PILLAR 3 DISCLOSURES

For December 2023

Table of Contents
For the year ended 31 December 2023

1. Introduction 6

1.1 Background and overview 6

1.2 Pillar 3 Disclosure policy 6

1.3 Non-material, proprietary and confidential 6

1.4 Relevant changes and developments 6

2. Annex I | Key metrics and overview of risk-weighted exposure amounts 9

2.1 UK KM1 – Key metrics template 9

2.2 IFRS 9 – transitional arrangements 10

2.3 UK OV1 – Overview of risk weighted exposure amounts 11

2.4 UK INS1 – Insurance participants 11

2.5 UK INS2 – Financial conglomerates information on own funds and capital adequacy ratio 11

2.6 UK OVC – ICAAP information 11

3. Annex III | Risk management objectives and policies 13

3.1 UK OVA – Institution risk management approach 13

3.2 UK OVB – Disclosure on governance arrangements 29

4. Annex V| Scope of application 31

4.1 UK LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories 31

4.2 UK LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements 31

4.3 UK LI3 – Outline of the differences in the scopes of consolidation (entity by entity) 32

4.4 UK LIA – Explanations of differences between accounting and regulator exposure amounts 32

4.5 UK LIB – Other qualitative information on the scope of application 32

4.6 UK PV1 Prudent valuation adjustments (PVA) 33

5. Annex VII | Own funds 34

5.1 UK CC1 – Composition of regulatory own funds 34

5.2 UK CC2 - Reconciliation of regulatory own funds to balance sheet in the audited financial statements 35

5.3 UK CCA – Main features of regulatory own funds instruments and eligible liabilities instruments 36

6. Annex IX | Countercyclical capital buffers 39

6.1 UK CCyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer 39

6.2 UK CCyB2 – Amount of Institution specific countercyclical capital buffer 39

7. Annex XI | Leverage ratio 40

7.1 UK LR1 – LRSum: Summary reconciliation of assets and leverage ratio exposure 40

7.2 UK LR2 – LRCom Leverage ratio common disclosures 40

7.3 UK LR3 – LRSpl: Split of on balance sheet exposures (excluding derivatives, SFT and exempted exposures 41

7.4 UK LRA Description of LR qualitative information 41

8. Annex XIII | Liquidity requirements 43

8.1 UK LIQA – Liquidity risk management 43
8.2 UK LIQ1 – Quantitative information of LCR 46
8.4 UK LIQ2 – Net stable funding 48
9. Annex XV | Credit risk and credit quality 50
9.1 UK CRA – General qualitative information about credit risk 50
9.2 UK CRB – Additional disclosure related to the credit quality of assets 51
9.3 UK CR1 – Performing and non-performing exposures and related provisions 53
9.4 UK CR1-A – Maturity of exposures 53
9.5 UK CR2 – Changes in the stock of non-performing loans and advances 53
9.6 UK CR2a – Changes in the stock of non-performing loans and advances and related net accumulated recoveries 54
9.7 UK CQ1 – Credit quality of forborne exposures 54
9.8 UK CQ2 – Quality of forbearance 54
9.9 UK CQ3 – Credit quality of performing and non-performing exposures by past due days 54
9.10 UK CQ4 – Quality of non-performing exposures by geography 55
9.11 UK CQ5 – Credit quality of loans and advances to non-financial corporations by industry 55
9.12 UK CQ6 – Collateral valuation - loans and advances 56
9.13 UK CQ7 – Collateral obtained by taking possession and execution processes 56
9.14 UK CQ8 – Collateral obtained by taking possession and execution processes – vintage breakdown 56
10. Annex XVII | Credit risk mitigation (CRM) techniques 57
10.1 UK CRC – Qualitative disclosure requirements related to CRM techniques 57
10.2 UK CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques 58
11. Annex XIX | Standardised approach 59
11.1 UK CRD – Qualitative disclosure requirements related to standardised model 59
11.2 UK CR4 – Standardised approach – credit risk exposure and CRM effects 59
11.3 UK CR5 – Standardised approach 60
12. Annex XXI | Use of the IRB approach to credit risk and Annex XXIII Specialised lending 61
12.1 UK CRE – Qualitative disclosure requirements related to IRB approach 61
12.2 UK CR6 – IRB approach – Credit risk exposures by exposure class and PD range 61
12.3 UK CR6-A – Scope of the use of IRB and SA approaches 61
12.4 UK CR7 – IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques 61
12.5 UK CR7-A – IRB approach – Disclosure of the extent of the use of CRM techniques 61
12.6 UK CR8 – RWEA flow statements of credit risk exposures under the IRB approach 61
12.7 UK CR9 – IRB approach – Back-testing of PD per exposure class (fixed PD scale) 61
12.8 UK CR9.1 – IRB approach – Back-testing of PD per exposure class (only for PD estimates according to point (f) of Article 180(1) CRR) 61
12.9 UK CR10 – Specialised lending and equity exposures under the simple risk weighted approach 61
13. Annex XXV | Counterparty credit risk – (CCR) 62
13.1 UK CCRA – Qualitative disclosure related to CCR 62
13.2 UK CCR1 – Analysis of CCR exposure by approach 63
13.3 UK CCR2 – Transactions subject to own funds requirements for CVA risk 63

13.4 UK CCR3 – Standardised approach – CCR exposures by regulatory exposure class and risk weights 63
13.5 UK CCR4 – IRB approach – CCR exposures by exposure class and PD scale 63
13.6 UK CCR5 – Composition of collateral for CCR exposures....63
13.7 UK CCR6 – Credit derivatives exposures 63
13.8 UK CCR7 – RWEA flow statements of CCR exposures under the IMM 63
13.9 UK CCR8 – Exposures to CCPs 64
14. Annex XXVII | Securitisation positions....65
14.1 UK SECA – Qualitative disclosure requirements related to securitisation exposures....65
14.2 UK-SEC1 – Securitisation exposures in the non-trading book....68
14.3 UK SEC2 – Securitisation exposures in the trading book 68
14.4 UK-SEC3 – Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor....68
14.5 UK-SEC4 – Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor 69
14.6 UK-SEC5 – Exposures securitised by the institution - Exposures in default and specific credit risk adjustments 69
15. Annex XXIX | Standardised approach and internal model 70
15.1 UK MRA – Qualitative disclosure requirements related to market risk....70
15.2 UK MR1 – Market risk under the standardised approach 71
15.3 UK MRB – Qualitative disclosure requirements for institutions using the internal Market Risk Models 71
15.4 UK MR2-A – Market risk under the internal Model Approach (IMA)....71
15.5 UK MR2-B – RWA flow statements of market risk exposures under the IMA....71
15.6 UK MR3 – IMA values for trading portfolios 71
15.7 UK MR4 – Comparison of VaR estimates with gains/losses....71
16. Annex XXXI |Operational risk 72
16.1 UK ORA – Qualitative information on operational risk 72
16.2 UK OR1 – Operational risk own funds requirements and risk-weighted exposure amounts 73
17. Annex XXXIII | Remuneration policy....74
17.1 UK REMA – Remuneration policy 74
17.2 UK REM1 – Remuneration awarded for the financial year....80
17.3 UK REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)....80
17.4 UK REM3 – Deferred remuneration 81
17.5 UK REM4 – Remuneration of 1 million EUR or more per year 82
17.6 UK REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)....82
18. Annex XXXV | Encumbered and unencumbered assets....84
18.1 UK AE1 – Encumbered and unencumbered assets....84
18.2 UK AE2 – Collateral received and own debt securities issued....84
18.3 UK AE3 – Sources of encumbrance....84
18.4 UK AE4 – Accompanying narrative information 85

19. Annex XXXVII | Interest Rate Risk in the Banking Book......86

19.1 UK IRRBBA IRRBB – risk management objectives and policies 86

19.2 UK IRRBB1 – Quantitative information on IRRBBs......88

20. Glossary 89

1. Introduction

1.1 Background and overview

This document sets out the consolidated Pillar 3 disclosures for OSB GROUP PLC (OSBG) and its subsidiaries (the Group) as at 31 December 2023. The two banking entities within the Group are authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA (being OneSavings Bank plc (OSB) and Charter Court Financial Services Limited (CCFSL)).

