areas of macroeconomic vulnerability. • 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.

Reputational risk	• Post implementation of Consumer Duty rules the Group has further enhanced its assessment and monitoring of customer outcomes and behaviours. In particular, the Group is actively monitoring and taking appropriate actions to reflect changing customer behaviours and trends.
	• The Group has a culture and commitment to being open and transparent in communication with all key stakeholders and has established processes to proactively identify and manage potential sources of reputational risk, for instance:
	  ○ The Group actively monitors customer and broker feedback (through social media and Trustpilot channels, NPS and CSAT surveys) to assess the ongoing appropriateness of service levels.
	  ○ Established processes are in place to review, assess and remediate complaints in a timely manner.
	  ○ The Group also actively monitors external press reports, sentiment of industry banking analysts, its investors, performance of key third party suppliers and interactions with regulators.

Credit risk	Individual borrower defaults: • Across both OSB and CCFS a robust underwriting assessment is undertaken to ensure a customer has the ability and propensity to repay, and sufficient security is available to support the new loan requested. • Should there be problems with a loan, the Collections and Recoveries team work 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.

Principal risks	Key mitigating actions
	Macroeconomic downturn • The Group works within portfolio limits on LTV, affordability, individual exposure, sector and geographic concentrations that are approved by the Group Risk Committee and the Board. These are reviewed on a semi-annual basis. • 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. • The Group notes the impact of cost of living and cost of borrowing on customer profile and behaviour. Wholesale credit risk • The Group transacts only with high quality wholesale counterparties. • Derivative exposures include collateral agreements to mitigate credit exposures.
Market risk	• The Group's Treasury function utilises a combination of offsetting assets and liabilities with similar tenors, allocation of reserves and interest rate swaps to effectively manage duration risk. • Due to the Group balance sheet structure, no active management of basis risk was required during the period. • IRRBB is monitored via a comprehensive range of techniques and scenarios including both economic value and earnings measures at both the Interest Rate Risk in the Banking Book Working Group and the Group Assets and Liabilities Committee.
Liquidity and funding risk	• The Group's funding strategy is focused on a highly stable retail deposit franchise. • The Group's large number of depositors provide diversification, where a high proportion of balances are covered by the FSCS protection scheme, largely mitigating the risk of a retail run. • The Group performs in-depth liquidity stress testing and maintains a liquid asset portfolio sufficient to meet obligations under stress. • The Group proactively manages its savings proposition through both the Liquidity Working Group and the Group Assets and Liabilities Committee in the context of macroeconomic outlook, changing market dynamics and customer behaviour. • The Group continuously monitors wholesale funding markets and is experienced in taking proactive management actions where required. • The Group has a range of wholesale options available, 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 in 2025.
Solvency risk	• The Group operates from a strong capital position and has a consistent record of strong profitability. • With respect to MREL, the Group has an established issuance programme and a

Principal risks	Key mitigating actions
	capital plan in place to ensure any actions required to meet requirements are fully understood. Market uncertainty can impact investor appetite, which may require the Group to take management actions, including applying for a "flexible add on" extension to the MREL requirements of up to two years or making changes to planned capital distributions. • 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 stress 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 in consultation processes. • Uncertainty remains around the impact of the finalised Basel 3.1 rules, however the Group has assessed the potential impacts over a range of outcomes.
Operational risk	IT security (including cyber risk) • The Group's programme of IT and cyber security 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. • The Group's ongoing penetration testing continues to drive enhancements by identifying potential areas of risk. IT failure • The Group continues to invest in improving the resilience of its core infrastructure and is investing in new technology to replace legacy architecture. It has identified its prioritised business services and the infrastructure that is required to support them. Tests are performed regularly to validate the Group's ability to recover from an incident within approved tolerances. Data quality and completeness • The Group's Data Strategy Programme is designed to ensure a consistent approach to the maintenance and use of data. This includes documented procedures and frameworks and also tools intended to improve the consistency of data use. Change management • The Group recognises that implementing change introduces significant operational risk and has therefore implemented a series of control gateways and prioritisation approaches designed to ensure that the change management portfolio is adequately budgeted and resourced and that each stage of the change management process has the necessary level of oversight.
Conduct risk	• 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

Principal risks	Key mitigating actions
	oversee both the origination of new products and to review the ongoing suitability of the existing product suite. • The Group has an embedded Conduct Risk Management Framework which clearly defines roles and responsibilities for conduct risk management and oversight across the Group's three lines of defence.
Compliance and regulatory risk	Prudential regulatory changes • 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 opinion to support interpretation of the requirements and validation of its response, where required. Conduct regulation • 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 a 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, especially 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.
Financial crime risk	• 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 it complies with all regulatory obligations. • 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.

Emerging risks

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

Emerging risks	Key mitigating actions
Political and macroeconomic uncertainty • The Group's lending activity is predominantly focused in the United Kingdom (with a legacy book of mortgages in the Channel Islands) and, as such, will be impacted by any risks emerging from changes in the macroeconomic environment. • Rising inflation and interest rates pose risks to the Group's loan portfolio performance. • Changes in customer behaviour can result in material changes to assumptions used in EIR calculations.	• 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 Group actively monitors customer behaviour and adjusts its risk assessments accordingly. • The Board and management review detailed portfolio reports to identify any changes in the Group's risk profile.
Climate change 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 the period, the Group further embedded its approach to climate risk management, which included the development of a climate risk appetite and enhancement of the climate risk framework.
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.	• 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. • Established and maturing model governance, monitoring and validation frameworks, procedures and standards. • 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	• The Group has established horizon scanning capabilities, together with dedicated prudential and conduct regulatory experts in place to ensure the

Emerging risks	Key mitigating actions
regulatory change agenda. The Group is therefore required to respond to prudential and conduct-related regulatory changes, taking part in thematic reviews, as required.	Group manages future regulatory changes effectively. • The Group also has strong relationships with regulatory bodies, and via membership of UK Finance contributes to upcoming regulatory consultations.

Risk Profile Performance Overview

Credit risk

In the context of the deteriorating macroeconomic outlook, the Group's underlying credit profile remained resilient during the six months to 30 June 2023.

Demand for the Group's mortgage products remained strong, resulting in statutory net loans and advances increasing to £24.6bn as at 30 June 2023 from £23.6bn at the end of 2022. Loan book growth continued to be predominantly driven by new buy to let and residential first charge mortgage lending.

Average weighted interest coverage ratios across Buy-to-Let originations remained strong at 178% for OSB and 154% for CCFS (30 June 2022: 211% for OSB and 197% for CCFS). The reduction was driven by increased mortgage borrowing costs as the Group repriced its open market products, as a result of the rapid rise in interest rates relative to the movements in rental income received against the property.

The proportion of the Group's residential first charge mortgage portfolios with higher loan to income multiples (greater than four) remained low.

The Group's prudent risk appetite and well-established underwriting processes supported new mortgage lending at sensible average weighted loan to value levels of 69% for OSB and 66% for CCFS (30 June 2022: OSB 70%, CCFS 72%).

Some softening of house prices was observed resulting in the average weighted loan to value of the Group's book increasing from 60% as at 31 December 2022 to 63% as at 30 June 2023. The Group's ability to absorb any future economic shocks remains robust. The total average book loan to value ratios remained resilient for OSB at 62% (31 December 2022: 59%) and 64% for CCFS (31 December 2022: 63%).

Forward-looking internal and external credit scoring metrics remained strong, taking into account internal performance and customers' wider credit obligation performance.

Group balances with greater than three months arrears remained low at 1.2% (31 December 2022: 1.1%). OSB's greater than three months in arrears levels increased modestly to 1.3% (31 December 2022: 1.2%), whilst CCFS's increased to 1.0% (31 December 2022: 0.9%).

The levels of new forbearance requests remained low relative to the total number of customers and outstanding balances.

Expected credit losses
The Group recorded a statutory impairment charge of £44.6m for the six months to 30 June 2023 (H1 2022: £1.6m) which represented a statutory loan loss ratio of 37bps compared to 1bp in the first half of 2022.

The primary drivers of the impairment trends observed in the period were as follows:

a. Macroeconomic impact

The Group continued to receive regular macroeconomic scenario updates from its advisers, which were reviewed and discussed by management and the Board, along with the probability weightings applied to each scenario.

The macroeconomic scenarios utilised within the IFRS 9 provisioning process as at 30 June 2023 forecast an elevated interest rate trajectory across all scenarios, with a more adverse outlook and protracted recovery in house prices in the downside and severe downside scenarios, which more than offset improvements in other economic metrics. The probability weighting assigned to each scenario remained unchanged from 31 December 2022. Under the IFRS 9 framework, forward looking forecasts pull forward future losses therefore the updated scenarios resulted in further provisions being raised during the reporting period to 30 June 2023.

Macroeconomic scenarios utilised within IFRS 9 impairment calculations at 30 June 2023:

			Scenario (%)[1]				
Scenario	**Probability weighting (%)**	**Economic measure**	**Year end 2023**	**Year end 2024**	**Year end 2025**	**Year end 2026**	**Year end 2027**
Base case	40	GDP	0.4	0.8	1.5	2.3	1.6
		Unemployment	4.0	4.2	4.0	3.8	3.8
		House price growth	-5.0	-5.4	-0.3	4.5	5.3
		CPI	3.8	2.6	0.9	1.2	1.9
		Bank Base Rate	5.8	5.6	4.3	3.1	2.1
Upside	30	GDP	1.2	3.3	2.5	2.9	1.5
		Unemployment	3.8	3.7	3.7	3.6	3.6
		House price growth	-2.9	-3.1	1.8	5.9	5.2
		CPI	4.4	3.8	1.3	1.1	1.8
		Bank Base Rate	6.5	6.8	5.4	4.4	3.4
Downside	20	GDP	-1.2	-2.3	0.9	2.0	1.6
		Unemployment	4.8	6.1	7.0	6.9	6.6
		House price growth	-8.3	-10.8	-5.1	2.3	5.7
		CPI	2.7	1.2	0.5	1.1	1.7
		Bank Base Rate	5.1	4.6	3.1	1.8	1.3
Severe Downside	10	GDP	-2.4	-4.9	0.2	1.6	1.7
		Unemployment	5.0	6.7	7.5	7.4	7.1
		House price growth	-10.8	-15.1	-9.5	-0.1	6.1
		CPI	1.8	0.5	0.4	1.0	1.2
		Bank Base Rate	4.3	3.4	1.8	0.5	0.5

1. Scenarios show annual movement for GDP and house price growth and CPI and year end positions for unemployment and bank base rate. Commercial and residential properties follow the same HPI forecast

In the upside scenario, the performance of the economy with positive GDP and corporate resilience, drives continued inflation beyond the 2% target for longer and the BoE Monetary Policy Committee consider it appropriate to continue with the policy of increasing base rate. The reverse happens in the downside scenarios where negative GDP is paired with a quicker reduction in inflation and the BoE has less reason to continue raising rates. High inflation combined with a high interest rate risk in the downside is captured by the PMAs.

The more adverse forward-looking macroeconomic scenarios in the Group's IFRS 9 models which together with house price moderation in the period accounted for a £12.6m increase in the impairment charge.

b. Model enhancements and post model adjustments

The Group's technical Model Governance Committee receives regular model performance reports prepared by the Group's Models and Ratings function. Where required, proposals were made to ensure that modelled estimates continued to mirror recently observed outcomes. Prior to each reporting period the logic which determines whether accounts not in arrears should be moved to stage 2 is reviewed and some non-material adjustments were made to reflect post pandemic behaviour.

The Group took further Post Model Adjustments (PMAs) to account for risks not fully captured within the IFRS 9 framework, with an additional £8.4m impairment charge driven primarily by the much higher costs of borrowing for the Group's customers due to the recent interest rate rises.

c. Arrears flow

Although the Group's arrears remained broadly stable, there was an additional impairment charge of £4.5m driven by accounts with arrears over three months.

d. Changes in credit risk profile

An impairment charge of £15.8m related to changes in the credit profile of borrowers as they transitioned through modelled IFRS 9 impairment stages. This charge included the flow of new and closed business through impairment stages, but also where the Group observed a significant increase in credit risk, higher default rates, early arrears or forbearance.

e. Individually assessed provisions

The Group's specialist Real Estate Management and Collections and Servicing teams maintain watchlists of loans where objective evidence of impairment exists over a given exposure. For these specific loans a detailed assessment of the collateral and circumstances of the arrears is completed and, where required, an individual impairment provision will be raised based on this updated information which replaces any modelled provisions held. During the six months to 30 June 2023, the Group raised a number of additional individual provisions against a small number of counterparties, which together with write-offs and other items accounted for a further charge of £3.3m.

