

Interbay Funding, Ltd

Annual Report and Financial Statements
For the Year Ended 31 December 2021
Company Number: 05595882

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Interbay Funding, Ltd

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Interbay Funding, Ltd

Company Information

DIRECTORS

Andrew Golding
Clive Kornitzer
Neil Richardson
Richard Wilson

COMPANY SECRETARY

Nickesha Graham-Burrell

REGISTERED OFFICE

Reliance House
Sun Pier
Chatham
ME4 4ET

REGISTERED NUMBER

05595882 (England and Wales)

AUDITOR

Deloitte LLP
Statutory Auditor
4 Brindley Place
Birmingham
B1 2HZ

Interbay Funding, Ltd

Strategic Report

For the Year Ended 31 December 2021

The Directors present their Annual Report, including the Strategic Report, Directors' Report and Statement of Directors' Responsibilities, together with the audited financial statements and Auditor's Report for the year ended 31 December 2021.

Incorporation and principal activity

Interbay Funding, Ltd (the Company) was incorporated on 18 October 2005. The principal activity of the Company is the origination and servicing of mortgage loans.

Business review and results

Operating profit for the year decreased by £0.5m to £5.7m (2020: £6.2m) due to a decrease in loan servicing income. Profit before tax excluding dividends received decreased by £2.9m to £6.5m (2020: £9.4m) due to amounts owed to other Group companies being settled on a monthly basis from December 2021. The Company received a dividend from its subsidiary, Interbay ML, Ltd (IML), of £46.7m (2020: £15.6m) during the year, contributing to a profit after taxation of £51.9m (2020: £23.2m). After a dividend payment of £54.5m (2020: £21.8m) to the Company's parent, Inter Bay Financial II Limited, equity shareholders' funds at 31 December 2021 decreased to £33.9m (2020: £36.2m).

Future Developments

The Company will continue to originate and service mortgage loans.

COVID-19

The Company's ongoing response to COVID-19 demonstrates that it can respond rapidly and effectively to a severe threat to the services that it provides to its customers. The potential impact of new COVID-19 variants remains unknown.

Section 172 statement

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

The stakeholders which the Directors considered in this regard are the employees of the Company, customers, brokers and the local communities in which we are located. These stakeholders are considered to be those most likely to be impacted by decisions taken by the Board. The pages 2 and 3, set out how Directors complied with the requirements of section 172 during the year.

Stakeholder engagement

The Company is committed to effective engagement with all of its stakeholders. The Directors regularly receive reports from management on issues concerning customers, the environment, communities, suppliers and employees which it takes into account in its discussions and in its decision-making process under section 172.

The Company undertakes deep dive reviews to further develop its understanding of key issues impacting its stakeholders. In addition to this, the Directors seek to understand the interests and views of the Company's stakeholders by engaging with them, as appropriate.

Interbay Funding, Ltd

Strategic Report (continued)

For the Year Ended 31 December 2021

The Company is committed to doing the right thing for all of our stakeholders as they fulfil their duty to promote the success of the Company under the section 172 of the Companies Act 2006. Some of the ways in which the Directors have engaged directly with stakeholders over the year are shown below.

Employees

The Company has 43 employees (2020: 62). IFL favours two-way communication between management and employees and regularly asks for their opinions including feedback from the OSB GROUP PLC (OSBG) group-wide surveys.

Customers

The Company targets underserved specialist mortgage market segments with a focus on specialist Buy-to-Let, Commercial, Semi-Commercial and Bridging lending. The Company's manual underwriting, together with strong risk management and enhanced stress testing, give it a deep understanding of these lending market segments. The Company has its own programme to measure Customer Satisfaction (CSat). The 2021 CSat score for Interbay showed an increase to 81 (2020: 78.9).

Brokers

All of the Company's products, under the Interbay Commercial brand, are distributed via mortgage brokers who are vital to our success. The unique and consistent lending proposition fulfils our goal of making it easier for intermediaries to serve the Company's customers. However, efforts extend beyond the proposition, as the Company continuously enhances the service provided; growing its resources available as the number of intermediaries grows and regularly engages with the broker community. The Company's business development managers listen and work with intermediaries, making themselves available to discuss cases and helping to obtain swift and reliable decisions. Management tracks broker satisfaction scores, customers' satisfaction scores and number of complaints in its monthly Board reporting packs.