The current Basel standards in relation to market disclosures came into force in the UK on 1 January 2022 through the Capital Requirements Regulation (CRR II) No 2019/876 amending regulation 575/2013 and the subsequent PRA UK ruleset (published in policy statement PS 22/21) 'PRA Rulebook (CRR) instrument 2021'. The PRA issued UK versions of disclosure templates and related instructions in that same policy statement.

The Group's disclosures have been presented and prepared in accordance with Disclosure (CRR) Part of the PRA Rulebook. The disclosures should be read in conjunction with the Group's Annual Report and Accounts (ARA) as at 31 December 2023. Both can be found in a single medium location on the Group's website: www.osb.co.uk.

The Group has assessed itself as a 'large institution' based on the criteria prescribed in the PRA Rulebook. As a 'large institution' the Group is required to publish Pillar 3 disclosures in accordance with Article 433a of the CRR which also describes the information and frequency.

1.2 Pillar 3 Disclosure policy

The Group has established a policy for its Pillar 3 disclosures to ensure that the Group is compliant with the disclosure requirements prescribed within Part Eight of the UK CRR. The policy sets out the internal controls and procedures to be applied when assessing the adequacy and appropriateness of disclosures.

The Group is supportive of the overarching objectives of the Pillar 3 disclosures, which are to promote market discipline and improve comparability and consistency of disclosures. To complement supervisory efforts, these objectives help to encourage banks to assess risk, maintain capital levels and develop and maintain a sound risk management framework.

The Group Pillar 3 disclosures have been subject to review, internal verification and sign off as prescribed in the Group's Pillar 3 Policy.

The Group Pillar 3 Disclosures have not been externally audited. However, certain information has been extracted from the ARA, which includes audited financial statements. Other information has been sourced from the Group's Enterprise Risk Management Framework (ERMF) and other related internal policies, Group's Remuneration and People Committee reports and the Group's Common Reporting (COREP) and Financial Reporting (FINREP) returns.

1.3 Non-material, proprietary and confidential

The Group regards information as material with respect to disclosures if its omission or misstatement would change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. The Group has not sought any exemption from its disclosure requirements on the basis of materiality, proprietary or confidential information.

Information is considered as proprietary if its public disclosure would undermine the Group's competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Group's investments therein less valuable. Further, the Group must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Group to confidentiality. In the event that any such information is omitted, the Group shall disclose such information and explain the grounds of non-disclosure.

1.4 Relevant changes and developments

Minimum requirements for own funds and eligible liabilities (MREL)

The insertion of OSBG in 2020 allowed the Group to fulfil its MREL requirements more efficiently through senior debt issuance via OSBG. The Bank of England (BoE) has given the Group a transitional period to meet its interim

MREL requirement of 18% of risk weighted assets by 13 July 2024 and is required to meet its end-state MREL requirement of two times Pillar 1 and Pillar 2a by 13 July 2026.

Resolvability Assessment Framework (RAF)

Compliance with the Bank of England Resolvability Assessment Framework, (RAF) requirements has been a requirement for the Group, (as a mid-tier Bank) since 1 January 2023.

The Bank of England and the Group sees RAF compliance as an ongoing requirement to assure resolution readiness and enhance capabilities, resources and arrangements that would support a non-disruptive resolution event.

In February 2023 compliance evidence in the form of a 2022 year-end OSB Group Attestation Statement and supporting documentation was submitted to the Bank of England. Documentation submitted included individual barrier playbooks, the Executive Master fire-drill and the outcomes and assessments of barrier 'page-turning' fire-drill exercises. Compliance with each of the following resolvability outcomes was evidenced, along with some self-identified areas for enhancement:

- Outcome 1: Having adequate financial resources to support a resolution
  - i. Minimum Requirements for own funds and Eligible Liabilities[1]
  - ii. Valuation in Resolution, (VIR)
  - iii. Funding in Resolution, (FIR)
- Outcome 2: Being able to continue to do business through resolution and restructuring
  - iv. Continuity of financial contracts, (Stays)
  - v. Operational Continuity in Resolution, (OCIR)
  - vi. Continuity of access to Financial Market Infrastructure, (FMIs)
  - vii. Restructuring Planning, (RP)
- Outcome 3: Being able to coordinate and communicate effectively internally and with resolution authorities, customers and markets
  - viii. Management, Governance and Communication, (MGC)

Until the end of 2023, the Group had a PRA waiver for the Operational Continuity in Resolution, (OCIR) barrier limiting compliance to Deposit Taking, (Savings). We now comply with OCIR across all core lines of business as specified in ss4/21.

From 1 January 2023 RAF compliance has been addressed as part of business as usual rather than as a Programme of work, with a dedicated second line to the Resolution and Continuity team along with clear first, second- and third-line accountabilities and responsibilities.

The Group adopts a fire-drill testing approach every other year aligning to the current Bank of England strategy of assessing Large and Mid-Tier Banks on alternate years. Governance, Monitoring, Assurance and Testing of our capabilities will be performed again in 2024 supported by fire-drills.

Countercyclical Capital Buffer (CCyB)

The Financial Policy Committee (FPC) increased the CcyB from 1% to 2% on the 5 July 2023.

Internal Rating based (IRB)

The Group continues to enhance its approach to compliance with Internal Ratings-Based (IRB) disciplines underpinned by ongoing self-assessment reviews against regulatory standards and emerging guidelines. The Group has strengthened its compliance with the IRB requirements and has reflected upon the PRAs feedback to the industry. The Group continues to engage with the regulator ahead of commencing the formal application process. Underlying IRB capabilities and disciplines have become progressively integrated into the Group's business planning, risk, capital, IT and data management disciplines. In particular, enhanced IRB capabilities have played a vital role in informing and shaping the Group's response to the rising costs of living and borrowing.

Basel 3.1

The Group has undertaken an extensive review of Basel 3.1 consultation documents and evaluated its potential impact whilst being aware that it is not yet finalised for UK adoption. Based on various permutations of how the

---

[1] The Group is subject to an interim MREL requirement of 18% of Risk Weighted Assets from July 2024 with full bail-in MREL of 2x Pillar 1 and Pillar 2a from July 2026. The Group is required to issue MREL eligible debt instruments to meet these requirements.

new regulation will be adopted in the UK, the Group has incorporated potential impacts into its business and capital planning processes, including MREL issuance plans.

In 2024, the focus will be on maintaining oversight of capital management, including MREL and Basel 3.1 implications for capital planning and asset pricing decisions.