The table below indicates the provision coverage levels as at 30 June 2023:

As at 30 June 2023	Gross carrying amount	Expected credit loss	Coverage ratio
	£m	**£m**	%[1]
Stage 1	18,909.7	18.7	0.10%
Stage 2	5,175.9	66.7	1.29%
Stage 3 + POCI[2]	658.2	86.7	13.17%
Total	**24,743.8**	**172.1**	**0.70%**

As at 31 December 2022	Gross carrying amount	Expected credit loss	Coverage ratio
	£m	**£m**	%[1]
Stage 1	18,722.3	7.2	0.04%
Stage 2	4,417.1	50.9	1.15%
Stage 3 + POCI[2]	588.7	71.9	12.21%
Total	**23,728.1**	**130.0**	**0.55%**

1. Coverage ratios versus loans and advances is the total IFRS 9 provision versus gross loans and advances.
2. POCI assets are purchased or originated credit impaired. These are acquired loans that meet the Group's definition of default (90 days past due or an unlikely to pay) at acquisition.

Provision levels further strengthened to a coverage ratio of 0.70% as at 30 June 2023 (31 December 2022: 0.55%). The increase observed was driven by the deteriorating macroeconomic outlook impacting loan to value levels and the impact of revised scenarios used within impairment calculations. Model and staging rule updates, post model adjustment updates, individually assessed provisions raised against a small number of loans and general credit profile changes resulted in increased provision balances.

Liquidity and funding risk

Liquidity and funding performance became more challenging within the reporting period, against a rising interest rate environment and competitive retail savings market. The Group's Liquidity Working Group continued to monitor daily liquidity reporting and forecasting to ensure liquidity levels remained at target levels.

The Group continued to be predominantly funded by retail savings. Only 7.1% of direct deposits remain above the FSCS protection limit as at 30 June 2023 (31 December 2022: 6.8%). All deposits received via deposit aggregators are assumed not to be protected by FSCS, as the Group is not provided with the individual customer data for these deposits. Diversification of funding was provided by borrowing from the Bank of England under its funding schemes. As at 30 June 2023, the Group's borrowing under the Term Funding Scheme for SMEs were £4.2bn, unchanged from the end of 2022. In the period, the Group repaid £301m of funding under the Indexed Long-Term Repo scheme. Securitisation remains central to the Group's liability management strategy, as well as being a key funding source. In June, the Group completed a £330m securitisation of owner-occupied prime mortgages originated by Precise Mortgages under the CMF programme.

Liquidity coverage ratios remained strong at 234% for OSB and 162% for CCFS (31 December 2022: OSB 229% and CCFS 148%) versus the regulatory minimum of 100% plus Individual Liquidity Guidance.

Market risk

Interest rate risk is the key market risk the Group is exposed to. Gap and basis risk are managed within defined risk appetite limits for each bank. The Group's Treasury function actively hedges risk to match the timing of cash flows from assets and liabilities for each bank.

The Group has a small amount of foreign exchange exposure, due to the rupee denominated running costs of the OSB India operation. Rupee denominated running costs during the period to 30 June 2023 totalled £7.2m (30 June 2022: £5.1m).

Solvency risk

Solvency risk is a function of balance sheet growth, profitability, access to capital markets and regulatory changes. During the six months to 30 June 2023, the Group's balance sheet grew, however the asset mix continued to trend towards less capital-intensive products. The Group remained profitable within the period and the Group's capital requirements remained strong with the CET1 ratio at 15.7% (31 December 2022: 18.3%).

The Group's CET1 ratio benefitted from profitability in the period which, excluding the adverse EIR adjustment, increased CET1 ratio by 2.0%, this was more than offset by loan book growth which reduced CET1 by 0.8%, interim dividend by 0.4% and the impact of the £150m share repurchase programme equivalent to 1.4% of CET1. The adverse EIR adjustment reduced the CET1 by a further 1.2% and other non-cash items by 0.8%.

The Group total capital ratio remained strong at 19.2% (31 December 2022: 19.7%) with AT1 capital constituting 1.3% (31 December 2022: 1.4%) of that ratio and Tier 2 capital a further 2.2% (31 December 2022: 0%).

The Group's minimum total capital requirement at 30 June 2023 was 9.44% of RWAs consisting of Pillar 1 capital of 8.0% and Pillar 2a capital of 1.44%[1] and the Group was subject to a UK Capital Conservation Buffer of 2.5% and Countercyclical Buffer of 1.0% (increased to 2.0% on 5 July 2023). Of the 9.44% total capital requirement, at least 5.31% must be met with CET1 capital.

The Group remains cognisant of the ongoing macroeconomic uncertainty, which could result in a range of risk profile outcomes impacting capital levels, together with future changes to the Group's capital requirements including the broad range of potential outcomes with respect to Basel 3.1 reforms when these are adopted in the UK.

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. While effective conduct risk management reduces the risk of failing to deliver fair customer outcomes going forward, the Group also conducts backwards-looking reviews to ensure no failure has occurred.

1. The Pillar 2A requirement of 1.44% of RWAs includes a static integration add-on of £19.5 million (0.17% of RWAs at 30 June 2023).

Statement of Directors' Responsibilities

We, the Directors listed below, confirm that to the best of our knowledge:

• the interim condensed financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the United Kingdom (UK);

• the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the interim condensed financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

(b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position or performance of the Group during that period; and any changes in the related party transactions described in the last Annual Report and Accounts that could do so.

Kal Atwal (Appointed on 7 February 2023)
Andy Golding
Noël Harwerth
Sarah Hedger
Rajan Kapoor
April Talintyre
Simon Walker
David Weymouth

By order of the Board

Date: 10 August 2023

Independent Review Report to OSB GROUP PLC

Conclusion

We have been engaged by OSB GROUP PLC and its subsidiaries (the "Group") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 which comprises the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Cash Flows and related notes 1 to 35.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom (ISRE (UK) 2410). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410; however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the Group'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 company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the Group a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusions, including our conclusion relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the Group in accordance with ISRE (UK) 2410. Our work has been undertaken so that we might state to the Group those matters we are required to state to it in an independent review 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 Group, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, United Kingdom
10 August 2023

OSB GROUP PLC

Interim Report for the six months ended 30 June 2023

Condensed Consolidated Statement of Comprehensive Income

	Note	**Six months ended 30-Jun-23 (Unaudited) £m**	Six months ended 30-Jun-22 (Unaudited) £m
Interest receivable and similar income	3	**695.8**	452.2
Interest payable and similar charges	4	**(458.3)**	(108.8)
Net interest income		**237.5**	343.4
Fair value (losses)/gains on financial instruments	5	**(8.1)**	16.4
Other operating income		**2.7**	3.7
Total income		**232.1**	363.5
Administrative expenses	6	**(110.2)**	(91.3)
Provisions	25	**(0.6)**	1.2
Impairment of financial assets	18	**(44.6)**	(1.6)
Integration costs	7	**-**	(3.7)
Profit before taxation		**76.7**	268.1
Taxation	8	**(17.4)**	(59.2)
Profit for the period		**59.3**	208.9
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 period		**(0.4)**	(0.7)
Tax on items in other comprehensive expense		**0.1**	0.1
Revaluation of foreign operations		**(0.5)**	0.1
Other comprehensive expense		**(0.8)**	(0.5)
Total comprehensive income for the period		**58.5**	208.4
Dividend declared for the period, pence per share	10	**10.2**	8.7
Earnings per share (EPS), pence per share			
Basic	9	**12.8**	45.7
Diluted	9	**12.6**	45.2

The above results are derived wholly from continuing operations.

Notes 1 to 35 form part of these condensed consolidated financial statements.

OSB GROUP PLC

Interim Report as at 30 June 2023

Condensed Consolidated Statement of Financial Position

	Note	**As at 30-Jun-23 (Unaudited) £m**	As at 31-Dec-22 (Audited) £m
Assets			
Cash in hand		**0.4**	0.4
Loans and advances to credit institutions	12	**3,617.0**	3,365.7
Investment securities	13	**348.7**	412.9
Loans and advances to customers	14	**24,586.8**	23,612.7
Fair value adjustments on hedged assets	19	**(1,025.8)**	(789.0)
Derivative assets		**1,127.6**	888.1
Other assets		**16.6**	15.0
Current taxation asset		**48.7**	1.7
Deferred taxation asset		**3.6**	6.3
Property, plant and equipment		**44.0**	40.9
Intangible assets		**17.3**	12.0
Total assets		**28,784.9**	27,566.7
Liabilities			
Amounts owed to credit institutions	20	**5,052.3**	5,092.9
Amounts owed to retail depositors	21	**20,713.7**	19,755.8
Fair value adjustments on hedged liabilities	19	**(39.7)**	(55.1)
Amounts owed to other customers		**114.7**	113.1
Debt securities in issue	22	**457.5**	265.9
Derivative liabilities		**88.6**	106.6
Lease liabilities	23	**10.8**	9.9
Other liabilities	24	**144.7**	38.7
Provisions	25	**1.0**	0.4
Deferred taxation liability		**9.4**	22.3
Subordinated liabilities	26	**253.5**	-
Perpetual Subordinated Bonds		**15.2**	15.2
		26,821.7	25,365.7
Equity			
Share capital	27	**4.2**	4.3
Share premium	27	**2.5**	2.4
Retained earnings		**3,152.5**	3,389.4
Other reserves		**(1,196.0)**	(1,195.1)
Shareholders' funds		**1,963.2**	2,201.0
Total equity and liabilities		**28,784.9**	27,566.7

Notes 1 to 35 form part of these condensed consolidated financial statements.

The condensed consolidated financial statements on pages 49 to 52 were approved by the Board of Directors on 10 August 2023 and signed on its behalf by:

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 11976839

Condensed Consolidated Statement of Changes in Equity

	Share capital	Share premium	Capital redemption and Transfer reserve[1]	Own shares[2]	Foreign exchange reserve	FVOCI reserve	Share-based payment reserve	Retained earnings	Additional Tier 1 (AT1) securities	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023	4.3	2.4	(1,355.1)	(2.2)	(1.3)	0.3	13.2	3,389.4	150.0	2,201.0
Profit for the period	-	-	-	-	-	-	-	**59.3**	-	**59.3**
Other comprehensive expense	-	-	-	-	**(0.5)**	**(0.4)**	-	-	-	**(0.9)**
Tax on items in other comprehensive expense	-	-	-	-	-	**0.1**	-	-	-	**0.1**
Total comprehensive (expense)/income	-	-	-	-	**(0.5)**	**(0.3)**	-	**59.3**	-	**58.5**
Coupon paid on AT1 securities	-	-	-	-	-	-	-	**(4.5)**	-	**(4.5)**
Dividends paid	-	-	-	-	-	-	-	**(144.1)**	-	**(144.1)**
Share-based payments	-	**0.1**	-	-	-	-	**(1.1)**	**4.0**	-	**3.0**
Tax recognised in equity	-	-	-	-	-	-	**0.3**	-	-	**0.3**
Own shares[2]	-	-	-	**0.6**	-	-	-	**(0.6)**	-	-
Share repurchase	**(0.1)**	-	**0.1**	-	-	-	-	**(151.0)**	-	**(151.0)**
At 30 June 2023 (Unaudited)	**4.2**	**2.5**	**(1,355.0)**	**(1.6)**	**(1.8)**	**-**	**12.4**	**3,152.5**	**150.0**	**1,963.2**
At 1 January 2022	4.5	0.7	(1,355.3)	(3.5)	(1.1)	0.6	13.4	3,215.1	150.0	2,024.4
Profit for the period	-	-	-	-	-	-	-	208.9	-	208.9
Other comprehensive income/(expense)	-	-	-	-	0.1	(0.7)	-	-	-	(0.6)
Tax on items in other comprehensive expense	-	-	-	-	-	0.1	-	-	-	0.1
Total comprehensive income/(expense)	-	-	-	-	0.1	(0.6)	-	208.9	-	208.4
Coupon paid on AT1 securities	-	-	-	-	-	-	-	(4.5)	-	(4.5)
Dividends paid	-	-	-	-	-	-	-	(94.8)	-	(94.8)
Share-based payments	-	0.1	-	-	-	-	(3.4)	7.8	-	4.5
Tax recognised in equity	-	-	-	-	-	-	(0.2)	-	-	(0.2)
Own shares[2]	-	-	-	1.3	-	-	-	(1.3)	-	-
Share repurchase	(0.1)	-	0.1	-	-	-	-	(100.4)	-	(100.4)
At 30 June 2022 (Unaudited)	4.4	0.8	(1,355.2)	(2.2)	(1.0)	-	9.8	3,230.8	150.0	2,037.4

1. Includes Capital redemption reserve of £0.3m (2022: £0.1m) and Transfer reserve of £(1,355.3)m (2022: £(1,355.3)m).
2. The Group has adopted look-through accounting (see note 1) and recognised the Employee Benefit Trusts (EBT) within OSB GROUP PLC (OSBG).