Community

The Company supports a number of charity and community initiatives, assisting with fundraising for the Campaign Against Living Miserably, the national charity partner of OSBG.

Risk management

The main risks arising from the Company's activities are credit, liquidity and operational risk. The Board has determined policies for each of these risks. The Company's credit, liquidity and operational and interest rate risks arising from its operations are managed at Group level, through the Group's risk governance framework reporting to the Group Risk Committee. The Group comprises OSBG and its subsidiaries (together, the Group).

The Company originates mortgages and then immediately sells the beneficial interest of the loans to IML, therefore transferring all risks and rewards. As such, the Company is exposed to limited financial risk in relation to the origination of mortgages. From a credit risk perspective, the amounts which are owed are primarily from other companies in the Group.

Key performance indicators (KPIs)

The KPIs used by management in assessing the performance of the Company is its profit before tax (PBT) excluding dividends received. The Company's PBT excluding dividends received was £6.5m (2020: £9.4m).

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



Nickesha Graham-Burrell
Company Secretary
23 June 2022

Interbay Funding, Ltd

Directors' Report

For the Year Ended 31 December 2021

Future Developments

The Directors have provided detail in the Strategic Report on page 2.

Risk management

The Directors have provided detail in the Strategic Report on page 3.

Going concern

The Directors undertake regular rigorous assessments of whether the Company 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, the Directors considered the information contained in the financial statements and the latest business plans for the Company. The assessment also considered projections for the Group, in which the Company and IML are subsidiary undertakings, where IML provides the majority of the Company's turnover.

Projections for the Group have been prepared covering future performance, capital and liquidity for a period in excess of 12 months from the date of approval of these financial statements. These forecasts have been subject to sensitivity tests, including stress scenarios, which have been compared to the latest economic scenarios provided by the Group's external economic advisors, as well as reverse stress tests. In making the assessment the Directors have considered all principal and emerging risks including climate risk where the risk is likely to emerge outside of the going concern assessment horizon.

The assessments include the following:

- Financial and capital forecasts were prepared under stress scenarios which were assessed against the latest economic forecasts provided by the Group's external economic advisors. Reverse stress tests were also run, to assess what combinations of House Price Index (HPI) and unemployment variables would result in the Group utilising its regulatory capital buffers in full and breaching the Group's minimum prudential requirements, along with analysis and insight from the Group's Internal Capital Adequacy Assessment Process (ICAAP). The Directors assessed the likelihood of those reverse stress scenarios occurring within the next 12 months and concluded that the likelihood is remote.
- The latest liquidity and contingent liquidity positions and forecasts were assessed against the Internal Liquidity Adequacy Assessment Process (ILAAP) stress scenarios.
- The Group continues to assess the resilience of its business operating model and supporting infrastructure in the context of the emerging economic, business and regulatory environment. The key areas of focus continue to be on the provision of critical services to customers, employee health and safety and evolving governmental policies and guidelines. The Group continues to invest in its information technology platforms to support its employees with flexible working from office or homeworking across all locations within a hybrid working model. The Group's response to the COVID-19 pandemic demonstrated the inherent resilience of the Group's critical processes and infrastructure. It also highlighted the necessary agility in responding to changing operational demands. The operational dependencies on third party vendors and outsourcing arrangements continue to be an important area of focus.

Interbay Funding, Ltd

Directors' Report (continued)

For the Year Ended 31 December 2021

Having reviewed these assessments, the Directors have concluded that the Company has sufficient resources to continue in operational existence for a period in excess of 12 months from the date of this report and as a result, it is appropriate to prepare these financial statements on a going concern basis.

Directors and their interests

The Directors who served during the year and to the date of this Directors' Report, unless otherwise indicated were as follows:

Andrew Golding
Clive Kornitzer
Mark Parrett (resigned on 9 April 2021)
Neil Richardson (appointed on 12 May 2021)
Richard Wilson

No Director had any beneficial interest either in the share capital of the Company, or in any material contract or arrangement with the Company at any time during the year under review.

Directors' indemnities

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

Dividends

During the year, the Company paid a dividend of £54.5m relating to the 2020 results (2020: £21.8m relating to the 2019 results). No final dividend (2020: nil) has been paid or proposed.

Events after the reporting date

There have been no events between 31 December 2021 and the date of approval of the financial statements which would require adjustment or disclosure in the financial statements.