2. Annex I | Key metrics and overview of risk-weighted exposure amounts

2.1 UK KM1 – Key metrics template

The table below provides a summary of the Group's prudential key metrics.

		a	b	c	d	e
£m		**31 Dec 23**	**30 Sep 23**	**30 Jun 23**	**31 Mar 23**	**31 Dec 22**
Available own funds (amounts)						
1	Common Equity Tier 1 (CET1) capital	1,905.7	1,775.4	1,778.5	1,761.1	1,920.7
2	Tier 1 capital	2,055.7	1,925.4	1,928.5	1,911.1	2,070.7
3	Total capital	2,305.7	2,175.4	2,178.5	1,911.1	2,070.7
Risk weighted exposure amounts						
4	Total risk-weighted exposure amount	11,845.6	11,579.5	11,353.9	10,784.5	10,494.7
Capital ratios (as a percentage of risk-weighted exposure amount)						
5	Common Equity Tier 1 ratio (%)	16.1	15.3	15.7	16.3	18.3
6	Tier 1 ratio (%)	17.4	16.6	17.0	17.7	19.7
7	Total capital ratio (%)	19.5	18.8	19.2	17.7	19.7
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)						
UK 7a	Additional CET1 SREP requirements (%)	0.8	0.8	0.8	0.8	0.8
UK 7b	Additional AT1 SREP requirements (%)	0.3	0.3	0.3	0.3	0.3
UK 7c	Additional T2 SREP requirements (%)	0.4	0.4	0.4	0.4	0.4
UK 7d	Total SREP own funds requirements (%)	9.4	9.4	9.4	9.5	9.5
Combined buffer requirement (as a percentage of risk-weighted exposure amount)						
8	Capital conservation buffer (%)	2.5	2.5	2.5	2.5	2.5
9	Institution specific countercyclical capital buffer (%)	2.0	2.0	1.0	1.0	1.0
11	Combined buffer requirement (%)	4.5	4.5	3.5	3.5	3.5
UK 11a	Overall capital requirements (%)	13.9	13.9	12.9	13.0	13.0
12	CET1 available after meeting the total SREP own funds requirements (%)	10.0	9.3	9.7	8.3	10.3
Leverage ratio						
13	Total exposure measure excluding claims on central banks	27,438.8	26,993.5	25,865.4	24,995.5	24,725.4
14	Leverage ratio excluding claims on central banks (%)	7.5	7.1	7.5	7.6	8.4
Liquidity Coverage Ratio						
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	3,078.0	3,033.2	2,986.5	2,923.3	2,907.1
16a	Cash outflows - Total weighted value	1,847.2	1,842.0	1,809.4	1,726.2	1,656.8
16b	Cash inflows - Total weighted value	281.6	261.8	226.7	172.7	165.3
16	Total net cash outflows (adjusted value)	1,565.6	1,580.2	1,582.7	1,553.5	1,491.5
17	Liquidity coverage ratio (%)	197.1	192.7	189.9	189.2	197.0
Net Stable Funding Ratio						
18	Total available stable funding	26,087.0	25,823.6	25,165.0	24,191.3	
19	Total required stable funding	19,638.6	19,346.6	18,909.3	18,327.2	
20	NSFR ratio (%)	132.8	133.5	133.1	132.0	

Total Capital

The Group's capital position remained strong, with a Common Equity Tier 1 (CET1) ratio of 16.1% and a total capital ratio of 19.5% as at 31 December 2023 (31 December 2022: 18.3% and 19.7%, respectively).

Both ratios reflected strong capital generation from profitability in the year offset by the adverse Expected Interest Rate (EIR) adjustment, loan book growth, foreseeable and paid dividends, and the impact of the £150m share repurchase programme completed in 2023. The Group expects to continue to operate above our 14% CET1 target as we wait for clarity on the final Basel 3.1 rules, which are expected to be published in the second quarter of 2024. In April 2023, the Group issued £250m of Tier 2 notes improving our Total Capital Ratio.

Leverage Ratio

The Group had a leverage ratio excluding claims on central banks of 7.5% as at 31 December 2023 (31 December 2022: 8.4%).

The Group is not subject to the leverage ratio capital requirements. However, following the implementation of PS21/21 the PRA has confirmed that ‘all firms not in scope of the leverage ratio capital requirements should manage their leverage risk such that their leverage ratio does not fall below 3.25%’.

The Group’s Leverage ratio exceeds the UK minimum 3.25% and the Group plans to maintain capital in excess of the 3.25% UK minimum requirement.

Liquidity Ratio

The Group had a 12-month average Liquidity Coverage Ratio (LCR) of 197.1% as at 31 December 2023 (31 December 2022: 197%). Liquidity ratios remained stable during 2023 and remained well above internal and regulatory requirements.

The Group has a prudent approach to liquidity management through maintaining sufficient liquidity to meet its liabilities as they fall due under normal and stressed business conditions; this will be achieved by maintaining strong retail savings franchises, supported by high-quality liquid asset portfolios comprised of cash and readily-monetisable assets, and through access to pre-arranged secured funding facilities.

The Board requirement to maintain balance sheet resources sufficient to survive a range of severe but plausible stress scenarios is interpreted in terms of the liquidity coverage ratio and the Internal Liquidity Adequacy Assessment Process (ILAAP) stress scenarios.

Net Stable Funding Ratio

The Group’s Net Stable Funding Ratio (NSFR) which averaged 132.8%, over the four quarters ended 31 December 2023 (30 September 2023: 133.5%) significantly in excess of the regulatory requirement of 100%.

2.2 IFRS 9 – transitional arrangements

The table below details capital, risk weighted assets, capital, and leverage ratios with and without the International Financial Reporting Standard COVID-19 transitional arrangement. The implementation of IFRS 9 does not have a significant impact on the Group’s capital position as shown below:

		a	b	c	c
£m		**31 Dec 23**	**30 Sep 23**	**30 Jun 23**	**31 Mar 23**
Available capital (amounts)					
1	Common Equity Tier 1 capital (CET1)	1,905.7	1,775.4	1,778.5	1,761.1
2	Common Equity Tier 1 capital (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	1,881.9	1,748.1	1,751.2	1,743.6
3	Tier 1 capital	2,055.7	1,925.4	1,928.5	1,911.1
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	2,031.9	1,898.1	1,901.2	1,893.6
5	Total capital	2,305.7	2,175.4	2,178.5	1,911.1
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	2,281.9	2,148.1	2,151.2	1,893.6
Risk weighted assets (amounts)					
7	Total risk-weighted Assets	11,845.6	11,579.5	11,353.9	10,784.5
8	Total risk-weighted Assets as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	11,821.7	11,552.2	11,326.6	10,767.0
Capital Ratios (as a percentage of risk-weighted exposure amount)					
9	Common Equity Tier 1 (%)	16.1	15.3	15.7	16.3
10	Common Equity Tier 1 as if IFRS 9 or analogous ECLs transitional arrangement had not been applied (%)	15.9	15.1	15.5	16.2
11	Tier 1 (%)	17.4	16.6	17.0	17.7
12	Tier 1 as if IFRS 9 or analogous ECLs transitional arrangement had not been applied (%)	17.2	16.4	16.8	17.6
13	Total capital (%)	19.5	18.8	19.2	17.7
14	Total capital as if IFRS 9 or analogous ECLs transitional arrangement had not been applied (%)	19.3	18.6	19.0	17.6

Leverage Ratios					
15	Leverage ratio total exposure measure excluding claims on central banks	27,438.8	26,993.5	25,865.4	24,995.5
16	Leverage ratio excluding claims on central banks (%)	7.5	7.1	7.5	7.6
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangement had not been applied (%)	7.4	7.0	7.4	7.6

