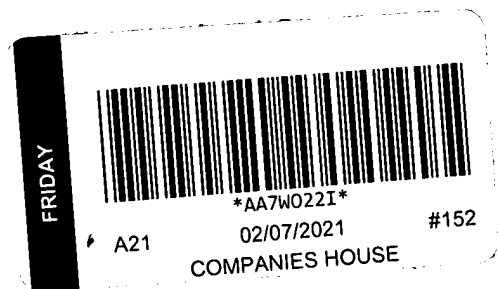


Interbay Funding, Ltd

Annual Report and Financial Statements
For the Year Ended 31 December 2020
Company Number: 05595882



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
1 New Street Square
London
EC4A 3HQ
United Kingdom

Interbay Funding, Ltd

Strategic Report

For the Year Ended 31 December 2020

The Directors present the Strategic Report of Interbay Funding, Ltd (the Company) for the year ended 31 December 2020.

Incorporation and principal activity

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 £0.1m to £6.2m (2019: £6.3m). The Company received a dividend from its subsidiary, Interbay ML, Ltd (IML), of £15.6m (2019: nil) during the year, contributing to a profit after taxation of £23.2m (2019: £6.3m). After a dividend payment of £21.8m (2019: £6.7m) to the Company's parent, Inter Bay Financial II Limited, equity shareholders' funds at 31 December 2020 increased to £36.2m (2019: £34.8m).

Future Developments

The Company will continue to originate and service mortgage loans.

COVID-19

The COVID-19 pandemic continues to cause significant economic and social disruption and has led to unprecedented uncertainty in the outlook for the UK and global economies. It is unclear how the COVID-19 pandemic will evolve during 2021 and the impact that the roll-out of vaccines will have and whether any new strains emerge. Whilst these disruptions cannot be avoided, the Company's operations are well-placed to respond to future challenges and opportunities.

Section 172 statement

Section 172 of the Companies Act 2006 requires a Director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. In doing this, section 172 requires a Director to have regard, among other matters, to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly with members of the Company.

The Directors of the Company give careful consideration to the factors set out above in discharging their duties under section 172. The stakeholders considered in this regard are the employees of the Company, customers, brokers and the local communities in which we are located.

The Directors recognise that building strong relationships with our stakeholders will help us to deliver our strategy in line with our long term values, and operate the business in a sustainable way.

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 2020

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 62 employees (2019: 64). IFL favours two-way communication between management and employees and regularly asks for their opinions including feedback from the OneSavings Bank plc Group-wide surveys. In 2020, OneSavings Bank plc (OSB) was included in The Sunday Times "100 Best Companies to Work For in 2019" survey.

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 2020 CSat score for InterBay showed an increase to 78.9 (2019: 75.9).

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 borrowers. 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, borrowers' satisfaction scores and number of complaints in its monthly Board reporting packs.

Community

The Company supports a number of charity and community initiatives. At a national level, it assists with fundraising for the My Shining Star children's cancer charity, the national charity partner of OSB GROUP PLC (OSBG). Locally it works with Breast Cancer Haven, Wessex, a centre in Titchfield, Hampshire. The charity provides free support and advice for those affected by breast cancer and their families, in a relaxing, non-clinical environment. In 2020, the team raised money for Breast Cancer Haven through a variety of fundraisers, including a sponsored fire walk, tea party events, a summer festival and skydives.

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, 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 of OSB GROUP PLC and its subsidiaries (together, the Group).

Interbay Funding, Ltd

Strategic Report (continued)

For the Year Ended 31 December 2020

Key Performance Indicators (KPIs)

The KPI 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 £9.4m (2019: £7.7m).

This Strategic Report was approved by the Board on 30 June 2021 and signed on its behalf by:



Nickesha Graham-Burrell
Company Secretary

Interbay Funding, Ltd

Directors' Report

For the Year Ended 31 December 2020

The Directors present their Report and the audited Financial Statements for the year ended 31 December 2020.

Future Developments

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

Directors and their interests

The Directors who served throughout the year and to the date of this Directors' Report 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.

Third parties indemnities

Qualifying group third party indemnity provisions for the benefit of the Directors were in force during the year under review and remain in force as at the date of approval of the Strategic Report, Directors' Report and Financial Statements.

Dividends

During the year, the Company paid a dividend of £21.8m relating to the 2019 results (2019: £6.7m relating to the 2018 results). No final dividend for 2020 has been proposed or paid.

Going concern

The Directors have undertaken a going concern assessment to satisfy themselves 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 have prepared the Financial Statements on this basis.

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 Brexit and COVID-19 pandemic economic scenarios provided by the Group's external economic advisors, as well as reverse stress tests.