Interbay Funding, Ltd

Directors' Report (continued)

For the Year Ended 31 December 2021

Audit disclosure

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

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

The Auditor, Deloitte LLP, has expressed its willingness to continue in office. Pursuant to section 487 of the Companies Act 2006, the Auditor will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

Approved by the Board and signed on its behalf by:



Nickesha Graham-Burrell
Company Secretary
23 June 2022

Interbay Funding, Ltd

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

For the Year Ended 31 December 2021

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board and signed on its behalf by:



Nickesha Graham-Burrell

Company Secretary

23 June 2022

Independent Auditor's Report to the Members of Interbay Funding, Ltd

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Interbay Funding, Ltd (the Company):

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity; and
- the related notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the FRC's) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

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

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Independent Auditor's Report to the Members of Interbay Funding, Ltd (continued)

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

We considered the nature of the Company's industry and its control environment, and reviewed the Company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the Company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and Tax legislation ; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax and financial instruments regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

Independent Auditor's Report to the Members of Interbay Funding, Ltd (continued)

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

- reviewing Financial Statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of Board Meetings and other committee's; reviewing internal audit reports; reviewing correspondence with HMRC and other regulators.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

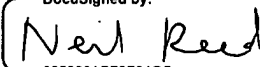
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Members of Interbay Funding, Ltd (continued)

Use of our report

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

DocuSigned by:

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Neil Reed, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

23 June 2022

Interbay Funding, Ltd

Statement of Comprehensive Income

For the Year Ended 31 December 2021

	Note	2021 £'000	2020 £'000
Turnover	2	9,641	10,729
Cost of sales		(3,988)	(4,552)
Gross profit	3	5,653	6,177
Income from shares in Group undertakings		46,719	15,576
Interest receivable and similar income	6	826	11,951
Interest payable and similar expenses	7	(19)	(8,690)
Profit before taxation		53,179	25,014
Tax on profit	8	(1,251)	(1,789)
Profit for the financial year		51,928	23,225

The above results are derived wholly from continuing operations.

There were no recognised gains or losses other than the profit for the year and accordingly no Statement of Other Comprehensive Income has been prepared.

The notes on page 15 to 26 form part of these financial statements.

Interbay Funding, Ltd

Statement of Financial Position

As at 31 December 2021

	Note	2021 £'000	2020 £'000
Fixed assets			
Intangible assets	10	159	116
Tangible assets	11	333	387
Investments	12	2,112	2,112
Debtors: Amounts falling due after more than one year	13	76	-
		2,680	2,615
Current assets			
Debtors: Amounts falling due within one year	13	32,073	34,202
Cash at bank and in hand		663	379
		32,736	34,581
Creditors: Amounts falling due within one year	15	(1,523)	(955)
Net current assets		31,213	33,626
Total assets less current liabilities		33,893	36,241
Net assets		33,893	36,241
Capital and reserves			
Called up share capital	16	28,418	28,418
Share based payments reserve		262	63
Profit and loss account		5,213	7,760
Shareholders' funds		33,893	36,241

The notes on pages 15 to 26 form part of these financial statements.

The financial statements were approved by the Board of Directors on 23 June 2022 and were signed on its behalf by:



Clive Kornitzer
Director

Company registered number: 05595882

Interbay Funding, Ltd

Statement of Changes in Equity

For the Year Ended 31 December 2021

	Called up share capital £'000	Share based payments reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
At 1 January 2020	28,418	139	6,266	34,823
Profit for the financial year	-	-	23,225	23,225
Share-based payments	-	(76)	112	36
Dividends paid (see note 9)	-	-	(21,843)	(21,843)
At 31 December 2020	28,418	63	7,760	36,241
Profit for the financial year	-	-	51,928	51,928
Share-based payments	-	199	4	203
Dividends paid (see note 9)	-	-	(54,479)	(54,479)
At 31 December 2021	28,418	262	5,213	33,893

Interbay Funding, Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2021

1. Accounting policies

a) Company information

Interbay Funding, Ltd is a private company limited by shares registered in England and Wales. The address of the Company's registered office is shown on page 1.

b) Basis of preparation

These financial statements have been prepared in accordance with applicable UK accounting standards, including FRS 102 and with the Companies Act 2006. The Company elected to apply the recognition and measurement requirements of IFRS 9 as permitted by FRS 102 section 11. The financial statements have been prepared on the historical cost basis. Amendments to FRS 102 applicable for the first time this year had no material impact on the Company's accounts. The presentation currency of these financial statements is Pounds Sterling. All amounts in the financial statements have been rounded to the nearest thousand (£'000).