2.3 UK OV1 – Overview of risk weighted exposure amounts

The table below provides an overview of risk weighted exposures and own funds requirements.

		a	b	c
		Risk weighted exposure amount		Own funds requirement
£m		31 Dec 23	30 Sep 23	31 Dec 23
1	**Credit risk (excluding CCR)**	10,605.3	10,323.7	848.4
2	of which the standardised approach	10,605.3	10,323.7	848.4
6	**Counterparty credit risk – CCR**	177.2	254.3	14.2
7	of which standardised approach	82.8	115.4	6.6
UK 8a	of which exposures to a CCP	11.3	7.9	0.9
UK 8b	of which credit valuation adjustment - CVA	83.1	130.9	6.7
9	Of which other CCR	0.0	0.2	0.0
16	**Securitisation exposures in the non-trading book**	39.1	41.9	3.1
18	Of which SEC-ERBA (including IAA)	1.4	1.5	0.1
19	of which SEC-SA approach	37.7	40.4	3.0
23	**Operational risk**	1,023.9	959.6	81.7
UK 23b	of which standardised approach	1,023.9	959.6	81.7
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (for information)	3.6	3.0	0.3
29	**Total**	11,845.6	11,579.5	947.5

2.4 UK INS1 – Insurance participants

Not applicable to the Group. The Group does not have any insurance participants.

2.5 UK INS2 – Financial conglomerates information on own funds and capital adequacy ratio

Not applicable to the Group. The Group does not qualify as a financial conglomerate.

2.6 UK OVC – ICAAP information

(a) Approach to assessing the adequacy of the internal capital (Article 438(a) CRR)

The Group's policy is to be well capitalised and its approach to capital management is driven by strategic and organisational requirements as well as its risk profile, whilst also taking account of the regulatory and commercial environment in which it operates. The Group maintains a strong capital base to support the development of its business and to ensure that the Total Capital Requirement (TCR) set by the PRA is met at all times. As a result, the Group maintains capital adequacy ratios above minimum regulatory requirements.

At least annually, the Group undertakes a detailed, forward-looking assessment of capital adequacy in order to assess the Group’s Pillar 2a and Pillar 2b capital requirement. This exercise is known as the Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP document is reviewed, challenged and endorsed by the Group Risk Committee, and following robust engagement with the Board of Directors it is approved by the Board.

The Pillar 2a assessment captures the Group’s firm-specific risks that are not covered by the Pillar 1 capital requirement. Pillar 1 and Pillar 2a are added together to form the Group’s TCR as set by the regulator which must be met at all times.

The Pillar 2b capital requirement is an assessment of the Group’s capital composition under stressed conditions. The Pillar 2b requirements, including the Countercyclical Capital Buffer (CCyB) and the Capital Conservation Buffer (CCoB), are expected to cover losses in the event of a severe stress. Stress testing is an integral component of the Group’s ERMF as it enables a forward-looking risk identification and assessment process to provide a robust and flexible assessment of the adequacy of the Group’s risk and financial management practices and resources.

The results of the ICAAP enable the PRA to determine the Group's required capital and supervisory buffers. It is the Group's policy to hold capital resources in excess of its capital requirements as set by the PRA.

Capital is allocated based on the Board-approved capital plan. The capital plan is updated at least annually with the associated capital forecasts updated on a monthly basis and reviewed by the Assets and Liabilities Committee (ALCO), Group Risk Committee and Board. Following the approval of the business plan, quarterly reforecasts are presented to the Board during the course of the year.

(b) Upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process (Article 438(c) CRR)

The Group is expected to disclose its TCR. The PRA set the Group’s combined pillar 2a requirement on 1 September 2021 at 1.27% of risk-weighted assets plus a static integration add-on of £19.5m. As at December 2023 the Group’s combined TCR was 9.27% (December 2022: 9.27%) before the static integration add-on of £19.5m.

The Group’s Pillar 2a requirement as at December 2023, excluding the static integration add-on equates to a £150.4m[2] capital requirement (December 2022: £133.3m) which must be met at all times with a minimum of £84.6m of CET1 (December 2022: £75.0m).

[2] Pillar 2a TCR excluding a static integration add-on is calculated as 1.27% of RWAs.

3. Annex III | Risk management objectives and policies

3.1 UK OVA – Institution risk management approach

(a) Disclosure of concise risk statement approved by the management body (Point (f) of Article 435(1) CRR)

Risk management is essential in order for the Group to achieve its strategic objectives and the Group has established a set of risk management and oversight principles which inform and guide all underlying risk management and assessment activities. These principles are informed by the Group's Purpose, Vision and Values.

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

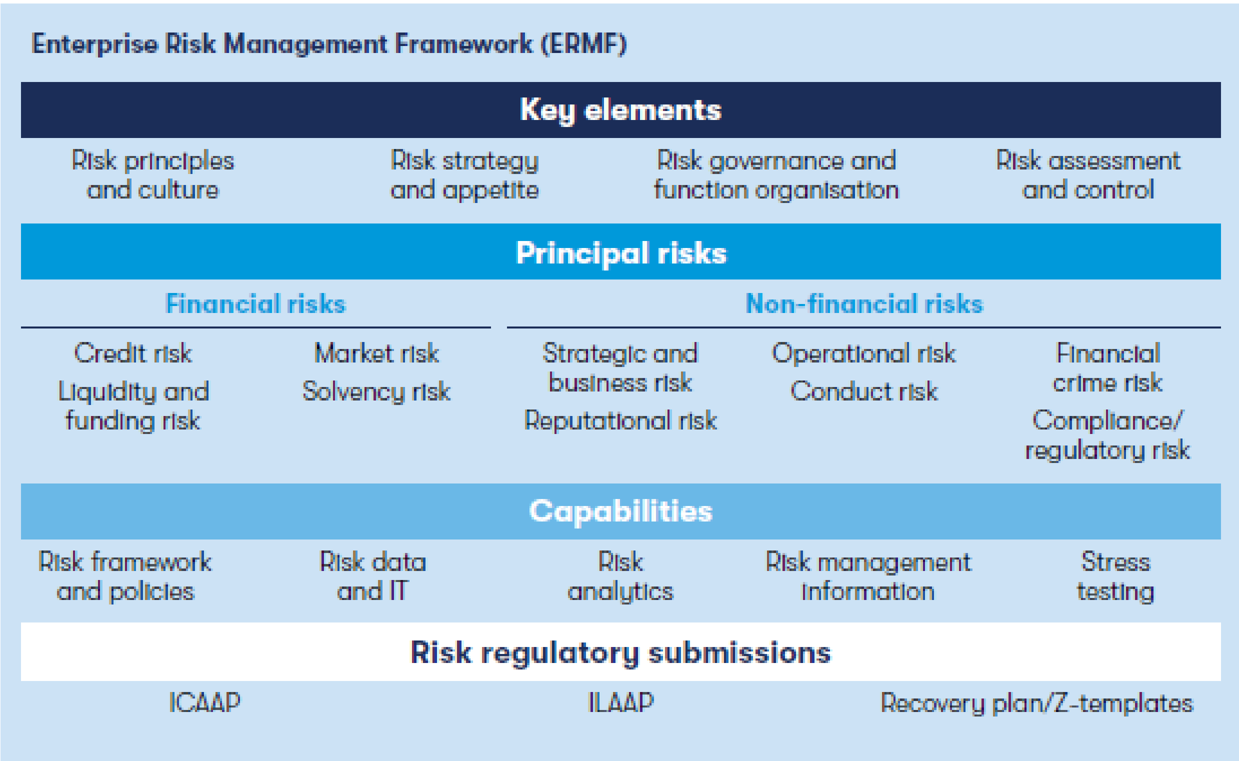
The ERMF is the overarching framework that enables the Board and senior management to actively manage and optimise the risk profile within the constraints of its risk appetite. The ERMF also facilitates informed risk-based decisions to be taken in a timely manner, ensuring that the interests and expectations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

The ERMF provides a structured mechanism to align critical components of an effective approach to risk management, linking overarching risk principles to day-to-day risk identification, assessment, mitigation, and monitoring activities.