Condensed Consolidated Statement of Cash Flows

	Note	**Six months ended 30-Jun-23 (Unaudited) £m**	Six months ended 30-Jun-22 (Unaudited) (Restated)[1] £m
Cash flows from operating activities			
Profit before taxation		**76.7**	268.1
Adjustments for non-cash items	32	**156.4**	13.1
Changes in operating assets and liabilities[1]	32	**250.9**	(4.5)
Cash generated from operating activities[1]		**484.0**	276.7
Net tax paid		**(74.1)**	(66.5)
Net cash generated from operating activities		**409.9**	210.2
Cash flows from investing activities			
Maturity and sales of investment securities		**322.6**	85.5
Purchases of investment securities		**(348.0)**	(7.3)
Interest received on investment securities		**9.1**	2.2
Purchases of property, plant and equipment and intangible assets		**(13.3)**	(3.0)
Cash (used)/generated from investing activities		**(29.6)**	77.4
Cash flows from financing activities			
Financing received[1]	28	**590.7**	231.7
Financing repaid	28	**(461.7)**	(94.2)
Interest paid on financing	28	**(81.7)**	(9.0)
Share repurchase[2]		**(41.0)**	(39.6)
Coupon paid on AT1 securities		**(4.5)**	(4.5)
Dividends paid	10	**(144.1)**	(94.8)
Proceeds from issuance of shares under employee Save As You Earn (SAYE) schemes		**0.1**	0.1
Cash payments on lease liabilities	23	**(1.0)**	(1.1)
Cash used in financing activities		**(143.2)**	(11.4)
Net increase in cash and cash equivalents		**237.1**	276.2
Cash and cash equivalents at the beginning of the period	11	**3,044.1**	2,736.7
Cash and cash equivalents at the end of the period	11	**3,281.2**	3,012.9
Movement in cash and cash equivalents		**237.1**	276.2

1. 2022 figures restated, see note 1 b) for further details.
2. Includes £40.8m (2022: £39.2m) for shares repurchased and £0.2m (2022: £0.4m) transaction costs.

Notes to the Condensed Consolidated Financial Statements

1. Accounting policies

a) Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules (DTR) of the Financial Conduct Authority (FCA) and in accordance with International Accounting Standard 34 Interim Financial Reporting as adopted by the UK.

The accounting policies, presentation and methods of computation are consistent with those applied by the Group in its latest audited financial statements, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the UK and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last Annual Report and Accounts for the year ended 31 December 2022.

The comparative figures for the year ended 31 December 2022 are not the Group's statutory accounts for that financial year. The statutory accounts for the year ended 31 December 2022 have been delivered to the Registrar of Companies in England and Wales in accordance with section 447 of the Companies Act 2006. The auditor has reported on those accounts. Their report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

These interim condensed consolidated financial statements were authorised for issue by the Company's Board of Directors on 10 August 2023.

b) Restatement of Consolidated Cash Flow Statement

In the prior period, cash collateral and margin received on interest rate swaps of £280.8m was included in financing cash flows in the Condensed Consolidated Statement of Cash Flows. As the cash flows arise on hedging activities related to items classified as operating assets and liabilities within the Condensed Consolidated Statement of Cash Flows, the cash flows should be included within operating cash flows. In the current period, cash collateral and margin received on interest rate swaps has been classified as an operating cash flow and the 2022 Condensed Consolidated Statement of Cash Flows restated to reclassify a cash inflow of £280.8m from financing activities to operating activities. This restatement is consistent with that set out on page 183 of the 2022 Annual Report and Accounts.

c) Accounting standards

There were a number of minor amendments to financial reporting standards that were in issue and effective from 1 January 2023. The adoption of these amendments has not had a material impact on the Group.

All other accounting policies applied are consistent with those set out on pages 183 to 193 of the 2022 Annual Report and Accounts.

1. Accounting policies (continued)

d) 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 interim condensed consolidated 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 Group has also assessed its ability to meet the interim Minimum Requirement for own funds and Eligible Liabilities (MREL) minimum requirements in July 2024.

The assessments included the following:

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

- The Group has, through scenario analysis, assessed its ability to meet the interim MREL minimum requirements through MREL debt issuances and/or organic capital generation. The Group assessed the uncertainty around the quantum and phasing of MREL issuance alongside the criteria which must be met to apply for the 'flexible add-on'. The Board assessed that the Group expects to meet the interim MREL minimum requirements.

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

- The Group continues to assess the resilience of its business operating model and supporting infrastructure in the context of the emerging economic, business and regulatory environment. The key area 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 wider financial service industry. The Group recognises the need to continually invest in the resilience of its services, with specific focus in 2023 on ensuring that the third parties on which it depends have the appropriate levels of resilience and in further automating those processes that are sensitive to increase 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 from the date of approval of these interim financial statements and, as a result, it is appropriate to prepare these interim condensed consolidated financial statements on a going concern basis.

1. Accounting policies (continued)

e) Segmental reporting

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

The Group provides loans and asset finance within the UK and the Channel Islands only. The Group segments its lending business and operates under two segments:

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

The Group has disclosed relevant risk management tables in note 29 at a sub-segment level to provide detailed analysis of the Group's core lending business.

2. Judgements in applying accounting policies and critical accounting estimates

The preparation of the interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported income and expense, assets and liabilities and disclosure of contingencies at the date of the interim condensed consolidated financial statements. Although these estimates and assumptions are based on management's best judgement at that date, actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised and in any future periods affected.

As set out in the Task Force on Climate-related Financial Disclosures (TCFD) report on page 100 of the 2022 Annual Report and Accounts, 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 expected credit losses (ECL) and redemption profiles included in effective interest rate (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. The Group has recognised a post model adjustment (PMA) within the ECL provision of £6.7m (31 December 2022: £4.4m) in relation to climate change as disclosed in note 17.

The judgements made by the Group in the application of its accounting policies are consistent with those set out on pages 193 to 195 of the 2022 Annual Report and Accounts.

The following estimates may have a significant risk of material adjustment to the carrying amount of assets within the next financial period.

(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 £172.1m (31 December 2022: £130.0m) at the reporting date as disclosed in note 17.

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

Modelled impairment

Modelled provision assessments are 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 loss given default (LGD) model and forward-looking macroeconomic scenarios.

Loss given default model

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

	As at 30-Jun-23	As at 31-Dec-22
	£m	£m
OSB	**40.1**	28.0
CCFS	**13.3**	10.7
Group	**53.4**	38.7

Forward-looking macroeconomic scenarios

The Group's macroeconomic scenarios can be found in the Risk review section on pages 33 to 45. 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 30 June 2023 (Unaudited)	**Weighted (see note 17)**	**100% Base case scenario**	**100% Upside scenario**	**100% Downside scenario**	**100% Severe downside scenario**
Total loans before provisions, £m	**24,743.8**	**24,743.8**	**24,743.8**	**24,743.8**	**24,743.8**
Modelled ECL, £m	**84.6**	**65.7**	**49.6**	**123.3**	**187.5**
Non-modelled ECL, £m	**87.5**	**87.5**	**87.5**	**87.5**	**87.5**
Total ECL, £m	**172.1**	**153.2**	**137.1**	**210.8**	**275.0**
ECL coverage, %	**0.70**	**0.62**	**0.55**	**0.85**	**1.11**
As at 31 December 2022 (Audited)					
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

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

(ii) Loan book acquisition accounting and effective interest rate

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

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

Judgement is used in estimating the expected average life of a mortgage, to determine the quantum and timing of prepayments that incur ERCs, the period over which net fee income is recognised and the time customers spend on reversion. Estimates are reviewed regularly, and over the first half of 2023 the Group observed a step change in how long Precise customers were spending on the reversion rate. As BBR has continued to rise, customers have seen steep increases in the BBR linked reversion rate, and as the Group has continued to develop its Precise retention programme, customers are choosing to refinance earlier and spend less time on the higher reversion rate, compared to previously observed behavioural trends. This led to an adverse Group statutory adjustment of £208.5m decreasing net interest income and loans and advances to customers.

A three months' movement in the weighted average time spent in the reversion period for Precise is considered to be a reasonably possible change in assumption in the current higher rate environment and uncertain macroeconomic outlook. The impact of a -/+ 3 months movement in time spent on reversion by Precise Mortgages customers is -/+ c.£80m.

3. Interest receivable and similar income

	Six months ended 30-Jun-23 (Unaudited) £m	Six months ended 30-Jun-22 (Unaudited) £m
At amortised cost:		
On OSB mortgages[1]	**353.6**	273.7
On CCFS mortgages[2]	**113.9**	197.2
On finance leases	**5.5**	4.3
On investment securities	**7.4**	1.7
On other liquid assets	**67.1**	9.4
Amortisation of fair value adjustments on CCFS loan book at Combination	**(43.6)**	(27.1)
Amortisation of fair value adjustments on hedged assets[3]	**(5.5)**	(21.9)
	498.4	437.3
At fair value through profit or loss (FVTPL):		
Net income on derivative financial instruments - lending activities	**194.9**	14.9
At FVOCI:		
On investment securities	**2.5**	-
	695.8	452.2

1. Includes EIR behavioural related reset losses of £2.7m (2022: £4.9m gains).
2. Includes EIR behavioural related reset losses of £178.0m (2022: £5.3m losses).
3. The amortisation relates to hedged assets where the hedges were terminated before maturity and were effective at the point of termination.