The assessments were significantly influenced by COVID-19 implications covering the wider Group's capital, liquidity and operational resilience, including the following:

- Financial and capital forecasts were prepared under stress scenarios, which were assessed against the latest COVID-19 related economic forecasts provided by the Group's external economic advisors. Reverse stress tests were also run to assess what combinations of House Price Index (HPI) and unemployment variables would utilise regulatory capital buffers in full and breach the minimum prudential requirements. 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, which were reviewed for suitability in the context of COVID-19 related stresses.

Interbay Funding, Ltd

Directors' Report (continued)

For the Year Ended 31 December 2020

- The Group continues to assess the resilience of its business operating model and supporting infrastructure in the context of the emerging economic, business and regulatory environment. The key areas of focus continue to be on the provision of critical services to customers, employee health and safety and the evolving governmental policies and guidelines. The Group has assessed and enhanced its information technology platforms to support its employees with flexible working and homeworking across all locations ensuring stable access to core systems, data and communication devices. The response to the pandemic demonstrates the inherent resilience of the Group's critical processes and infrastructure. It also reflects the necessary agility in responding to future operational demands. The operational dependencies on third party vendors and outsourcing arrangements continues to be an important area of focus.

Having reviewed these assessments, the Directors are satisfied that the Company has adequate resources to continue in operational existence for a period in excess of 12 months from the date of this report.

Risk management

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

Events after the reporting date

There have been no significant events between 31 December 2020 and the date of approval of the Financial Statements which would require change to the Financial Statements.

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.

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
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself 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.

This report was approved by the Board on 30 June 2021 and signed on its behalf by:



Nickesha Graham-Burrell
Company Secretary
30 June 2021

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 2020

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 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; 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
30 June 2021

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 2020 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 101 "Reduced Disclosure Framework", 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 FRCs') 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; reviewing internal audit reports and reviewing correspondence with HMRC.

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:

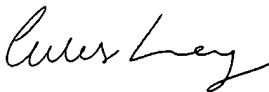
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law 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.



Giles Lang, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

30 June 2021

Interbay Funding, Ltd

Statement of Comprehensive Income

For the Year Ended 31 December 2020

	Note	2020 £'000	2019 £'000
Turnover	2	10,729	10,740
Cost of sales		(4,552)	(4,446)
Gross profit	3	6,177	6,294
Income from shares in Group undertakings		15,576	-
Interest receivable and similar income	6	11,951	7,598
Interest payable and similar expenses	7	(8,690)	(6,189)
Profit before taxation		25,014	7,703
Tax on profit	8	(1,789)	(1,437)
Profit for the financial year		23,225	6,266

The above results are derived wholly from continuing operations.

There were no recognised gains or losses for 2020 or 2019 other than those included in the Statement of Comprehensive Income.

There was no other comprehensive income for 2020 (2019: nil).

The notes on page 15 to 25 form part of these Financial Statements.

Interbay Funding, Ltd

Statement of Financial Position

As at 31 December 2020

	Note	2020 £'000	2019 £'000
Fixed assets			
Intangible assets	10	116	149
Tangible assets	11	387	453
Investments	12	2,112	2,112
		2,615	2,714
Current assets			
Debtors	13	34,202	640,533
Cash at bank and in hand		379	768
		34,581	641,301
Creditors: Amounts falling due within one year	15	(955)	(609,192)
Net current assets		33,626	32,109
Total assets less current liabilities		36,241	34,823
Net assets		36,241	34,823
Capital and reserves			
Called up share capital	16	28,418	28,418
Share based payments reserve		63	139
Profit and loss account		7,760	6,266
Shareholders' funds		36,241	34,823

The notes on pages 15 to 25 form part of these Financial Statements.

The Financial Statements were approved by the Board of Directors on 30 June 2021 and were signed on its behalf by:



Richard Wilson
Director

Company registered number: 05595882

Interbay Funding, Ltd

Statement of Changes in Equity

For the Year Ended 31 December 2020

	Called up share capital £'000	Share based payments reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
At 1 January 2019	28,418	113	6,709	35,240
Profit for the financial year	-	-	6,266	6,266
Share-based payments	-	26	-	26
Dividends paid (see note 9)	-	-	(6,709)	(6,709)
At 31 December 2019	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

Interbay Funding, Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2020

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 disclosed on page 1.

b) Basis of preparation

These Financial Statements have been prepared in accordance with applicable UK accounting standards, including Financial Reporting Standard 102: The Financial Reporting Standard Applicable in the United Kingdom and Republic of Ireland (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. The presentation currency of these Financial Statements is Pounds Sterling. These Financial Statements are the Company's separate financial statements. All amounts in the Financial Statements have been rounded to the nearest thousand (£'000).

The Company's accounting reference date is 31 December so that the year end is aligned with its ultimate parent company and fellow subsidiaries within the Group for the purposes of preparing consolidated financial statements for the Group.