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

Further detail on these key modules is set out in the Group's ARA.

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



Risk appetite

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

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

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

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

Related Party transactions

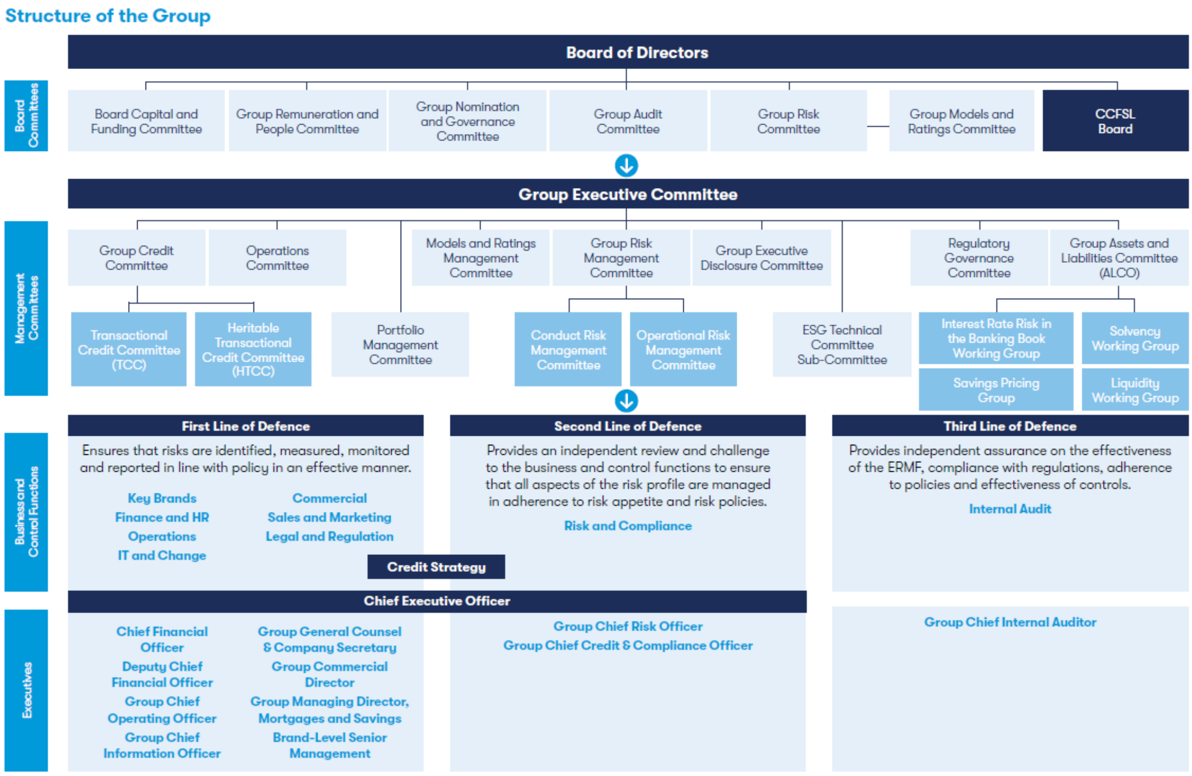
All related party transactions were made on terms equivalent to those that prevail in arm's length transactions. During the year, there were no related party transactions between key management personnel and the Group. Other transactions made with key management personnel are disclosed in Note 51 to the Group's financial statements.

(b) Information on the risk governance structure for each type of risk (Point (b) of Article 435(1) CRR)

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

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

The Schematic below provides a high-level overview of the Group's governance arrangements to ensure that robust risk oversight is maintained across the Group's risk profile:



The role and structure of the Board

The Board is responsible for the long-term success of the Group and provides leadership to the Group.

The Board focuses on setting strategy and monitoring performance and ensures that the necessary financial and human resources are in place to enable the Group to meet its objectives. In addition, it ensures appropriate financial and business systems and controls are in place to safeguard shareholders' interests and to maintain effective corporate governance.

The Board is responsible for setting the tone from the top in relation to conduct, culture and values, for ensuring continuing commitment to treating customers fairly, carrying out business honestly and openly and preventing bribery, corruption, fraud or the facilitation of tax evasion.

The Board operates in accordance with the Company's Articles of Association (the 'Articles') and its own written terms of reference. The Board has established a number of Committees. Each Committee has its own terms of reference which are reviewed at least annually.

The Board retains specific powers in relation to the approval of the Group's strategic aims, policies and other matters, which must be approved by it under legislation or the Articles. These powers are set out in the Board's written terms of reference and Matters Reserved to the Board which are reviewed at least annually.

Further details on the Board and Management Committees including terms of reference can be found on the Group's website www.osb.co.uk

(c) Declaration approved by the management body on the adequacy of the risk management arrangements (Point (e) of Article 435(1) CRR)

Risk management is a key capability and is fundamental to the Group's strategy. Risk appetite is a critical mechanism through which the Board and senior management identify adverse trends and respond to unexpected developments in a timely and considered manner. The risk management framework continued to be adequate and effective in managing the Group's risk profile during a period of market volatility and uncertainty.

The Group Risk Committee (GRC) remained focused on the risks to the Group's strategic, business and regulatory agenda based on the Board-approved risk appetite. Throughout the year, the GRC ensured that appropriate and timely decisions had been taken in order to manage the Group's risk profile during a period of heightened economic uncertainty and change. The GRC focused on navigating the uncertainties and risks arising from the increasing cost of living and cost of borrowing, changing customer and competitor behaviours.

The Group's wider ERMF ensured that principal risks are subject to common good practice standards across all phases of the risk life cycle, including identification, assessment, management, monitoring and reporting. The ERMF continuously evolves to reflect the Group's underlying risk profile.

The GRC reviewed the ERMF in line with its annual review cycle to ensure it remained fit for purpose in the context of the Group's strategic objectives, business model, risk profile and industry practice. An independent review of the Group's ERMF and accompanying sub-frameworks was conducted in 2022 and undertaken by an external firm to ensure that the ERMF remains aligned to industry practice. The GRC monitored the closure of all actions recommended by the external firm to ensure that they were tracking in line with agreed timetables and the GRC endorsed the updated ERMF in the last quarter of 2023 for Board approval. The GRC continue to monitor the integration of Climate Risk into the ERMF and the Climate Risk Management Framework which sets out how the Group identifies, assesses, monitors and manages the climate risk to which it is exposed to ensure that the Group's approach to climate risk is in line with the regulator's expectations.

(d) Scope and nature of risk disclosure and/or measurement systems (Point (c) of Article 435(1) CRR)

In order to understand the risks which the Group is exposed to, and to provide information to the Board and senior management, regular and accurate risk management information, reporting, and analytics are produced.

High quality risk information, data manipulation and aggregation capabilities are core for the achievement of the Risk function's objectives.