4. Interest payable and similar charges

	Six months ended 30-Jun-23 (Unaudited) £m	Six months ended 30-Jun-22 (Unaudited) £m
At amortised cost:		
On retail deposits	**302.7**	86.4
On Bank of England (BoE) borrowings	**91.7**	15.1
On Perpetual Subordinated Bonds (PSBs)	**0.3**	0.3
On subordinated liabilities	**4.5**	0.4
On wholesale borrowings	**13.4**	0.7
On debt securities in issue	**6.1**	2.9
On lease liabilities	**0.1**	0.1
Amortisation of fair value adjustments on CCFS customer deposits at Combination	**(0.4)**	(0.6)
Amortisation of fair value adjustments on hedged liabilities[1]	**(0.4)**	(0.4)
	418.0	104.9
At FVTPL:		
Net expense on derivative financial instruments - savings activities	**40.3**	3.9
	458.3	108.8

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

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

	Six months ended 30-Jun-23 (Unaudited) £m	Six months ended 30-Jun-22 (Unaudited) £m
Fair value changes in hedged assets	**(215.1)**	(346.0)
Hedging of assets	**204.1**	341.1
Fair value changes in hedged liabilities	**(18.3)**	33.3
Hedging of liabilities	**0.3**	(32.7)
Ineffective portion of hedges	**(29.0)**	(4.3)
Net gains on unmatched swaps	**17.1**	14.0
Amortisation of inception adjustments[1]	**(2.4)**	6.5
Amortisation of acquisition-related inception adjustments[2]	**5.1**	5.3
Amortisation of de-designated hedge relationships[3]	**-**	(5.0)
Fair value movements on mortgages at FVTPL	**1.2**	0.4
Fair value movements on loans and advances to credit institutions at FVTPL	**0.2**	-
Debit and credit valuation adjustment	**(0.3)**	(0.5)
	(8.1)	16.4

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. Administrative expenses

	Six months ended 30-Jun-23 (Unaudited) £m	Six months ended 30-Jun-22 (Unaudited) £m
Staff costs	**57.5**	48.7
Support costs	**19.4**	14.7
Professional fees	**15.3**	10.9
Facilities costs	**4.0**	3.4
Marketing costs	**2.5**	2.2
Depreciation	**3.2**	2.5
Amortisation	**2.9**	4.5
Other costs	**5.4**	4.4
	110.2	91.3

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

	Six months ended 30-Jun-23 (Unaudited)	Six months ended 30-Jun-22 (Unaudited)
UK	**1,414**	1,231
India	**755**	595
	2,169	1,826

7. Integration costs

	Six months ended 30-Jun-23 (Unaudited) £m	Six months ended 30-Jun-22 (Unaudited) £m
Consultant fees	**-**	2.3
Staff costs	**-**	1.4
	-	3.7

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

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

8. 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 period:

	Six months ended 30-Jun-23 (Unaudited) £m	Six months ended 30-Jun-22 (Unaudited) £m
Corporation tax - current period	**27.8**	70.9
Corporation tax - prior period	**(0.2)**	(0.4)
Deferred tax - current period	**1.1**	(0.6)
Release of deferred tax on CCFS Combination[1]	**(11.3)**	(10.7)
Total tax	**17.4**	59.2

1. Release of deferred tax on CCFS Combination relates to the unwind of the deferred tax asset recognised on the fair value adjustments of the CCFS assets and liabilities at the acquisition date £(11.3)m (2022: £(6.0)m and the impact of the bank surcharge reduction on these deferred tax liabilities of £(4.7)m).

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 23.5% (2022: 19%) as follows:

	Six months ended 30-Jun-23 (Unaudited) £m	Six months ended 30-Jun-22 (Unaudited) £m
Profit before tax	**76.7**	268.1
Profit multiplied by the standard rate of UK Corporation Tax 23.5% (2022: 19%)	**18.0**	51.0
Bank surcharge[1]	**(0.2)**	15.9
Taxation effects of:		
Expenses not deductible for tax purposes	**1.1**	-
Impact of deferred tax rate change[2]	**-**	(4.7)
Adjustments in respect of earlier periods	**(0.2)**	(0.4)
Income not taxable	**(0.1)**	(1.8)
Tax adjustments in respect of share-based payments	**-**	0.8
Impact of tax losses carried forward	**(0.2)**	(0.1)
Tax on coupon paid on AT1 securities	**(1.2)**	(1.2)
Timing differences on capital items	**0.2**	(0.4)
Other	**-**	0.1
Total tax	**17.4**	59.2

1. Tax charge for the two banking entities of £1.5m (2022: £17.7m) offset by the tax impact of unwinding CCFS Combination items of £1.7m (2022: £1.8m).
2. Due to change in bank surcharge rate from 8% to 3% effective from 1 April 2023.

8. Taxation (continued)

Factors affecting tax charge for the period

On 1 April 2023, the corporation tax rate increased from 19% to 25%, and the Bank Surcharge rate reduced from 8% to 3%, with an increase in the Bank Surcharge Allowance from £25m to £100m. Therefore, for the year ending 31 December 2023 the blended corporation tax rate 23.5%, the Bank Surcharge rate 4.25% and the surcharge allowance is £81.3m.

9. Earnings per share

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

	Six months ended 30-Jun-23 (Unaudited) £m	Six months ended 30-Jun-22 (Unaudited) £m
Statutory profit after tax	**59.3**	208.9
Less: Coupon on AT1 securities classified as equity	**(4.5)**	(4.5)
Statutory profit attributable to ordinary shareholders	**54.8**	204.4

	Six months ended 30-Jun-23 (Unaudited)	Six months ended 30-Jun-22 (Unaudited)
Weighted average number of shares, millions		
Basic	**428.0**	447.4
Dilutive impact of share-based payment schemes	**5.4**	4.9
Diluted	**433.4**	452.3
Earnings per share, pence per share		
Basic	**12.8**	45.7
Diluted	**12.6**	45.2

10. Dividends

Dividends paid during the period are detailed below:

	Six months ended 30-Jun-23 (Unaudited)		Six months ended 30-Jun-22 (Unaudited)	
	£m	**Pence per share**	£m	Pence per share
Final dividend for the prior year	**93.8**	**21.8**	94.8	21.1
Special dividend for the prior year	**50.3**	**11.7**	-	-
	144.1		94.8	

The Group's dividend policy is to declare interim dividends equal to one-third of the prior year's total dividend. The Board has therefore declared an interim dividend for 2023 of c. £43.1m, 10.2 pence per share (2022: £38.5m, 8.7 pence per share), based on the 2022 total dividend, excluding the special dividend, of £132.1m, 30.5 pence per share. The interim dividend is payable on 20 September 2023 with an ex-dividend date of 24 August 2023 and a record date of 25 August 2023. This dividend is not reflected in these financial statements as it was not declared at the reporting date.

A summary of the Company's distributable reserves is shown below, based on audited Company accounts prepared to 31 December 2022:

	As at 30-Jun-23 (Unaudited) £m	As at 31-Dec-22 (Audited) £m
Retained earnings	**1,359.3**	1,359.3
Own shares[1]	**(2.2)**	(2.2)
Dividend distributions[2]	**(148.6)**	-
Share repurchase	**(151.0)**	-
Distributable reserves	**1,057.5**	1,357.1

a. Other distributable reserves comprises own shares held in the Group's EBT of £2.2m (2022: £2.2m) which are recognised within OSBG under look-through accounting.
b. Distributions include the 2022 final dividend of £144.1m and a £4.5m coupon paid on AT1 securities supported by distributions received from subsidiaries.

Further additional distributable reserves are expected to be realised over time from distribution receipts from profits generated from the subsidiaries including two regulated banks within the Group.

11. Cash and cash equivalents

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

	As at 30-Jun-23 (Unaudited) £m	As at 31-Dec-22 (Audited) £m	As at 30-Jun-22 (Unaudited) £m	As at 31-Dec-21 (Audited) £m
Cash in hand	**0.4**	0.4	0.4	0.5
Unencumbered loans and advances to credit institutions	**3,280.8**	2,953.7	2,962.7	2,636.2
Investment securities	**-**	90.0	49.8	100.0
	3,281.2	3,044.1	3,012.9	2,736.7

12. Loans and advances to credit institutions

	As at 30-Jun-23 (Unaudited) £m	As at 31-Dec-22 (Audited) £m
Unencumbered:		
BoE call account	**3,040.5**	2,806.5
Call accounts	**98.4**	73.2
Cash held in special purpose vehicles (SPVs)[1]	**126.1**	63.8
Term deposits	**15.8**	10.2
Encumbered:		
BoE cash ratio deposit	**68.9**	62.8
Cash held in SPVs[1]	**63.8**	111.8
Cash margin given	**203.5**	237.4
	3,617.0	3,365.7

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

13. Investment securities

	As at 30-Jun-23 (Unaudited) £m	As at 31-Dec-22 (Audited) £m
Held at amortised cost:		
Residential Mortgage-Backed Securities (RMBS) loan notes	**338.5**	262.6
Held at FVOCI:		
UK Sovereign debt	**9.8**	149.8
Held at FVTPL:		
RMBS loan notes	**0.4**	0.5
	348.7	412.9

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 (2022: less than £0.1m).

Movements during the period in investment securities held by the Group are analysed below:

	Six months ended 30-Jun-23 (Unaudited) £m	Year ended 31-Dec-22 (Audited) £m
At 1 January	**412.9**	491.4
Additions[1]	**348.0**	686.5
Disposals and maturities[2]	**(412.6)**	(764.4)
Movement in accrued interest	**0.8**	(0.9)
Changes in fair value	**(0.4)**	0.3
	348.7	412.9

1. There are no (2022: £90.0m) additions of UK Treasury bills which had a maturity of less than three months from date of acquisition.
2. Disposals and maturities includes £90.0m (2022: £100.0m) of UK Treasury bills which had a maturity of less than three months from date of acquisition.

14. Loans and advances to customers

	As at 30-Jun-23	As at 31-Dec-22
	(Unaudited)	(Audited)
	£m	£m
Held at amortised cost:		
Loans and advances (see note 15)	**24,541.2**	23,564.9
Finance leases (see note 16)	**202.6**	163.2
	24,743.8	23,728.1
Less: Expected credit losses (see note 17)	**(172.1)**	(130.0)
	24,571.7	23,598.1
Held at FVTPL:		
Residential mortgages	**15.1**	14.6
	24,586.8	23,612.7

15. Loans and advances

	As at 30-Jun-23 (Unaudited)			As at 31-Dec-22 (Audited)		
	OSB	**CCFS**	**Total**	OSB	CCFS	Total
Held at amortised cost	**£m**	**£m**	**£m**	£m	£m	£m
Gross carrying amount						
Stage 1	**10,525.8**	**8,189.2**	**18,715.0**	10,188.4	8,375.5	18,563.9
Stage 2	**2,780.4**	**2,391.5**	**5,171.9**	2,508.9	1,907.4	4,416.3
Stage 3	**404.4**	**173.8**	**578.2**	345.7	156.0	501.7
Stage 3 (POCI)[1]	**35.6**	**40.5**	**76.1**	38.5	44.5	83.0
	13,746.2	**10,795.0**	**24,541.2**	13,081.5	10,483.4	23,564.9

1. Purchased or originated credit impaired

15. Loans and advances (continued)

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2022	18,078.9	2,412.1	459.5	97.4	21,047.9
Originations[1]	5,829.6	-	-	-	5,829.6
Repayments and write-offs[2]	(2,855.3)	(353.6)	(89.3)	(14.4)	(3,312.6)
Transfers:					
- To Stage 1	1,121.6	(1,098.0)	(23.6)	-	-
- To Stage 2[3]	(3,524.0)	3,574.6	(50.6)	-	-
- To Stage 3	(86.9)	(118.8)	205.7	-	-
At 31 December 2022 (Audited)	18,563.9	4,416.3	501.7	83.0	23,564.9
Originations[1]	**2,320.5**	**-**	**-**	**-**	**2,320.5**
Acquisitions[4]	**91.0**	**-**	**-**	**-**	**91.0**
Repayments and write-offs[2]	**(1,119.7)**	**(257.4)**	**(51.2)**	**(6.9)**	**(1,435.2)**
Transfers:					
- To Stage 1	**1,074.0**	**(1,061.6)**	**(12.4)**	**-**	**-**
- To Stage 2[3]	**(2,164.3)**	**2,194.6**	**(30.3)**	**-**	**-**
- To Stage 3	**(50.4)**	**(120.0)**	**170.4**	**-**	**-**
At 30 June 2023 (Unaudited)	**18,715.0**	**5,171.9**	**578.2**	**76.1**	**24,541.2**

1. Originations include further advances and drawdowns on existing commitments.
2. Repayments and write-offs include customer redemptions and write-offs which are immaterial.
3. For further detail relating to movements by stage see the Risk review section on pages 33 to 45.
4. During the period, the Group repurchased £91.0m of own originated UK residential and buy to let mortgages from deconsolidated SPVs at par.

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

Loans and advances of £128.0m (2022: £110.0m) are in a probation period before they can move out of Stage 3.

16. Finance leases

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

	As at 30-Jun-23 (Unaudited) £m	As at 31-Dec-22 (Audited) £m
Gross investment in finance leases, receivable		
Less than one year	**77.8**	60.7
Between one and two years	**59.6**	49.5
Between two and three years	**45.3**	36.0
Between three and four years	**28.9**	23.4
Between four and five years	**12.3**	9.9
More than five years	**2.4**	1.3
	226.3	180.8
Unearned finance income	**(23.7)**	(17.6)
Net investment in finance leases	**202.6**	163.2
Net investment in finance leases, receivable		
Less than one year	**67.3**	52.4
Between one and two years	**52.6**	44.4
Between two and three years	**41.3**	33.2
Between three and four years	**27.3**	22.3
Between four and five years	**11.8**	9.6
More than five years	**2.3**	1.3
	202.6	163.2

The Group has recognised £5.0m (2022: £4.8m) of ECLs on finance leases as at 30 June 2023.