OSB was the ultimate controlling party of the Company until 27 November 2020, when the Group inserted OSBG as the new listed holding company of the Group. 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 European Union (EU) 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.

Interbay Funding, Ltd

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

1. Accounting policies (continued)

c) Going concern

The Directors have undertaken a going concern assessment to satisfy themselves 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 have prepared the Financial Statements on this basis.

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 Brexit and COVID-19 pandemic economic scenarios provided by the Group's external economic advisors, as well as reverse stress tests.

The assessments were significantly influenced by COVID-19 implications covering the wider Group's capital, liquidity and operational resilience, including the following:

- Financial and capital forecasts were prepared under stress scenarios, which were assessed against the latest COVID-19 related economic forecasts provided by the Group's external economic advisors. Reverse stress tests were also run to assess what combinations of HPI and unemployment variables would utilise regulatory capital buffers in full and breach the minimum prudential requirements. The Directors assessed the likelihood of those reverse stress scenarios occurring within the next 12 months and concluded that the likelihood is remote.
- The latest liquidity and contingent liquidity positions and forecasts were assessed against the ILAAP stress scenarios, which were reviewed for suitability in the context of COVID-19 related stresses.
- The Group continues to assess the resilience of its business operating model and supporting infrastructure in the context of the emerging economic, business and regulatory environment. The key areas of focus continue to be on the provision of critical services to customers, employee health and safety and the evolving governmental policies and guidelines. The Group has assessed and enhanced its information technology platforms to support its employees with flexible working and homeworking across all locations ensuring stable access to core systems, data and communication devices. The response to the pandemic demonstrates the inherent resilience of the Group's critical processes and infrastructure. It also reflects the necessary agility in responding to future operational demands. The operational dependencies on third party vendors and outsourcing arrangements continues to be an important area of focus.

Having reviewed these assessments, the Directors are satisfied that the Company has adequate resources to continue in operational existence for a period in excess of 12 months from the date of this report.

d) Turnover

Turnover represents fees charged to IML for originating and servicing mortgage loans in the United Kingdom. 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.

Interbay Funding, Ltd

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

1. Accounting policies (continued)

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.

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 income 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.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, which is 5 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.

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.

Interbay Funding, Ltd

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

1. Accounting policies (continued)

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. Bank overdraft

Bank overdraft comprises 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 payable on demand and 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 assessed for ECL based on an assessment of the probability of default (PD). 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.

m) Share-based payments

OSB Sharesave Scheme

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. The Sharesave Scheme has been in operation since 2014 and is granted annually, with the exercise price calculated using the average of the mid-market price of an OSBG 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.

Interbay Funding, Ltd

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

1. Accounting policies (continued)

The fair value of the 20% discount, determined using a Black-Scholes Option model, is charged on a straight-line basis to the profit and loss account with a corresponding increase in equity in the share-based payment reserve. A transfer is made between the share-based payment reserve and profit and loss account upon exercise of employee options. The charge is based on the number of share options held by the employees of the Company.

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 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

	2020 £'000	2019 £'000
Loan servicing income	10,729	10,740
	10,729	10,740

3. Gross profit

The profit for the year is stated after charging:

	2020 £'000	2019 £'000
Depreciation of tangible fixed assets	87	86
Amortisation of intangible fixed assets	70	89
Fees payable to the Company's auditor for the audit of the Company's financial statements ¹	46	36
Defined contribution pension cost	245	217
Operating lease rentals	168	183

¹Includes £20k (2019: £17k) of audit fees borne on behalf of other OSB subsidiaries for the audit of their Financial Statements.

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

Interbay Funding, Ltd

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

4. Employees

Staff costs (including Directors) consist of:

	2020 £'000	2019 £'000
Wages and salaries	2,705	2,780
Share-based payments	36	26
Social security costs	348	289
Defined contribution pension cost	245	217
Redundancy costs	113	-
	3,334	3,312

The average monthly number of employees (including Directors) during the year was as follows:

	2020 No.	2019 No.
Support functions	66	64

5. Directors' remuneration

	2020 £'000	2019 £'000
Directors' emoluments	123	119
Share-based payments	36	26
Company contributions to defined contribution pension schemes	9	8
Gains made on the exercise of the share options	-	5
	168	158

The above emoluments are for the 1 Director employed by the Company (2019: 1). The remaining Directors were employed and remunerated as Directors or employees of the Group in respect of their services to the Group as a whole, and it is considered that there is no appropriate basis on which they can apportion part of their remuneration for their services to the Company.