The Company's ultimate parent undertaking, OSBG, includes the Company in its consolidated financial statements. The Company is an intermediate holding company and exempt from preparing group accounts within these financial statements and accordingly, these financial statements relate to the Company only. The consolidated financial statements of OSBG are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the United Kingdom (UK) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and are available to the public and may be obtained from OSBG's registered office: OSB House, Quayside, Chatham Maritime, Chatham, ME4 4QZ.

In these financial statements, the Company is considered to be a qualifying entity for the purposes of FRS 102 and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- The requirements Within Section 3 Financial Statements Presentation.
- The requirements Within Section 7 Statement of Cash Flows.
- The requirements Within Section 11 Financial Instruments.
- The requirements Within Section 12 Other Financial Instruments Issues.

As the consolidated financial statements of OSBG include the disclosures equivalent to those required by FRS 102, the Company has also taken the exemptions available in respect of the following disclosures:

- The requirements Within Section 26 Share-Based Payments.
- The requirements Within Section 33 Related Party Disclosures.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements.

There were no significant judgements made by the Directors, in the application of these accounting policies that have a significant effect on the financial statements and there were no estimates with a significant risk of material adjustment in the current or subsequent year.

c) Going concern

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

Interbay Funding, Ltd

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2021

1. Accounting policies (continued)

In assessing whether the going concern basis is appropriate, the Directors considered the information contained in the financial statements and the latest business plans for the Company. The assessment also considered projections for the Group, in which the Company and IML are subsidiary undertakings, where IML provides the majority of the Company's turnover.

Projections for the Group have been prepared covering future performance, capital and liquidity for a period in excess of 12 months from the date of approval of these financial statements. These forecasts have been subject to sensitivity tests, including stress scenarios, which have been compared to the latest economic scenarios provided by the Group's external economic advisors, as well as reverse stress tests. In making the assessment the Directors have considered all principal and emerging risks including climate risk where the risk is likely to emerge outside of the going concern assessment horizon.

The assessments include the following:

- Financial and capital forecasts were prepared under stress scenarios which were assessed against the latest economic forecasts provided by the Group's external economic advisors. Reverse stress tests were also run, to assess what combinations of HPI and unemployment variables would result in the Group utilising its regulatory capital buffers in full and breaching the Group's minimum prudential requirements, along with analysis and insight from the Group's ICAAP. The Directors assessed the likelihood of those reverse stress scenarios occurring within the next 12 months and concluded that the likelihood is remote.
- The latest liquidity and contingent liquidity positions and forecasts were assessed against the ICAAP stress scenarios.
- The Group continues to assess the resilience of its business operating model and supporting infrastructure in the context of the emerging economic, business and regulatory environment. The key areas of focus continue to be on the provision of critical services to customers, employee health and safety and evolving governmental policies and guidelines. The Group continues to invest in its information technology platforms to support its employees with flexible working from office or homeworking across all locations within a hybrid working model. The Group's response to the COVID-19 pandemic demonstrated the inherent resilience of the Group's critical processes and infrastructure. It also highlighted the necessary agility in responding to changing operational demands. The operational dependencies on third party vendors and outsourcing arrangements continue to be an important area of focus.

Having reviewed these assessments, the Directors have concluded that the Company has sufficient resources to continue in operational existence for a period in excess of 12 months from the date of this report and as a result, it is appropriate to prepare these financial statements on a going concern basis.

d) Turnover

Turnover represents fees charged to IML for originating and servicing mortgage loans in the UK. Turnover from provision of these services is recognised over the period in which the services are provided.

e) Interest income and expense

Interest income and interest expense represent interests on intercompany balances with Group undertakings. Interest is calculated in line with the Group transfer pricing policy and is accounted for on an accruals basis.

Interest income for all interest-bearing financial instruments measured at amortised cost through profit or loss is calculated using the effective interest rate (EIR) method. The EIR is the rate which exactly discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying value of the financial asset or liability.

Interbay Funding, Ltd

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2021

1. Accounting policies (continued)

f) Income from shares in Group undertakings

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

g) Dividends paid

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

h) Tax on profit

Tax is recognised in profit or loss consistently with the recognition of items it relates to.