17. Expected credit losses

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

	As at 30-Jun-23 (Unaudited)			As at 31-Dec-22 (Audited)		
	ECL provision £m	**Weighting %**	**Weighted ECL provision £m**	ECL provision £m	Weighting %	Weighted ECL provision £m
Scenarios						
Upside	**49.6**	**30**	**14.9**	32.8	30	9.8
Base case	**65.7**	**40**	**26.3**	41.7	40	16.7
Downside scenario	**123.3**	**20**	**24.7**	79.3	20	15.9
Severe downside scenario	**187.5**	**10**	**18.7**	120.0	10	12.0
Total weighted provisions			**84.6**			54.4
Non-modelled provisions:						
Individually assessed provisions			**53.2**			45.8
Post model adjustments			**34.3**			29.8
Total provision			**172.1**			130.0

The Group continued to recognise the increases in credit risk due to the cost of living and cost of borrowing stresses caused by high inflation and increases in interest rates. As a result, the Group held £16.2m (2022: £16.0m) of ECL in PMA for risks not sufficiently accounted for in the IFRS 9 framework, £4.2m (2022: £7.3m) for cost of living and £12.0m (2022: £8.7m) for cost of borrowing. The approach to identify the PMA for the cost of living is an increase in probability of default (PD) through analysing the effect of the increases in living costs, such as household bills and groceries, on affordability, which is used to increase the default risk to all customers, with those on lower income more impacted. The cost of living PMA has reduced since 31 December 2022, reflecting the inflation peak has been observed and forecasts are for decreases in inflation. The cost of borrowing PMA specifically identified those that are more at risk of default due to 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 extended time to sale, which was in excess of modelled expectations and observations prior to the pandemic which accounted for £7.6m (2022: £8.7m) as a PMA. 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 recognition of climate risk and overall Environmental, Social and Governance (ESG) agenda, the Group considers 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 £6.7m (2022: £4.4m) of PMA.

17. Expected credit losses (continued)

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 £0.9m (2022: £0.7m).

An Asset Finance PMA of £0.4m (2022: nil) was raised to offset the adjustment of scenarios back to symmetrical weightings, as ongoing concerns remain within the economy driven by inflationary pressures.

In addition to the above PMAs, the Group has identified accounts within the OSB second charge portfolio whereby the arrears balances (contractual missed payments), fees and other charges should/will be written off. An ECL of £2.5m (2022: nil) has been recognised for the expected losses that will manifest over the next six months.

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

	As at 30-Jun-23 (Unaudited)			As at 31-Dec-22 (Audited)		
	OSB	**CCFS**	**Total**	OSB	CCFS	Total
	£m	**£m**	**£m**	£m	£m	£m
Stage 1	**15.8**	**2.9**	**18.7**	5.9	1.3	7.2
Stage 2	**49.1**	**17.6**	**66.7**	35.3	15.6	50.9
Stage 3	**73.0**	**10.3**	**83.3**	60.5	7.8	68.3
Stage 3 (POCI)	**1.7**	**1.7**	**3.4**	1.5	2.1	3.6
	139.6	**32.5**	**172.1**	103.2	26.8	130.0

The tables below show the movement in the ECL by IFRS 9 stage during the period. ECLs on originations and acquisitions reflect the IFRS 9 stage of loans originated or acquired during the period as at 30 June 2023 and not the date of origination. Re-measurement of loss allowance relates to existing loans which did not redeem during the period and includes the impact of loans moving between IFRS 9 stages.

17. Expected credit losses (continued)

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2022	12.1	25.0	60.4	4.0	101.5
Originations	6.9	-	-	-	6.9
Repayments and write-offs	(1.3)	(3.0)	(6.9)	(0.3)	(11.5)
Re-measurement of loss allowance	(15.1)	26.4	17.5	(0.7)	28.1
Transfers:					
- To Stage 1	10.0	(9.2)	(0.8)	-	-
- To Stage 2	(2.0)	3.9	(1.9)	-	-
- To Stage 3	(0.1)	(2.1)	2.2	-	-
Changes in assumptions and model parameters	(3.3)	9.9	(2.2)	0.6	5.0
At 31 December 2022 (Audited)	7.2	50.9	68.3	3.6	130.0
Originations	**4.4**	**-**	**-**	**-**	**4.4**
Acquisitions	**0.6**	**0.1**	**-**	**-**	**0.7**
Repayments and write-offs	**(0.4)**	**(2.0)**	**(7.6)**	**(0.2)**	**(10.2)**
Re-measurement of loss allowance	**(5.6)**	**29.8**	**21.2**	**-**	**45.4**
Transfers:					
- To Stage 1	**11.0**	**(10.6)**	**(0.4)**	**-**	**-**
- To Stage 2	**(0.8)**	**1.7**	**(0.9)**	**-**	**-**
- To Stage 3	**-**	**(3.5)**	**3.5**	**-**	**-**
Changes in assumptions and model parameters	**2.3**	**0.3**	**(0.8)**	**-**	**1.8**
At 30 June 2023 (Unaudited)	**18.7**	**66.7**	**83.3**	**3.4**	**172.1**

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

	As at 30-Jun-23 (Unaudited)			As at 31-Dec-22 (Audited)		
	Carrying value £m	**ECL £m**	**Coverage %**	Carrying value £m	ECL £m	Coverage %
Criteria:						
Relative PD movement	**3,486.8**	**54.7**	**1.57**	3,090.2	42.9	1.39
Qualitative measures	**1,647.4**	**11.5**	**0.70**	1,277.6	7.5	0.59
30 days past due backstop	**41.7**	**0.5**	**1.20**	49.3	0.5	1.01
Total	**5,175.9**	**66.7**	**1.29**	4,417.1	50.9	1.15

The Group has a number of qualitative measures to determine whether an 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.

18. Impairment of financial assets

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

	Six months ended 30-Jun-23 (Unaudited) £m	Six months ended 30-Jun-22 (Unaudited) £m
Write-offs in period	**3.8**	0.9
Increase in ECL provision	**40.8**	0.7
	44.6	1.6

19. Hedge accounting

	As at 30-Jun-23 (Unaudited) £m	As at 31-Dec-22 (Audited) £m
Hedged assets		
Current hedge relationships	**(1,043.5)**	(827.9)
Swap inception adjustment	**45.0**	44.1
Cancelled hedge relationships	**(27.3)**	(5.2)
Fair value adjustments on hedged assets	**(1,025.8)**	(789.0)
Hedged liabilities		
Current hedge relationships	**43.8**	58.0
Swap inception adjustment	**(4.0)**	(2.3)
Cancelled hedge relationships	**(0.1)**	(0.6)
Fair value adjustments on hedged liabilities	**39.7**	55.1

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

De-designated hedge relationships relate to hedge accounting adjustments on failed hedge accounting relationships. These adjustments are amortised over the remaining lives of the original hedged items.

Cancelled hedge relationships predominantly represent the unamortised fair value adjustment for interest rate risk hedges that have been cancelled and replaced due to IBOR transition, securitisation activities and legacy long-term fixed rate mortgages (c. 25 years at origination).

20. Amounts owed to credit institutions

	As at 30-Jun-23 (Unaudited) £m	As at 31-Dec-22 (Audited) £m
BoE Term Funding Scheme for SMEs (TFSME)	**4,248.5**	4,232.0
BoE Indexed Long-Term Repo (ILTR)	**-**	300.9
Commercial repo	**0.2**	10.2
Loans from credit institutions	**-**	0.1
	4,248.7	4,543.2
Cash collateral and margin received	**803.6**	549.7
	5,052.3	5,092.9

21. Amounts owed to retail depositors

	As at 30-Jun-23 (Unaudited)			As at 31-Dec-22 (Audited)		
	OSB £m	**CCFS £m**	**Total £m**	OSB £m	CCFS £m	Total £m
Fixed rate deposits	**8,292.5**	**6,483.4**	**14,775.9**	8,085.9	5,899.6	13,985.5
Variable rate deposits	**3,251.5**	**2,686.3**	**5,937.8**	3,046.3	2,724.0	5,770.3
	11,544.0	**9,169.7**	**20,713.7**	11,132.2	8,623.6	19,755.8

22. Debt securities in issue

	As at 30-Jun-23 (Unaudited) £m	As at 31-Dec-22 (Audited) £m
Asset backed loan notes at amortised cost	**457.5**	265.9
Amount due for settlement within 12 months	**126.2**	-
Amount due for settlement after 12 months	**331.3**	265.9
	457.5	265.9

The asset-backed loan notes are secured on fixed and variable rate mortgages and are redeemable in part from time to time, but such redemptions are limited to the net principal received from customers 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.

Asset-backed loan notes may all be repurchased by the Group at any interest payment date on or after the call dates, or at any interest payment date when the current balance of the mortgages outstanding is less than or equal to 10% of the principal amount outstanding on the loan notes on the date they were issued.

Interest is payable at fixed margins above SONIA.

22. Debt securities in issue (continued)

As at 30 June 2023, notes were in issue through the following funding vehicles:

	As at 30-Jun-23 (Unaudited) £m	As at 31-Dec-22 (Audited) £m
CMF 2020-1 plc	**126.2**	141.8
Canterbury Finance No.3 plc	**-**	21.0
Canterbury Finance No.4 plc	**31.4**	103.1
CMF 2023-1 PLC	**299.9**	-
	457.5	265.9

23. Lease liabilities

	As at 30-Jun-23 (Unaudited) £m	As at 31-Dec-22 (Audited) £m
At 1 January	**9.9**	10.7
New leases	**1.8**	0.9
Lease repayments	**(1.0)**	(1.9)
Interest accruals	**0.1**	0.2
	10.8	9.9

24. Other liabilities

	As at 30-Jun-23 (Unaudited) £m	As at 31-Dec-22 (Audited) £m
Falling due within one year:		
Accruals	**22.1**	28.0
Deferred income	**0.5**	0.6
Other creditors	**18.8**	10.1
Share repurchase liability	**103.3**	-
	144.7	38.7

On 17 March 2023, the Group authorised a share repurchase programme of up to £150.0m, recognising a £150.9m (including incentive fee of £0.9m) reduction in retained earnings and a share repurchase liability. As at 30 June 2023, 9,783,262 shares had been purchased by the Group's agent under the programme at a total cost of £47.6m, reducing the share repurchase liability to £103.3m. Other creditors includes £6.8m for 1,441,146 shares purchased by the agent prior to 30 June 2023 for which the Group has completed payment in July 2023. Any share repurchases made under this programme are announced to the market each day in line with regulatory requirements, see note 27 for further details.

25. Provisions and contingent liabilities

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 (2022: less than £0.1m).

The Group released its £1.5m provision for conduct related exposures in 2022 following completion of an internal review.

An analysis of the Group's Financial Services Compensation Scheme (FSCS) and other provisions is presented below:

	FSCS	Other regulatory provisions	ECL on undrawn loan facilities	Total
	£m	£m	£m	£m
At 1 January 2022	0.1	1.5	0.4	2.0
Profit or loss credit	(0.1)	(1.5)	-	(1.6)
At 31 December 2022 (Audited)	-	-	0.4	0.4
Profit or loss charge	**-**	**-**	**0.6**	**0.6**
At 30 June 2023 (Unaudited)	**-**	**-**	**1.0**	**1.0**

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. In addition, the Group is reviewing its collections processes and how mortgage customers in arrears are managed. This includes a retrospective review of the Group's application of forbearance measures and associated outcomes for certain cohorts of customers. It is not possible to reliably predict or estimate the outcome of these reviews and therefore their financial effect, if any, on the Group.

26. Subordinated liabilities

The Group's outstanding subordinated liabilities are summarised below:

	As at 30-Jun-23 (Unaudited) £m	As at 31-Dec-22 (Audited) £m
Fixed rate:		
Subordinated liabilities 2033 (9.993%)	**253.5**	**-**

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

The principal terms of the subordinated debt liabilities are as follows:

- **Interest:** Interest on the notes is fixed at an initial rate until the reset date (27 July 2028). If the notes are not redeemed prior to the reset date, the interest rate will be reset and fixed based on a new floating benchmark gilt rate plus a spread of 6.296%.