6. Interest receivable and similar income

	2020 £'000	2019 £'000
On loans to Group undertakings	11,951	7,598

Interbay Funding, Ltd

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

7. Interest payable and similar expenses

	2020 £'000	2019 £'000
On loans from Group undertakings	8,690	6,189
	<u>8,690</u>	<u>6,189</u>

8. Tax on profit

	2020 £'000	2019 £'000
Corporation tax charge	1,796	1,040
Adjustments in respect of previous years	(1)	64
Deferred tax (credit)/charge	(6)	333
	<u>1,789</u>	<u>1,437</u>

Factors affecting tax charge for the year

Tax is charged at the weighted average rate of corporation tax for the year of 19% (2019: 19%). The tax reconciliation is presented below:

	2020 £'000	2019 £'000
Profit on ordinary activities before tax	25,014	7,703
Profit multiplied by the weighted average rate of corporation taxation in the UK	4,753	1,464
Expenses not deductible for taxation	-	1
Capital allowances for year in excess of depreciation	-	(31)
Adjustments in respect of previous years	(1)	64
Short-term timing differences	-	5
Dividend not taxable in determining taxable profit	(2,958)	-
Impact of deferred tax rate change	(10)	-
Tax adjustments in respect of share-based payments	5	4
Impact of tax losses carried forward	-	(70)
	<u>1,789</u>	<u>1,437</u>

Factors that may affect future tax charges

In the March 2020 Budget, it was announced that the cuts in corporation tax rate to 18% and then to 17% previously enacted would not occur with the corporation tax rate held at 19%. As a result, closing deferred tax balances are calculated at 19% with the impact of the increase from 17%/18% to 19% reflected in the period.

Interbay Funding, Ltd

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

8. Tax on profit (continued)

On 3 March 2021, the Government announced that the corporation tax rate will increase from 19% to 25% from 1 April 2023. This rate change was not substantively enacted at the Statement of Financial Position date and so has not been reflected in these Financial Statements. We estimate that the increase in the tax rate, when enacted, will result in an increase of the deferred tax asset held at 31 December 2020 of £29k.

9. Dividend

During the year, the Company paid a dividend of £21,843k to the parent company relating to the 2019 results (2019: £6,709k relating to the 2018 results). No final dividend for 2020 has been proposed or paid.

10. Intangible assets

	Computer software £'000
Cost	
At 1 January 2020	353
Additions	37
Disposals and write-offs ¹	94
At 31 December 2020	484
Amortisation	
At 1 January 2020	204
Charge for the year	70
Disposals and write-offs ¹	94
At 31 December 2020	368
Net book value	
At 31 December 2020	116
At 31 December 2019	149

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 2020

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
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
Net book value				
At 31 December 2020	88	56	243	387
At 31 December 2019	119	62	272	453

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 2020 was £2,112k (2019: £2,112k). No impairment on cost of investment in subsidiaries was recognised during the year (2019: nil).

The Company had an investment in the following subsidiary at 31 December 2020:

Name	Class of shares	Holding	Principal activity	Aggregate of share capital and reserves £'000	Profit / (loss) £'000
Direct subsidiary					
Interbay ML, Ltd	Ordinary	100%	Lending on mortgage loans	110,555	48,235

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 2020

13. Debtors

	2020 £'000	2019 £'000
Due after more than one year		
Deferred tax asset (see note 14)	79	73
Due within one year		
Amounts owed by Group undertakings	33,915	640,386
Deferred tax asset (see note 14)	13	13
Prepayments and accrued income	27	48
Other debtors	-	13
Corporation tax	168	-
	34,202	640,533

The Company assesses amounts owed by Group undertakings for impairment.

14. Deferred tax asset

	2020 £'000	2019 £'000
At 1 January	86	419
Credited/(Charged) to profit or loss	6	(333)
At 31 December	92	86

The deferred tax asset is made up as follows:

	2020 £'000	2019 £'000
Timing differences on capital items	92	86
	92	86

15. Creditors: Amounts falling due within one year

	2020 £'000	2019 £'000
Amounts owed to Group undertakings	26	606,799
Accruals	473	515
Other creditors	380	1,011
Other taxation and social security	76	685
Bank overdrafts	-	182
	955	609,192

Interbay Funding, Ltd

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

16. Called up share capital

	2020 £'000	2019 £'000
Allotted, called-up and fully paid		
28,417,671 ordinary share of £1 each	28,418	28,418

17. Commitments under operating leases

	2020 £'000	2019 £'000
Not later than 1 year	179	168
Later than 1 year and not later than 5 years	755	748
More than 5 years	519	661
	1,453	1,577

18. Ultimate controlling party

The Company is a wholly-owned subsidiary of OneSavings Bank plc (OSB). OSB was the ultimate parent and controlling party of the Company until OSB became a wholly-owned subsidiary of OSB GROUP PLC (OSBG) on 27 November 2020.

OSBG is the ultimate parent and controlling party of the Company and is the parent company of the largest group preparing consolidated financial statements 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.

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.