The current tax charge is the expected tax or credit on the taxable profit or loss for the year and any adjustments in respect of previous years.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the Statement of Financial Position date where transactions or events have occurred at that date that will result in an obligation to pay more or a right to pay less tax, except that deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the Statement of Financial Position date.

i) Intangible assets

Purchased software and costs directly associated with the development of computer software are capitalised as intangible assets where the software is a unique and identifiable asset controlled by the Company and will generate future economic benefits. Costs to establish technological feasibility or to maintain existing levels of performance are recognised as an expense.

In respect of a specific part of cloud technology, a Software-as-a-service (SaaS); arrangement that conveys to the customer only the right to receive access to the supplier's application software in the future is treated as a service contract, rather than a software lease or the acquisition of a software intangible asset.

An intangible is only recognised if:

- The customer has the contractual right to take possession of the software during the hosting period without significant penalty;
- It is feasible for the customer to run the software on its own hardware or contract with a party unrelated to the supplier to host the software.

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

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, which is five years. Amortisation is recognised within cost of sales. The Company writes off intangible assets that have been fully depreciated.

Intangible assets are reviewed for indicators of impairment annually, and if they are considered to be impaired, are written down immediately to their recoverable amounts.

Interbay Funding, Ltd

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2021

1. Accounting policies (continued)

j) Tangible assets

Tangible assets comprise computer hardware, fixtures and fittings and other fixed assets measured at cost less accumulated depreciation. These assets are reviewed for impairment annually, and if they are considered to be impaired, are written down immediately to their recoverable amounts.

Tangible fixed assets are stated at cost less depreciation. The depreciation rate on all assets purchased during the year is in line with Group depreciation policies. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, on a straight-line basis over the expected useful lives as follows:

Fixtures and fittings - 5 years
Computer hardware - 5 years
Other fixed assets - 5 or 10 years

The Company writes off tangible assets that have been fully depreciated.

k) Financial instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities, such as loans and advances to customers, bank overdrafts and amounts owed by and to Group undertakings.

i. Loans and advances to customers

The Company initially recognises loans and advances on the date on which they are originated. The Company derecognises loans and advances when the contractual rights to the cash flows expire or the Company transfers substantially all risks and rewards of ownership. For newly originated loans, the Company immediately sells the beneficial interest of the loans to IML, therefore transferring all risks and rewards to IML. As such, the Company does not recognise any loans and advances to customers.

ii. Cash at bank and in hand and bank overdraft

Cash at bank and in hand and bank overdraft comprise current accounts. Bank overdrafts are repayable on demand and form an integral part of the Company's cash management.

iii. Amounts owed by and to Group undertakings

Amounts owed by and to Group undertakings are recognised initially at fair value plus any directly attributable transaction costs. They are subsequently measured at amortised cost using the EIR method, less any expected credit losses (ECL).

Amounts owed by Group undertakings are payable on demand and are assessed for ECL based on an assessment of the probability of default (PD).

Amounts owed to Group undertakings are payable on demand.

Interest is receivable and payable in accordance with the policy on interest income and expense, see e) above.

l) Employee benefits – defined contribution scheme

Obligations for contributions to defined contribution pension arrangements are recognised as an expense in profit or loss as incurred.

Interbay Funding, Ltd

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2021

1. Accounting policies (continued)

m) Share-based payments

Following the insertion of OSBG as the new listed holding company of the Group on 27 November 2020, all OSB Sharesave Schemes were rolled over into OSBG Share Schemes on exactly the same terms.

The OSBG Save As You Earn (SAYE) or Sharesave Scheme is an all-employee scheme which was open to all Interbay Funding, Ltd employees. The Sharesave Scheme allowed employees to purchase options by saving a fixed amount of between £5 and £500 per month over a period of either three or five years at the end of which the options, subject to leaver provisions, are usually exercisable. If not exercised, the amount saved is returned to the employee. The Sharesave Scheme has been in operation since 2014 and an invitation to join the scheme is usually extended annually, with the option price calculated using the mid-market price of an OSBG ordinary share over the three dealing days prior to the invitation date and applying a discount of 20%. Further details about the Sharesave Schemes are included in the OSBG Annual Report and Accounts.