- **Redemption:** The Issuer may redeem the Tier 2 notes in whole (but not in part) in its sole discretion on any day from (and including) 27 April 2028 to (and including) 27 July 2028 (the reset date) as specified in the terms of the agreement. Optional redemption may also take place for certain regulatory or tax reasons. Any optional redemption requires the prior consent of the PRA.

26. Subordinated liabilities (continued)

- **Ranking:** The notes constitute direct, unsecured and subordinated obligations of OSBG and rank at least pari passu, without any preference, among themselves as Tier 2 capital. The notes rank behind the claims of depositors and other unsecured and unsubordinated creditors, but rank in priority to holders of Tier 1 capital and of equity of OSBG.

Movements during the period in subordinated liabilities are analysed below:

	Six months ended 30-Jun-23 (Unaudited) £m	Year ended 31-Dec-22 (Audited) £m
At 1 January	**-**	10.3
Addition[1]	**249.0**	-
Movement in accrued interest	**4.5**	-
Repayment of debt	**-**	(10.3)
	253.5	-

1. Addition includes £1.0m towards transaction costs which has been amortised through the EIR of the loan notes.

27. Share capital

Ordinary shares	**Number of shares issued and fully paid**	**Nominal value £m**	**Premium £m**
At 1 January 2022	448,627,855	4.5	0.7
Share 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 (Audited)	429,868,625	4.3	2.4
Share cancelled under repurchase programme	**(8,342,116)**	**(0.1)**	**-**
Shares issued under OSBG employee share plans	**972,852**	**-**	**0.1**
At 30 June 2023 (Unaudited)	**422,499,361**	**4.2**	**2.5**

Since the inception of the Group's share repurchase programme on 17 March 2023 (2022: 18 March 2022), 9,783,262 shares have been repurchased as at 30 June 2023 at an average price of £4.93 per share and a total cost of £47.6m, of which 8,342,116 shares have been cancelled representing 1.9% of the issued share capital (2022: 20,671,224 shares, representing 4.6% of the issued share capital and cancelled at an average price of £4.84 per share). The programme allows the Group to repurchase a maximum of 43,024,375 shares (2022: 44,799,505 shares), restricted by a total cost of £150.0m (2022: £100.0m) 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.

28. Reconciliation of cash flows for financing activities

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

	Amounts owed to credit institutions (see note 20) £m	**Debt securities in issue (see note 22) £m**	**Subordinated liabilities (see note 26) £m**	**PSBs £m**	**Total £m**
At 1 January 2023	**4,543.2**	**265.9**	**-**	**15.2**	**4,824.3**
Cash movements:					
Principal drawdowns	**43.1**	**298.6**	**249.0**	**-**	**590.7**
Principal repayments	**(353.4)**	**(108.3)**	**-**	**-**	**(461.7)**
Interest paid	**(76.6)**	**(4.8)**	**-**	**(0.3)**	**(81.7)**
Non-cash movements:					
Interest charged	**92.4**	**6.1**	**4.5**	**0.3**	**103.3**
At 30 June 2023 (Unaudited)	**4,248.7**	**457.5**	**253.5**	**15.2**	**4,974.9**

	Amounts owed to credit institutions (see note 20) Restated[1] £m	Debt securities in issue (see note 22) £m	Subordinated liabilities (see note 26) £m	PSBs £m	Total £m
At 1 January 2022[1]	4,204.2	460.3	10.3	15.2	4,690.0
Cash movements:					
Principal drawdowns[1]	231.7	-	-	-	231.7
Principal repayments	(1.2)	(93.0)	-	-	(94.2)
Interest paid	(5.4)	(2.9)	(0.4)	(0.3)	(9.0)
Non-cash movements:					
Interest charged	15.1	2.9	0.4	0.3	18.7
At 30 June 2022[1] (Unaudited)	4,444.4	367.3	10.3	15.2	4,837.2

1. 2022 figures restated see note 1 b) for further details.

29. Risk management

The tables below are a summary of the Group's risk management and financial instruments disclosures, of which a complete disclosure for the year ended 31 December 2022 is included in the 2022 Annual Report and Accounts. The tables do not represent all risks the Group is exposed to and should be read in conjunction with the Risk review on pages 33 to 45.

Credit risk

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.

	As at 30-Jun-23 (Unaudited)					
	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	**10,720.5**	**10,683.7**	**8,189.2**	**8,188.1**	**18,909.7**	**18,871.8**
Stage 2	**2,784.4**	**2,781.9**	**2,391.5**	**2,391.2**	**5,175.9**	**5,173.1**
Stage 3	**408.3**	**376.5**	**173.8**	**173.8**	**582.1**	**550.3**
Stage 3 (POCI)	**35.6**	**34.6**	**40.5**	**40.4**	**76.1**	**75.0**
	13,948.8	**13,876.7**	**10,795.0**	**10,793.5**	**24,743.8**	**24,670.2**

	As at 31-Dec-22 (Audited)					
	OSB		CCFS		Total	
	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m
Stage 1	10,346.8	10,320.4	8,375.5	8,374.4	18,722.3	18,694.8
Stage 2	2,509.7	2,508.5	1,907.4	1,907.1	4,417.1	4,415.6
Stage 3	349.7	319.2	156.0	156.0	505.7	475.2
Stage 3 (POCI)	38.5	37.5	44.5	44.4	83.0	81.9
	13,244.7	13,185.6	10,483.4	10,481.9	23,728.1	23,667.5

The Group's main form of collateral held is property, based in the UK and the Channel Islands.

29. Risk management (continued)

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

	As at 30-Jun-23 (Unaudited)				As at 31-Dec-22 (Audited)			
	OSB	**CCFS**	**Total**		OSB	CCFS	Total	
	£m	**£m**	**£m**	**%**	£m	£m	£m	%
Band								
0% - 50%	**2,475.5**	**1,006.7**	**3,482.2**	**14**	2,768.8	914.7	3,683.5	16
50% - 60%	**2,284.4**	**1,409.9**	**3,694.3**	**15**	2,770.7	1,361.1	4,131.8	17
60% - 70%	**4,476.7**	**3,555.0**	**8,031.7**	**33**	4,647.5	3,561.7	8,209.2	35
70% - 80%	**3,324.8**	**4,394.6**	**7,719.4**	**31**	2,150.7	4,277.3	6,428.0	26
80% - 90%	**872.9**	**422.0**	**1,294.9**	**5**	548.3	365.5	913.8	4
90% - 100%	**247.8**	**4.7**	**252.5**	**1**	181.3	2.5	183.8	1
>100%	**266.7**	**2.1**	**268.8**	**1**	177.4	0.6	178.0	1
Total loans before provisions	**13,948.8**	**10,795.0**	**24,743.8**	**100**	13,244.7	10,483.4	23,728.1	100

The table below shows the LTV banding for the OSB segments' two major lending streams:

	As at 30-Jun-23 (Unaudited)				As at 31-Dec-22 (Audited)			
	BTL/SME	**Residential**	**Total**		BTL/SME	Residential	Total	
OSB	**£m**	**£m**	**£m**	**%**	£m	£m	£m	%
Band								
0% - 50%	**1,078.5**	**1,397.0**	**2,475.5**	**18**	1,301.4	1,467.4	2,768.8	21
50% - 60%	**2,026.0**	**258.4**	**2,284.4**	**16**	2,497.2	273.5	2,770.7	21
60% - 70%	**4,219.9**	**256.8**	**4,476.7**	**32**	4,386.0	261.5	4,647.5	36
70% - 80%	**3,128.9**	**195.9**	**3,324.8**	**24**	1,977.1	173.6	2,150.7	16
80% - 90%	**688.4**	**184.5**	**872.9**	**6**	418.1	130.2	548.3	4
90% - 100%	**203.2**	**44.6**	**247.8**	**2**	167.3	14.0	181.3	1
>100%	**261.8**	**4.9**	**266.7**	**2**	172.9	4.5	177.4	1
Total loans before provisions	**11,606.7**	**2,342.1**	**13,948.8**	**100**	10,920.0	2,324.7	13,244.7	100

29. Risk management (continued)

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

	As at 30-Jun-23 (Unaudited)				
OSB	**Buy-to-Let £m**	**Commercial £m**	**Residential development £m**	**Funding lines £m**	**Total £m**
Band					
0% - 50%	**946.0**	**91.1**	**16.5**	**24.9**	**1,078.5**
50% - 60%	**1,891.0**	**90.9**	**41.0**	**3.1**	**2,026.0**
60% - 70%	**3,894.7**	**145.8**	**179.0**	**0.4**	**4,219.9**
70% - 80%	**2,848.8**	**280.1**	**-**	**-**	**3,128.9**
80% - 90%	**443.2**	**245.2**	**-**	**-**	**688.4**
90% - 100%	**69.7**	**79.8**	**-**	**53.7**	**203.2**
>100%	**194.3**	**63.5**	**1.0**	**3.0**	**261.8**
Total loans before provisions	**10,287.7**	**996.4**	**237.5**	**85.1**	**11,606.7**

	As at 31-Dec-22 (Audited)				
OSB	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% - 50%	1,137.6	114.7	16.1	33.0	1,301.4
50% - 60%	2,324.1	112.8	57.2	3.1	2,497.2
60% - 70%	4,111.4	164.4	110.2	-	4,386.0
70% - 80%	1,741.5	235.6	-	-	1,977.1
80% - 90%	232.8	151.6	-	33.7	418.1
90% - 100%	77.1	63.8	-	26.4	167.3
>100%	130.5	38.4	1.0	3.0	172.9
Total loans before provisions	9,755.0	881.3	184.5	99.2	10,920.0

The tables below show the LTV analysis of the OSB Residential sub-segment:

	As at 30-Jun-23 (Unaudited)			As at 31-Dec-22 (Audited)		
OSB	**First charge £m**	**Second charge £m**	**Total £m**	First charge £m	Second charge £m	Total £m
Band						
0% - 50%	**1,305.9**	**91.1**	**1,397.0**	1,357.6	109.8	1,467.4
50% - 60%	**224.2**	**34.2**	**258.4**	238.1	35.4	273.5
60% - 70%	**239.4**	**17.4**	**256.8**	242.9	18.6	261.5
70% - 80%	**189.6**	**6.3**	**195.9**	168.3	5.3	173.6
80% - 90%	**182.8**	**1.7**	**184.5**	128.8	1.4	130.2
90% - 100%	**43.7**	**0.9**	**44.6**	13.4	0.6	14.0
>100%	**4.1**	**0.8**	**4.9**	3.8	0.7	4.5
Total loans before provisions	**2,189.7**	**152.4**	**2,342.1**	2,152.9	171.8	2,324.7

29. Risk management (continued)

The table below shows the LTV analysis of the four CCFS sub-segments:

	As at 30-Jun-23 (Unaudited)					
CCFS	**Buy-to-Let £m**	**Residential £m**	**Bridging £m**	**Second charge lending £m**	**Total £m**	**%**
Band						
0% - 50%	**330.1**	**517.0**	**120.4**	**39.2**	**1,006.7**	**9**
50% - 60%	**829.7**	**498.7**	**56.9**	**24.6**	**1,409.9**	**13**
60% - 70%	**2,581.3**	**897.1**	**55.8**	**20.8**	**3,555.0**	**33**
70% - 80%	**3,708.4**	**645.1**	**28.7**	**12.4**	**4,394.6**	**41**
80% - 90%	**208.7**	**209.7**	**1.5**	**2.1**	**422.0**	**4**
90% - 100%	**1.6**	**1.6**	**1.5**	**-**	**4.7**	**-**
>100%	**-**	**0.1**	**2.0**	**-**	**2.1**	**-**
Total loans before provisions	**7,659.8**	**2,769.3**	**266.8**	**99.1**	**10,795.0**	**100**

	As at 31-Dec-22 (Audited)					
CCFS	Buy-to-Let £m	Residential £m	Bridging £m	Second charge lending £m	Total £m	%
Band						
0% - 50%	308.6	498.3	62.9	44.9	914.7	9
50% - 60%	799.5	501.8	29.9	29.9	1,361.1	13
60% - 70%	2,587.6	924.2	25.6	24.3	3,561.7	34
70% - 80%	3,613.8	622.9	26.9	13.7	4,277.3	41
80% - 90%	215.1	146.8	2.4	1.2	365.5	3
90% - 100%	0.2	0.8	1.5	-	2.5	-
>100%	-	0.1	0.5	-	0.6	-
Total loans before provisions	7,524.8	2,694.9	149.7	114.0	10,483.4	100

29. Risk management (continued)

Forbearance measures undertaken

The Group has a range of options available where borrowers experience financial difficulties that impact their ability to service their financial commitments under the loan agreement. These options are explained in the Principal Risks and Uncertainties section of the Risk Review on pages 52 to 75 of the 2022 Annual Report and Accounts.