The Group has established a comprehensive suite of risk Management Information (MI) and reports covering all principal risk types reporting on the current and potential future risk profile of the Group in the context of the internal and external environment and established risk appetite. The below table sets out the standard MI that is reported against across each of the principal risks, to which committees and how often.

Risk Type	Nature of Risk MI & Reports	Primary Audience	Frequency
Credit Risk	• Credit risk appetite Level 1 and Level 2 KRIs • Portfolio Segment Performance review • Large Exposures • Lending Exceptions • Specific Provisions & asset management	• Group Risk Committee (selected slides) • Group Credit Committee	• Every Group Risk Committee • Monthly Management Risk Committees
Solvency Risk	• Solvency level 1 and 2 Risk Appetite KRIs and early warning indicators • Capital Adequacy and Capital Composition • Capital Adequacy Forecast • Scenario analysis • Issuance Plan	• Group Risk Committee (selected slides) • ALCO • SWG	• Every Group Risk Committee • Monthly Management Risk Committees
Liquidity and Funding Risk	• Liquidity Forecast against risk appetite (LCR and Combined ILAAP scenario), level 1 and 2 KRIs • Advances and redemption forecast • Forecasts v actual back testing • Funding Plans • Asset Encumbrance • BoE Facility Utilisation • Retail Deposit Split • Liquidity Maturity Profile • Cost of funding and impact of excess liquidity • Collateral management • ILAAP stress testing • Operational capacity	• Liquidity Working Group, CFO, and CROs • Group Risk Committee (selected slides) • ALCO	• Daily • Every Group Risk Committee • Monthly Management Risk Committees
Market Risk	• Market risk Level 1 and Level 2 risk appetite KRIs • Interest Rate Risk Gap & Scenario Analysis • Basis Risk Scenario Analysis • IRR & Basis Risk Trend Profile	• Group Risk Committee (selected slides) • ALCO	• Every Group Risk Committee • Monthly Management Risk Committees
Business and Strategic Risk	• Enterprise Risk Register	• Group Risk Committee • Group Executive Committee	• c.6 monthly
Regulatory Risk	• Regulatory risk appetite Level 1 and Level 2 KRIs • Compliance update • Senior Managers & Certification Regime update • Compliance & Regulatory Risk - KRIs update • Compliance Assurance Actions update • Compliance Routine Monitoring – Quarterly update	• Group Risk Committee • GRMC • Group Conduct Risk Management Committee	• Every Group Risk Committee • Monthly Management Risk Committees

	• Regulatory Developments		
Conduct Risk	• Conduct risk appetite Level 1 and Level 2 KRIs • Business Area Conduct Risk KRI's and key updates, risks, and issues • Key conduct related regulatory developments and change agenda • Key FCA engagement updates	• Group Risk Committee • GRMC • Group Conduct Risk Management Committee	• Every Group Risk Committee • Monthly Management Risk Committees
Financial Crime Risk	• Financial crime risk appetite Level 1 and Level 2 KRIs • Financial Crime update & key statistics	• Group Risk Committee • GRMC • Group Conduct Risk Management Committee	• Every Group Risk Committee • Monthly Management Risk Committees
Operational Risk	• Operational risk appetite Level 1 and Level 2 KRIs. • RCSA outputs • Operational Risk Event Reporting (Riskonnect/ORMS) • Risk acceptances • Emerging Risks and issues	• Group Risk Committee (selected slides) • GRMC • Group Operational Risk Management Committee	• Every Group Risk Committee • Monthly Management Risk Committees
Reputational Risk	• Reputational risk appetite including an overall environment assessment.	• Group Risk Committee • GRMC • Group Conduct Risk Management Committee	• Every Group Risk Committee • Monthly Management Risk Committees

Model Risk is governed by the Group Models and Ratings Management Committee with delegated authority from Group Risk Committee to provide assurance over the Group's models and rating systems. MI reported to the Group Models and Ratings Management provides detail on model performance in the context of model risk appetite (accuracy of overall model rating estimations).

(e) Information on the main features of risk disclosure and measurement systems (Point (c) of Article 435(1) CRR)

The Group Risk Committee (GRC) annually reviews the ERMF considering the design, structure and effectiveness. It is endorsed by the GRC before it is recommended to the Board for approval. The Group risk appetite is subject to a full refresh annually across all principal risk types where all metrics and thresholds are reviewed and updated. The Group also carries out an additional mid-year review where any metrics can be assessed and updated as appropriate.

Risk is measured through the Group's risk appetite statements and assessments. The Group has structured its risk appetite to align with its overarching strategic and business objectives.

Principal risks, which can be assessed in a quantifiable manner, are supported by a suite of quantitative metrics with operational thresholds. Risk thresholds are characterised in relation to severity and the consequence of breach. There are three levels of risk appetite as follows:

Trigger – A level of risk which is outside of the normal acceptable level of risk the Group is willing to accept in the normal course of its business operations. Breach of triggers results in a heightened level of monitoring.

Limit – A level of risk which is considered sub-optimal in relation to the Group's wider strategic, business and regulatory objectives. A breach of risk limit represents a failure to maintain the risk profile within Board-approved thresholds.

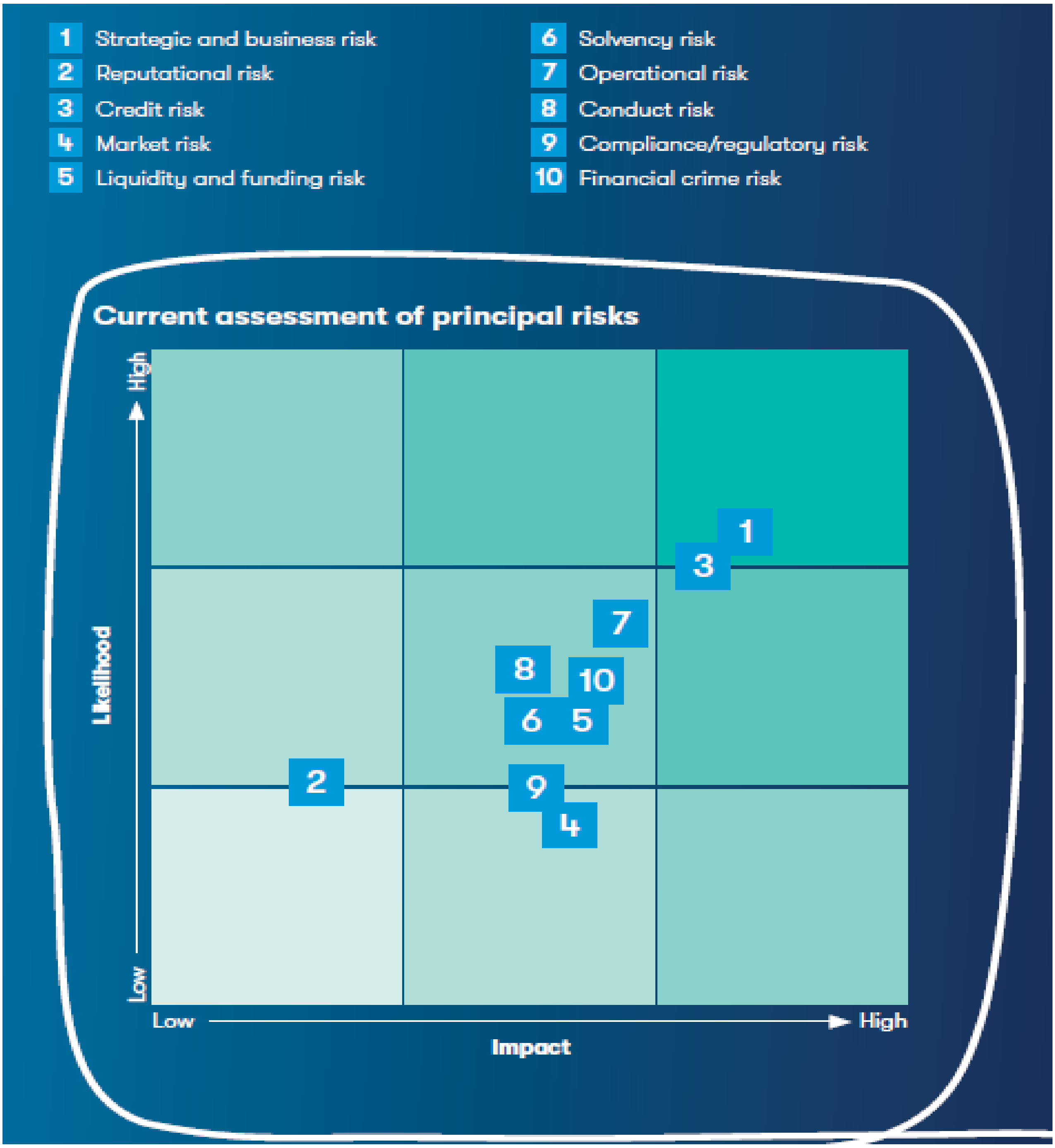
Capacity – A level of risk which is expected to move the risk profile outside of the minimum prudential requirements to which the Group is obliged to operate. Risk appetite metrics only have a capacity threshold where appropriate.