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

Performance Share Plan (PSP)

Certain senior managers are also eligible for a PSP based on performance conditions over a three year period including, underlying performance, financial and non-financial risk and individual conduct. The first award was issued in March 2019 and awards vest over a three to five year period.

n) Investments

The Company holds investment in subsidiaries at cost less impairment. The Company performs an annual impairment assessment of its investment in subsidiary undertakings, assessing the cost of investment against the subsidiary's net asset values at the reporting date for indication of impairment. Where there is indication of impairment, the Company estimates the subsidiary's value in use by estimating future profitability and the impact on the net assets of the subsidiary. The Company recognises an impairment directly in profit or loss when the value in use is less than the cost of investment. Impairments are subsequently reversed if future annual impairment assessments show the value in use of the subsidiary has increased.

o) Leases

All leases are treated as operating leases. Their annual rentals are charged to profit or loss on a straight-line basis over the term of the lease.

2. Turnover

	2021 £'000	2020 £'000
Loan servicing income	9,641	10,729

Interbay Funding, Ltd

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2021

3. Gross profit

The profit for the year is stated after charging:

	2021 £'000	2020 £'000
Depreciation of tangible fixed assets	77	87
Amortisation of intangible fixed assets	67	70
Fees payable to the Company's auditor for the audit of the Company's financial statements ¹	20	46
Defined contribution pension cost	258	245
Operating lease rentals	149	168

¹The Company paid £15k (2020: £20k) of audit fees on behalf of OSB subsidiaries for the audit of their financial statements.

Amortisation of intangible fixed assets is recognised within cost of sales.

4. Employees

Staff costs (including Directors) consist of:

	2021 £'000	2020 £'000
Wages and salaries	2,189	2,705
Share-based payments	203	36
Social security costs	277	348
Defined contribution pension cost	258	245
Redundancy costs ¹	188	113
	3,115	3,447

¹ Redundancy costs relate to loss of office and were fully paid at the balance sheet date

The average number of employees (including Directors) employed by the Company during the year was 47 (2020: 66).

5. Directors' remuneration

	2021 £'000	2020 £'000
Short-term employee benefits ¹	32	123
Post-employment benefits	7	9
Share-based payments ²	-	36
	39	168

¹ Short-term employee benefits comprise salary costs and bonus.

² Share-based payments represent the amounts received by Directors for schemes that vested during the year.

Interbay Funding, Ltd

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2021

5. Directors' remuneration (continued)

The above emoluments are for the one Director employed by the Company for the period served (2020: one). The Directors of the Company include one Director who is a Director of OSBG and is remunerated in respect of his qualifying services as a Director of the Group as a whole, and it is considered that there is no appropriate basis on which he can apportion part of his remuneration for his services to the Company. The other two Directors are not remunerated in respect of their qualifying services as Directors of the Company.

6. Interest receivable and similar income

	2021 £'000	2020 £'000
On loans to Group undertakings ¹	826	11,951

¹ From December 2020, amounts owed by other Group companies were settled on a monthly basis leading to a significant decrease in the interest receivable in 2021.

7. Interest payable and similar expenses

	2021 £'000	2020 £'000
On loans from Group undertakings ¹	19	8,690

¹ From December 2020, amounts owed to other Group companies were settled on a monthly basis leading to a significant decrease in the interest payable in 2021.

8. Tax on profit

	2021 £'000	2020 £'000
Corporation tax charge	1,236	1,796
Adjustments in respect of previous years	5	(1)
Deferred tax charge/(credit)	10	(6)
	<u>1,251</u>	<u>1,789</u>

Interbay Funding, Ltd

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2021

8. Tax on profit (continued)

Factors affecting tax charge for the year

Tax is charged at the weighted average rate of corporation tax for the year of 19% (2020: 19%). The tax reconciliation is presented below:

	2021 £'000	2020 £'000
Profit on ordinary activities before tax	53,179	25,014
Profit multiplied by the weighted average rate of corporation taxation in the UK	10,104	4,753
Adjustments in respect of previous years	5	(1)
Dividend not taxable in determining taxable profit	(8,877)	(2,958)
Impact of deferred tax rate change	(16)	(10)
Tax adjustments in respect of share-based payments	35	5
	1,251	1,789

On 24 May 2021, the Government substantively enacted legislation to increase the corporation tax rate from 19% to 25% from 1 April 2023. As a result, closing deferred tax balances are calculated at a blended rate, based on when the underlying balances are expected to unwind, with the impact of increased rate reflected in the period.

9. Dividend

During the year, the Company paid a dividend of £54,479k to the parent company relating to the 2020 results (2020: £21,843k relating to the 2019 results). No final dividend (2020: nil) has been paid or proposed.