A summary of the forbearance measures undertaken during the period is shown below. The balances disclosed reflect the period end balance of the accounts where a forbearance measure was undertaken during the period.

	Six months ended 30-Jun-23 (Unaudited)		Year ended 31-Dec-22 (Audited)	
Forbearance type	**Number of accounts**	**£m**	Number of accounts	£m
Interest-only switch	**44**	**6.2**	70	12.2
Interest rate reduction	**114**	**15.0**	91	7.5
Term extension	**65**	**9.1**	53	2.9
Payment deferral	**198**	**35.6**	194	34.0
Voluntary-assisted sale	**-**	**-**	5	1.2
Payment concession (reduced monthly payments)	**61**	**14.8**	55	12.0
Capitalisation of interest	**9**	**0.6**	27	9.0
Full or partial debt forgiveness	**76**	**2.5**	359	9.6
Total	**567**	**83.8**	854	88.4
Loan type				
First charge owner-occupier	**257**	**29.6**	217	27.8
Second charge owner-occupier	**131**	**2.8**	460	8.9
Buy-to-Let	**117**	**34.0**	107	37.1
Commercial	**62**	**17.4**	70	14.6
Total	**567**	**83.8**	854	88.4

29. Risk management (continued)

Geographical analysis by region

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

	As at 30-Jun-23 (Unaudited)				As at 31-Dec-22 (Audited)			
	OSB	**CCFS**	**Total**		OSB	CCFS	Total	
Region	**£m**	**£m**	**£m**	**%**	£m	£m	£m	%
East Anglia	**470.7**	**1,164.0**	**1,634.7**	**7**	453.5	1,136.4	1,589.9	7
East Midlands	**647.0**	**720.7**	**1,367.7**	**6**	609.9	691.6	1,301.5	6
Greater London	**5,895.4**	**3,313.7**	**9,209.1**	**37**	5,559.3	3,293.0	8,852.3	38
Guernsey	**19.6**	**-**	**19.6**	**-**	21.5	-	21.5	-
Jersey	**72.6**	**-**	**72.6**	**-**	75.6	-	75.6	-
North East	**186.8**	**279.0**	**465.8**	**2**	169.8	274.5	444.3	2
North West	**951.6**	**964.3**	**1,915.9**	**7**	906.6	921.8	1,828.4	7
Northern Ireland	**9.7**	**-**	**9.7**	**-**	10.0	-	10.0	-
Scotland	**32.5**	**276.8**	**309.3**	**1**	36.9	261.3	298.2	1
South East	**2,882.9**	**1,733.2**	**4,616.1**	**19**	2,802.8	1,681.5	4,484.3	19
South West	**939.5**	**699.4**	**1,638.9**	**7**	893.7	659.6	1,553.3	7
Wales	**315.2**	**301.6**	**616.8**	**3**	297.5	284.7	582.2	2
West Midlands	**966.3**	**792.6**	**1,758.9**	**7**	908.9	761.3	1,670.2	7
Yorks and Humberside	**356.4**	**549.7**	**906.1**	**4**	335.5	517.7	853.2	4
Total loans before provisions	**13,746.2**	**10,795.0**	**24,541.2**	**100**	13,081.5	10,483.4	23,564.9	100

29. Risk management (continued)

Approach to measurement of credit quality

The Group categorises the credit quality of loans and advances to customers into internal risk grades based on the 12 month PD calculated at the reporting date. The PDs include a combination of internal behavioural and credit bureau characteristics and are aligned with the Group's internal Capital models and Rating systems 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 an SICR and therefore be moved to Stage 2. Such loans may still be graded as excellent quality, if they meet the overall criteria.

	As at 30-Jun-23 (Unaudited)						
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m	PD lower range %	PD upper range %
OSB							
Excellent	**4,304.8**	**493.6**	**-**	**-**	**4,798.4**	**-**	**0.3**
Good	**5,829.5**	**1,322.4**	**-**	**-**	**7,151.9**	**0.3**	**2.0**
Satisfactory	**546.0**	**473.0**	**-**	**-**	**1,019.0**	**2.0**	**7.4**
Lower	**40.2**	**495.4**	**-**	**-**	**535.6**	**7.4**	**100.0**
Impaired	**-**	**-**	**408.3**	**-**	**408.3**	**100.0**	**100.0**
POCI	**-**	**-**	**-**	**35.6**	**35.6**	**100.0**	**100.0**
CCFS							
Excellent	**5,497.8**	**1,214.0**	**-**	**-**	**6,711.8**	**-**	**0.3**
Good	**2,537.7**	**752.6**	**-**	**-**	**3,290.3**	**0.3**	**2.0**
Satisfactory	**148.2**	**172.6**	**-**	**-**	**320.8**	**2.0**	**7.4**
Lower	**5.5**	**252.3**	**-**	**-**	**257.8**	**7.4**	**100.0**
Impaired	**-**	**-**	**173.8**	**-**	**173.8**	**100.0**	**100.0**
POCI	**-**	**-**	**-**	**40.5**	**40.5**	**100.0**	**100.0**
	18,909.7	**5,175.9**	**582.1**	**76.1**	**24,743.8**		

29. Risk management (continued)

	As at 31-Dec-22 (Audited)						
	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		

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.

	As at 30-Jun-23 (Unaudited)			
	Excellent £m	**Good £m**	**Satisfactory £m**	**Total £m**
Investment securities	**348.7**	**-**	**-**	**348.7**
Loans and advances to credit institutions	**3,227.3**	**381.6**	**8.1**	**3,617.0**
Derivative assets	**496.0**	**631.6**	**-**	**1,127.6**
	4,072.0	**1,013.2**	**8.1**	**5,093.3**

	As at 31-Dec-22 (Audited)			
	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

30. Financial instruments and fair values

The following tables provide an analysis of financial assets and financial liabilities measured at fair value in the Condensed Consolidated Statement of Financial Position grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

As at 30 June 2023 (Unaudited)	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Loans and advances to credit institutions	**10.5**	**10.2**	**-**	**10.5**	**-**	**10.5**
Investment securities	**10.2**	**10.4**	**9.8**	**-**	**0.4**	**10.2**
Loans and advances to customers	**15.1**	**17.0**	**-**	**-**	**15.1**	**15.1**
Derivative assets	**1,127.6**	**13,067.1**	**-**	**1,127.6**	**-**	**1,127.6**
	1,163.4	**13,104.7**	**9.8**	**1,138.1**	**15.5**	**1,163.4**
Financial liabilities						
Derivative liabilities	**88.6**	**8,936.0**	**-**	**88.6**	**-**	**88.6**

As at 31 December 2022 (Audited)	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	150.3	150.5	149.8	-	0.5	150.3
Loans and advances to customers	14.6	17.7	-	-	14.6	14.6
Derivative assets	888.1	15,662.6	-	888.1	-	888.1
	1,053.0	15,830.8	149.8	888.1	15.1	1,053.0
Financial liabilities						
Derivative liabilities	106.6	9,518.0	-	106.6	-	106.6

Level 1: Fair values that are based entirely on quoted market prices (unadjusted) in an actively traded market for identical assets and liabilities that the Group has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on readily available observable market prices, this makes them most reliable, reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values.

Level 2: Fair values that are based on one or more quoted prices in markets that are not active or for which all significant inputs are taken from directly or indirectly observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are no quoted prices available for similar instruments in active markets.

30. Financial instruments and fair values (continued)

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

			Estimated fair value			
As at 30 June 2023 (Unaudited)	**Carrying amount £m**	**Principal amount £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets						
Cash in hand	**0.4**	**0.4**	**-**	**0.4**	**-**	**0.4**
Loans and advances to credit institutions	**3,606.5**	**3,593.6**	**-**	**3,606.5**	**-**	**3,606.5**
Investment securities	**338.5**	**336.9**	**-**	**338.7**	**-**	**338.7**
Loans and advances to customers	**24,571.7**	**24,808.6**	**-**	**2,090.7**	**21,645.2**	**23,735.9**
Other assets[1]	**2.3**	**2.3**	**-**	**2.3**	**-**	**2.3**
	28,519.4	**28,741.8**	**-**	**6,038.6**	**21,645.2**	**27,683.8**
Financial liabilities						
Amounts owed to retail depositors	**20,713.7**	**20,511.2**	**-**	**5,937.8**	**14,651.0**	**20,588.8**
Amounts owed to credit institutions	**5,052.3**	**5,005.6**	**-**	**5,052.3**	**-**	**5,052.3**
Amounts owed to other customers	**114.7**	**112.6**	**-**	**-**	**114.7**	**114.7**
Debt securities in issue	**457.5**	**456.0**	**-**	**457.5**	**-**	**457.5**
Other liabilities[2]	**144.2**	**144.2**	**-**	**144.2**	**-**	**144.2**
Subordinated liabilities	**253.5**	**250.0**	**-**	**253.5**	**-**	**253.5**
PSBs[3]	**15.2**	**15.0**	**-**	**14.1**	**-**	**14.1**
	26,751.1	**26,494.6**	**-**	**11,859.4**	**14,765.7**	**26,625.1**

1. Balance excludes prepayments.
2. Balance excludes deferred income.
3. The Group has reviewed the trading frequency of the PSBs and determined there is insufficient frequency and volume to provide pricing information on an ongoing basis in the market and have therefore categorised as level 2 fair value (2022: level 1).

30. Financial instruments and fair values (continued)

			Estimated fair value			
As at 31 December 2022 (Audited)	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Cash in hand	0.4	0.4	-	0.4	-	0.4
Loans and advances to credit institutions	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
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.

The valuation techniques for all the financial instruments are consistent with those set out on page 231 of the 2022 Annual Report and Accounts. For other assets and other liabilities fair value is considered to be equal to carrying value.

31. 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:

	OSB £m	CCFS £m	Combination £m	Total £m
Balances as at 30 June 2023 (Unaudited)				
Gross loans and advances to customers	**13,948.8**	**10,772.0**	**38.1**	**24,758.9**
Expected credit losses	**(139.6)**	**(33.7)**	**1.2**	**(172.1)**
Loans and advances to customers	**13,809.2**	**10,738.3**	**39.3**	**24,586.8**
Capital expenditure	**13.2**	**0.1**	**-**	**13.3**
Depreciation and amortisation	**3.4**	**1.7**	**1.0**	**6.1**
Profit for six months ended 30 June 2023 (Unaudited)				
Net interest income/(expense)	**241.1**	**39.2**	**(42.8)**	**237.5**
Other (expenses)/income	**(9.9)**	**0.5**	**4.0**	**(5.4)**
Total income/(expense)	**231.2**	**39.7**	**(38.8)**	**232.1**
Impairment of financial assets	**(39.2)**	**(5.3)**	**(0.1)**	**(44.6)**
Contribution to profit	**192.0**	**34.4**	**(38.9)**	**187.5**
Administrative expenses	**(72.0)**	**(37.2)**	**(1.0)**	**(110.2)**
Provisions	**(0.6)**	**-**	**-**	**(0.6)**
Profit/(loss) before taxation	**119.4**	**(2.8)**	**(39.9)**	**76.7**
Taxation[1]	**(30.2)**	**1.5**	**11.3**	**(17.4)**
Profit/(loss) for the period	**89.2**	**(1.3)**	**(28.6)**	**59.3**

1. The tax on Combination credit includes the 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 £11.3m.

31. Operating segments (continued)

	OSB £m	CCFS £m	Combination £m	Total £m
Balances as at 31 December 2022 (Audited)				
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 for six months ended 30 June 2022 (Unaudited)				
Net interest income/(expense)	218.6	150.6	(25.8)	343.4
Other income	4.1	10.7	5.3	20.1
Total income/(expense)	222.7	161.3	(20.5)	363.5
Impairment of financial assets	(1.9)	(0.1)	0.4	(1.6)
Contribution to profit	220.8	161.2	(20.1)	361.9
Administrative expenses	(54.8)	(34.3)	(2.2)	(91.3)
Provisions	1.2	-	-	1.2
Integration costs	(3.1)	(0.6)	-	(3.7)
Profit/(loss) before taxation	164.1	126.3	(22.3)	268.1
Taxation[1]	(37.6)	(32.3)	10.7	(59.2)
Profit/(loss) for the period	126.5	94.0	(11.6)	208.9

1. The tax on Combination credit includes the 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 £6.0m and the impact of the bank surcharge decrease on these deferred tax liabilities of £4.7m.