(f) Strategies and processes to manage risks for each separate category of risk (Point (a) of Article 435(1) CRR)

Risk management is fully embedded within the Group through its ERMF. The ERMF is owned by the Board and represents the structure within which the Board discharges its duty to embed a strong risk culture and establish robust risk management practices. The ERMF is reviewed and approved by the Board on an annual basis following recommendation from the Group Risk Committee. The core components of the ERMF are set out in Section 3.1(a).

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

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



1 - Strategic and business risk	
Definition	**Risk appetite statement**
The risk to the Group's earnings and profitability arising from its strategic decisions, change in business conditions, improper implementation of decisions or lack of responsiveness to industry and regulatory changes.	The Group's strategic and business risk appetite states that the Group does not intend to undertake any medium- to long-term strategic actions that would put at risk its vision of being a leading specialist lender, backed by strong and dependable savings franchises. The Group adopts a long-term sustainable business model which, while focused on specialist sub-sectors of the mortgage market, can adapt to growth objectives and external developments.

1.1 Performance against targets Performance against strategic and business targets does not meet stakeholder expectations. This has the potential to damage the Group's franchise value and reputation.	
Mitigation	**Direction**
Regular monitoring by the Board and the Group Executive Committee of business and financial performance against the strategic agenda and risk appetite. The financial plan is subject to regular reforecasts. The Balanced Business Scorecard is the primary mechanism to support how the Board assesses management performance against key targets. Use of stress testing to flex core business planning assumptions to assess potential performance under stressed operating conditions.	**↑ Increased** The ongoing macroeconomic uncertainty and its potential impact on net interest income, affordability levels, house prices and expected credit losses continue to present risk to the Group's performance in 2024.
1.2 Economic environment The economic environment in the UK is an important factor impacting the strategic and business risk profile. A macroeconomic downturn may impact the credit quality of the Group's existing loan portfolios and may influence future business strategy as the Group's new business proposition becomes less attractive due to lower returns.	
Mitigation	**Direction**
The Group's business model as a secured lender helps limit potential credit risk losses and supports performance through the economic cycle. The Group continues to utilise and enhance its stress testing capabilities to assess and minimise potential areas of macroeconomic vulnerability.	**- Unchanged** Macroeconomic uncertainty will continue into 2024 with an ongoing risk to the Group's credit risk profile, including the possibility of further falls in house prices, and an ongoing risk that changes to the macroeconomic environment result in changes to customer behaviours.
1.3 Competition risk The risk that new bank entrants and existing peer banks shift focus to the Group's market sub-segments, increasing the level of competition.	
Mitigation	**Direction**
The Group continues to develop products and services that meet the requirements of the markets in which it operates. The Group has a diversified suite of products and capabilities to utilise, together with significant financial resources, to support a response to changes in competition.	**- Unchanged** The current economic outlook may limit the number of competitors shifting their focus to the Group's key market sub-segments.

2 - Reputational risk	
Definition	**Risk appetite statement**
The potential risk of the Group's reputation being affected due to factors such as unethical practices, adverse regulatory actions, customer or broker dissatisfaction and complaints or negative/adverse publicity. Reputational risk can arise from a variety of sources and is a second order risk – the crystallisation of any principal risk can lead to a reputational risk impact.	The Group has a very low appetite for reputational risks. The Group will not conduct its business or engage with stakeholders in a manner that could materially adversely impact its reputation or franchise value. The Group recognises that reputational risk is a consequence of other risks materialising and in turn seeks to actively manage all risks within Board-approved risk appetite levels. The Group strives to protect and enhance its reputation at all times.

2.1 Deterioration of reputation Potential loss of trust and confidence that our stakeholders place in us as a responsible and fair provider of financial services.	
Mitigation	**Direction**
Culture and commitment to treating customers fairly and being open and transparent in communication with key stakeholders. Established processes in place to proactively identify and manage potential sources of reputational risk. Review of relevant Management Information including complaint volumes, Net Promoter Scores, customer satisfaction results, social media and Trustpilot feedback.	↑ **Increased** The challenging macroeconomic environment in 2023 resulted in shifts within both the UK's lending and savings markets. This has brought about the need for all banks to become increasingly agile with products offered in order to ensure that all core targets continued to be met. Operational scalability and efficiency challenges continue to influence the Group's reputational risk profile. Compliance and conduct risks remain elevated due to the requirements in continuing to meet Consumer Duty regulation and forecasted changes in interest rates resulting in increased numbers of customer requests.

3 - Credit risk	
Definition	**Risk appetite statement**
Potential for loss due to the failure of a counterparty to meet its contractual obligation to repay a debt in accordance with the agreed terms.	The Group seeks to maintain a high-quality lending portfolio that generates adequate returns under normal and stressed conditions. The portfolio is actively managed to operate within set criteria and limits based on profit volatility focusing on key sectors, recoverable values and affordability and exposure levels. The Group aims to continue to generate sufficient income and control credit losses to a level such that it remains profitable even when subjected to a credit portfolio stress of a 1 in 20 intensity stress scenario.
3.1 Individual borrower defaults Borrowers may encounter idiosyncratic problems in repaying their loans, for example loss of a job or execution problems with a development project. While in most cases of default the Group's lending is secured, some borrowers may fail to maintain the value of the security, which may result in a loss being incurred.	
Mitigation	**Direction**
Across both OSB and CCFS, a robust underwriting assessment is undertaken to ensure that a customer has the ability and propensity to repay, and sufficient	↑ **Increased** The drivers of borrower default risk have shifted with higher inflation and higher interest rates impacting