Interbay Funding, Ltd

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2021

10. Intangible assets

	Computer software £'000
Cost	
At 1 January 2020	353
Additions	37
Disposals and write-offs ¹	(94)
At 31 December 2020	296
Additions	110
Disposals and write-offs¹	(88)
At 31 December 2021	318
Amortisation	
At 1 January 2020	204
Charge for the year	70
Disposals and write-offs ¹	(94)
At 31 December 2020	180
Charge for the year	67
Disposals and write-offs¹	(88)
At 31 December 2021	159
Net book value	
At 31 December 2021	159
At 31 December 2020	116

¹ During the year the Company wrote-off fully amortised assets.

Interbay Funding, Ltd

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2021

11. Tangible assets

	Fixtures and fittings £'000	Computer equipment £'000	Other tangible assets £'000	Total £'000
Cost				
At 1 January 2020	151	133	306	590
Additions	-	21	-	21
Disposals and write-offs ¹	-	(53)	-	(53)
At 31 December 2020	151	101	306	558
Additions	-	23	-	23
Disposals and write-offs ¹	(18)	(17)	(3)	(38)
At 31 December 2021	133	107	303	543
Depreciation				
At 1 January 2020	32	71	34	137
Charge for the year	31	27	29	87
Disposals and write-offs ¹	-	(53)	-	(53)
At 31 December 2020	63	45	63	171
Charge for the year	28	19	30	77
Disposals and write-offs ¹	(18)	(17)	(3)	(38)
At 31 December 2021	73	47	90	210
Net book value				
At 31 December 2021	60	60	213	333
At 31 December 2020	88	56	243	387

¹ During the year the Company wrote-off fully depreciated assets.

12. Investments

The Company's cost and net book value of its investment in IML as at 31 December 2021 was £2,112k (2020: £2,112k). No impairment on cost of investment in subsidiaries was recognised during the year (2020: nil).

The Company had an investment in the following subsidiary at 31 December 2021:

Name	Class of shares	Holding	Principal activity	Aggregate of share capital and reserves £'000	Profit £'000
Direct subsidiary					
Interbay ML, Ltd	Ordinary	100%	Lending on mortgage loans	124,330	60,494

The registered office of IML is Reliance House, Sun Pier, Chatham, ME4 4ET.

Interbay Funding, Ltd

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2021

13. Debtors

	2021 £'000	2020 £'000
Due after more than one year		
Deferred tax asset (see note 14)	76	-
Due within one year		
Amounts owed by Group undertakings	32,033	33,915
Deferred tax asset (see note 14)	-	92
Prepayments and accrued income	40	27
Corporation tax	-	168
	32,149	34,202

The Company assesses amounts owed by Group undertakings for impairment. No impairment has been recognised during 2021 (2020: nil).

14. Deferred tax asset

	2021 £'000	2020 £'000
At 1 January	92	86
(Charged)/credited to profit or loss	(16)	6
At 31 December	76	92

The deferred tax asset is made up as follows:

	2021 £'000	2020 £'000
Timing differences on capital items	76	92
	76	92

15. Creditors: Amounts falling due within one year

	2021 £'000	2020 £'000
Amounts owed to Group undertakings	-	26
Accruals	418	473
Other creditors	649	380
Other taxation and social security	56	76
Bank overdrafts	231	-
Corporation tax	169	-
	1,523	955

Interbay Funding, Ltd**Notes to the Financial Statements (continued)**

For the Year Ended 31 December 2021

16. Called up share capital

	2021 £'000	2020 £'000
Allotted, called-up and fully paid		
28,417,671 ordinary shares of £1 each	28,418	<u>28,418</u>

17. Commitments under operating leases

	2021 £'000	2020 £'000
Not later than 1 year	236	179
Later than 1 year and not later than 5 years	755	755
More than 5 years	330	519
	<u>1,321</u>	<u>1,453</u>

18. Ultimate controlling party

OSBG is the ultimate parent and controlling party preparing consolidated financial statements as the largest group of which the Company is a member. Copies of OSBG's financial statements may be obtained from the Company Secretary at the registered office: OSB House, Quayside, Chatham Maritime, Chatham, ME4 4QZ.

The Company is a wholly-owned subsidiary of OSB. OSB is the parent company of the smallest group preparing consolidated financial statements of which the Company is a member. Copies of OSB's financial statements may be obtained from the Company Secretary at the registered office: Reliance House, Sun Pier, Chatham, Kent, ME4 4ET.