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

	Six months ended 30-Jun-23 (Unaudited) £m	Six months ended 30-Jun-22 (Unaudited) (Restated)[1] £m
Adjustments for non-cash items:		
Depreciation and amortisation	**6.1**	7.0
Interest on investment securities	**(9.9)**	(1.7)
Interest on subordinated liabilities	**4.5**	0.4
Interest on PSBs	**0.3**	0.3
Interest on securitised debt	**6.1**	2.9
Interest on financing debt	**92.4**	15.8
Impairment charge on loans	**44.6**	1.6
Administrative expenses	**0.3**	-
Provisions	**0.6**	(1.2)
Interest on lease liabilities	**0.1**	0.1
Fair value (losses)/gains on financial instruments	**8.1**	(16.4)
Share-based payments	**3.2**	4.3
Total adjustments for non-cash items	**156.4**	13.1
Changes in operating assets and liabilities:		
Decrease/(increase) in loans and advances to credit institutions	**76.0**	(53.3)
Increase in loans and advances to customers	**(1,017.5)**	(680.1)
Increase in amounts owed to retail depositors	**957.9**	412.6
Increase in cash collateral and margin received[1]	**253.9**	280.8
Net increase in other assets	**(1.6)**	(2.9)
Net (decrease)/increase in derivatives and hedged items	**(14.8)**	14.9
Net increase in amounts owed to other customers	**1.6**	26.0
Net decrease in other liabilities	**(4.1)**	(2.6)
Exchange differences on working capital	**(0.5)**	0.1
Total changes in operating assets and liabilities[1]	**250.9**	(4.5)

1. 2022 figures restated see note 1 b) for further details.

33. Capital management

The Group's individual regulated entities and the Group as a whole complied with all of the capital requirements, which they were subject to, for the periods presented.

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

	As at 30-Jun-23 (Unaudited) £m	As at 31-Dec-22 (Unaudited) £m
Common Equity Tier 1 (CET1) capital		
Called up share capital	**4.2**	4.3
Share premium, capital contribution and share-based payment reserve	**14.9**	15.6
Retained earnings	**3,152.5**	3,389.4
Transfer reserve	**(1,355.0)**	(1,355.1)
Other reserves	**(3.4)**	(3.2)
Total equity attributable to ordinary shareholders	**1,813.2**	2,051.0
Foreseeable dividends	**(43.1)**	(144.0)
IFRS 9 transitional adjustment[1]	**-**	1.4
COVID-19 ECL transitional adjustment[2]	**27.3**	25.9
Deductions from CET1 capital		
Prudent valuation adjustment[3]	**(1.2)**	(1.0)
Intangible assets	**(17.3)**	(12.0)
Deferred tax asset	**(0.4)**	(0.6)
CET1 capital	**1,778.5**	1,920.7
AT1 capital		
AT1 securities	**150.0**	150.0
Total Tier 1 capital	**1,928.5**	2,070.7
Tier 2 capital		
Tier 2 securities	**250.0**	-
Total Tier 2 capital	**250.0**	**-**
Total regulatory capital	**2,178.5**	2,070.7
Risk-weighted assets	**11,353.9**	10,494.7

1. The regulatory capital for 2022: includes a £1.4m add-back under IFRS 9 transitional arrangements. This arrangement expired in 2022 and hence there is no adjustment in 2023.
2. The COVID-19 ECL transitional adjustment relates to 50% of the Group's increase in stage 1 and stage 2 ECL following the impacts of COVID-19 and for which transitional rules are being adopted for regulatory capital purposes.
3. The Group has adopted the simplified approach under the Prudent Valuation rules, recognising a deduction equal to 0.1% (2022: 0.1%) of fair value assets and liabilities after adjusting for hedge accounting.

34. Related parties

The Group had no related party transactions during the six months to 30 June 2023 that materially affected the position or performance of the Group.

Transactions with key management personnel
During the period, the Group granted 185,887 (2022: 282,447) awards under the Deferred Share Bonus Plan and 899,850 (2022: 737,825) awards under the Performance Share Plan to 11 (2022: 11) key management personnel. The awards were granted on 22 March 2023 with a grant price of £4.9787. Details of these plans can be found in note 11 of the 2022 Annual Report and Accounts on pages 198 to 200.

35. Events after the reporting date

There have been no material events after the reporting date.

Independent assurance statement by Deloitte LLP to OSB GROUP PLC on selected Alternative Performance Measures

Opinion
We have performed an independent limited assurance engagement on the Alternative Performance Measures (collectively, the APMs) set out below for the financial half year ended 30 June 2023. The assured APMs are highlighted with the symbol ∆ throughout the OSB GROUP PLC (OSB Group) 2023 Interim Report. The definition and the basis of preparation for each of the assured APMs is described in the Appendix to the 2023 Interim Report (OSB Group's APM Definitions and Basis of Preparation).

Statutory basis	*Underlying basis*
• Gross new lending • Net interest margin • Cost to income ratio • Management expense ratio • Loan loss ratio • Dividend per share • Basic earnings per share • Return on equity	• Net interest margin • Cost to income ratio • Management expense ratio • Loan loss ratio • Basic earnings per share • Return on equity

In our opinion nothing has come to our attention that causes us to believe that the assured APMs for the financial half year ended 30 June 2023, have not 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
We are responsible for:
- planning and performing procedures to obtain sufficient appropriate evidence in order to express an independent limited assurance opinion on the assured APMs;
- communicating matters that may be relevant to the assured APMs to the appropriate party including identified or suspected non-compliance with laws and regulations, fraud or suspected fraud, and bias in the preparation of the assured APMs; and
- reporting our conclusion in the form of an independent limited assurance report to the directors of OSB GROUP PLC.

Key procedures performed
We are required to plan and perform our procedures in order to obtain limited 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 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.

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 the assured APMs which are derived or extracted from the financial statements of OSB Group for the period ended 30 June 2023 to the financial statements.
- for amounts used in the calculation of the assured APMs which were not derived or extracted from the financial statements of OSB Group for the period ended 30 June 2023, 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 are prepared in accordance with OSB Group's APM Definitions and Basis of Preparation; and
- reading the 2023 Interim Report 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 Interim Report 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 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.

Use of our report

This assurance report is made solely to OSB GROUP PLC in accordance with ISAE 3000 (Revised) and 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 limited assurance report and for no other purpose.

Without assuming or accepting any responsibility or liability in respect of this report to any party other than OSB GROUP PLC and the directors of OSB GROUP PLC, we acknowledge that the directors of OSB GROUP PLC 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 OSB GROUP PLC and the directors of OSB GROUP PLC as a body, for our assurance work, for this assurance report or for the opinions we have formed.

Deloitte LLP, London
10 August 2023

Key performance indicators

Underlying results for the six months to 30 June 2023 and 30 June 2022 exclude integration costs and other acquisition-related items. The underlying results provide a more consistent basis for comparing the Group's performance between financial periods.

Net interest margin (NIM)
For the period of six months NIM is calculated as net interest income annualised on an actual days basis, as a percentage of a 7 point average[1] of interest earning assets (cash, investment securities, loans and advances to customers and credit institutions). It represents the margin earned on loans and advances and liquid assets after swap expense/income and cost of funds.

	HY 2023 £m	HY 2022 £m
Net interest income – statutory	**237.5**	343.4
Add back: acquisition-related items[2]	**42.8**	25.8
Net interest income – underlying	**280.3**	369.2
Net interest income annualised on an actual days basis:		
Net interest income – statutory A	**478.9**	692.5
Net interest income – underlying B	**565.2**	744.5
7 point average of interest earning assets – statutory C	**27,926.6**	24,743.0
7 point average of interest earning assets – underlying D	**27,857.6**	24,613.5
NIM statutory equals A/C	**171bps**	280bps
NIM underlying equals B/D	**203bps**	302bps

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.

	HY 2023 £m	HY 2022 £m
Administrative expenses – statutory A	**110.2**	91.3
Add back: acquisition-related items[2]	**(1.0)**	(2.2)
Administrative expenses – underlying B	**109.2**	89.1
Total income – statutory C	**232.1**	363.5
Add back: acquisition-related items[2]	**38.8**	20.5
Total income underlying D	**270.9**	384.0
Cost to income statutory equals A/C	**47%**	25%
Cost to income underlying equals B/D	**40%**	23%

Management expense ratio

For the period of six months the management expense ratio is defined as administrative expenses annualised on a simple basis as a percentage of a 7 point average[1] of total assets.

	HY 2023 £m	HY 2022 £m
Administrative expenses – statutory (as in cost to income ratio above) A	**110.2**	91.3
Administrative expenses – underlying (as in cost to income ratio above) B	**109.2**	89.1
7 point average of total assets – statutory C	**28,122.7**	24,857.7
7 point average of total assets – underlying D	**28,058.6**	24,742.1
Management expense ratio statutory equals A/C on an annualised basis	**78bps**	73bps
Management expense ratio underlying equals B/D on an annualised basis	**78bps**	72bps

Loan loss ratio

For the period of six months, the loan loss ratio is defined as impairment losses annualised on a simple basis as a percentage of a 7 point average[1] of gross loans and advances. It is a measure of the credit performance of the loan book.

	HY 2023 £m	HY 2022 £m
Impairment losses – statutory A	**44.6**	1.6
Add back: acquisition-related items[2]	**(0.1)**	0.4
Impairment losses – underlying B	**44.5**	2.0
7 point average of gross loans – statutory C	**24,325.7**	21,487.1
7 point average of gross loans – underlying D	**24,259.7**	21,356.0
Loan loss ratio statutory equals A/C on an annualised basis	**37bps**	1bp
Loan loss ratio underlying equals B/D on an annualised basis	**37bps**	2bps

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, annualised on a simple basis, as a percentage of a 7 point average[1] of shareholders' equity (excluding £150m of AT1 securities).

	HY 2023 £m	HY 2022 £m
Profit after tax - statutory	**59.3**	208.9
Coupons on AT1 securities	**(4.5)**	(4.5)
Profit attributable to ordinary shareholders – statutory A	**54.8**	204.4
Add back: acquisition related items[2]	**28.6**	14.4
Profit attributable to ordinary shareholders – underlying B	**83.4**	218.8
7 point average of shareholders' equity (excluding AT1 securities) – statutory C	**2,011.0**	1,892.4
7 point average of shareholders' equity (excluding AT1 securities) – underlying D	**1,965.3**	1,811.2
Return on equity statutory equals A/C on an annualised basis	**5%**	22%
Return on equity underlying equals B/D on an annualised basis	**8%**	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.

	HY 2023 £m	HY 2022 £m
Profit attributable to ordinary shareholders – statutory (as in RoE ratio above) A	**54.8**	204.4
Profit attributable to ordinary shareholders – underlying (as in RoE ratio above) B	**83.4**	218.8
Weighted average number of ordinary shares in issue – statutory C	**428.0**	447.4
Weighted average number of ordinary shares in issue – underlying D	**428.0**	447.4
Basic earnings per share statutory equals A/C	**12.8**	45.7
Basic earnings per share underlying equals B/D	**19.5**	48.9

1. 7 point average is calculated as an average of opening balance and closing balances for six months to 30 June.
2. The acquisition-related items are detailed in the reconciliation of statutory to underlying results in the Financial review.

OSB GROUP PLC

Interim report for the six months ended 30 June 2023

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