security is available to support the new loan requested. At CCFS, an automated scorecard approach is taken, whilst OSB utilises a bespoke manual underwriting approach, supplemented by bespoke application scorecards to inform the lending decision. Should there be problems with a loan, the Financial Support function works with customers who are unable to meet their loan service obligations to reach a satisfactory conclusion while adhering to the principle of treating customers fairly. Our strategic focus on lending to professional landlords means that properties are likely to be well-managed, with income from a diversified portfolio mitigating the impact of rental voids or maintenance costs. Lending to owner-occupiers is subject to a detailed affordability assessment, including the borrower's ability to continue payments if interest rates increase. Lending on commercial property is based more on security and is scrutinised by the Group's independent Real Estate team as well as by external valuers. Development finance lending is extended only after a deep investigation of the borrower's track record and stress testing the economics of the specific project.	affordability for accounts and increasing the risk of borrower default.
3.2 Macroeconomic downturn A broad deterioration in the UK economy would adversely impact both the ability of borrowers to repay loans and the value of the Group's security. Credit losses would impact the Group's lending portfolios, even if individual impacts were to be small, the aggregate impact on the Group could be significant.	
Mitigation	**Direction**
The Group works within portfolio limits on LTV, affordability, name, sector and geographic concentration that are approved by the Group Risk Committee and the Board. These are reviewed on a semi-annual basis. In addition, stress testing is performed to ensure that the Group maintains sufficient capital to absorb losses in an economic downturn and continues to meet its regulatory requirements.	↑ Increased The uncertain economic outlook and the ongoing geopolitical risk due to the conflict in Ukraine resulted in high inflation and increases in interest rates could drive higher levels of customer defaults, rising impairment levels and falling residential and commercial collateral values.
3.3 Wholesale credit risk The Group has wholesale exposures both through call accounts used for transactional and liquidity purposes and through derivative exposures used for hedging.	
Mitigation	**Direction**
The Group transacts only with high-quality wholesale counterparties. Derivative exposures include collateral agreements to mitigate credit exposures.	**- Unchanged** The Group's wholesale credit risk exposure remains limited to high-quality counterparties, overnight exposures to clearing banks and swap counterparties.

4 - Market risk	
Definition	**Risk appetite statement**
Potential loss due to changes in market prices or	The Group actively manages market risk arising from

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

4.1 Interest rate risk

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

Mitigation	**Direction**
The Group's Treasury function actively hedges to match the timing of cash flows from assets and liabilities.	**- Unchanged** Interest rate risk in 2023 was influenced by the backdrop of rapidly rising interest rates and the potential for changing customer behaviour. The macroeconomic outlook remains uncertain. A continued area of focus relates to the risks arising from downward movements in interest rates. Falling interest rates may create a risk to net interest income based on timing mismatches between issuance of long-term mortgages versus shorter term savings products. In addition, this could result in early repayment charge income not offsetting early swap breakage costs.

4.2 Basis risk

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

Mitigation	**Direction**
The Group did not require active management of basis risk in 2023 due to its balance sheet structure.	**- Unchanged** Basis risk exposures were unchanged in 2023 as the Group's exposures are broadly SONIA linked assets funded by Bank of England Base Rate liabilities.

5 - Liquidity and funding risk

Definition	**Risk appetite statement**
The risk that the Group, although solvent, does not have sufficient financial resources to enable it to meet its obligations as they fall due.	The Group will maintain sufficient liquidity to meet its liabilities as they fall due under normal and stressed business conditions; this will be achieved by maintaining strong retail savings franchises, supported by high-quality liquid asset portfolios comprised of cash and readily-monetisable assets, and through access to pre-arranged secured funding facilities. The Board requirement to maintain balance sheet resources sufficient to survive a range of severe but plausible stress scenarios is interpreted in terms of the liquidity coverage ratio and the Internal Liquidity Adequacy Assessment Process (ILAAP) stress scenarios.

5.1 Retail funding stress

As the Group is primarily funded by retail deposits, a retail run could put it in a position where it could not meet its financial obligations. Increased competition for retail savings driving up funding costs, adversely impacting retention levels and profitability.

Mitigation	Direction
The Group's funding strategy is focused on a highly stable retail deposit franchise. The Group's large number of depositors provides diversification, where a high proportion of balances are covered by the FSCS protection scheme, largely mitigating the risk of a retail run. In addition, the Group performs in-depth liquidity stress testing and maintains a liquid asset portfolio sufficient to meet obligations under stress. The Group holds prudential liquidity buffers to manage funding requirements under normal and stressed conditions. The Group has further diversified its retail channels by the use of deposit aggregators. The Group proactively manages its savings proposition through both the Liquidity Working Group and the Group Assets and Liabilities Committee. Finally, the Group has prepositioned mortgage collateral and securitised notes with the Bank of England, which allows it to consider alternative funding sources to ensure that it is not solely reliant on retail savings. The Group also has a mature Retail Mortgage Backed Security **(RMBS) programme.**	**↓ decreased** The Group's funding levels, and mix remained strong throughout the year. In 2023, OSB and CCFS were able to attract significant flows of new deposits and depositors, despite the volatile interest rate environment and a competitive savings market. Both banks were able to proactively manage retail flows around peak maturity periods without any reliance on unplanned wholesale actions.
5.2 Wholesale funding stress A market-wide stress could close securitisation markets or make issuance costs unattractive for the Group.	
Mitigation	**Direction**
The Group continuously monitors wholesale funding markets and is experienced in taking proactive management actions where required. The Group completed one securitisation deal and two capital issuances in 2023 and has a range of wholesale funding options, including Bank of England facilities, for which collateral has been prepositioned.	**- Unchanged** The Group's range of wholesale funding options available, including repo or sale of retained notes or collateral upgrade trades remained broadly unchanged.
5.3 Refinancing of TFSME Term Funding Scheme for Small and Medium-sized Enterprises (TFSME) borrowing by the Group reduced to £3.3bn at the end of 2023 from £4.2bn in 2022, with £900m of funding repaid during the year. The Group has a refinancing concentration scheduled for October 2025.	
Mitigation	**Direction**
The Group has other wholesale options available to it, including securitisation programmes and repo or sale of held notes, as well as retail funding through its strong franchises, to replace the TFSME borrowing gradually over the next 18 months ahead of the maturity of this funding.	**↓ decreased** TFSME borrowing decreased during the year; however, the current funding plan to refinance TFSME requires securitisation issuance which is dependent on the ongoing operation of capital markets. These markets have remained open during 2023 despite volatility seen in 2022; however, additional refinancing options are being considered.

6 - Solvency risk	
Definition	**Risk appetite statement**
The potential inability of the Group to ensure that it maintains sufficient capital levels for its business strategy and risk profile under both the base and stress case financial forecasts.	The Group seeks to ensure that it is able to meet its Board-level capital buffer requirements under a severe but plausible stress scenario. The solvency risk appetite is informed by the Group's prudential requirements and strategic and financial objectives.

	The Group manages its capital resources in a manner which avoids excessive leverage and allows flexibility in raising capital.
6.1 Deterioration of capital ratios Key risks to solvency arise from balance sheet growth and unexpected losses which can result in the Group's capital requirements increasing, or capital resources being depleted, such that it no longer meets the solvency ratios as mandated by the PRA and Board risk appetite. The Group is required to meet its interim MREL requirement from July 2024 which ensures the Group must consider its total loss absorbing capacity requirement in addition to its existing capital requirements. The regulatory capital regime is subject to change and could lead to increases in the level and quality of capital that the Group needs to hold to meet regulatory requirements. In particular, we await confirmation of the final rules in relation to the implementation of Basel 3.1 standards.	
Mitigation	**Direction**
The Group operates from a strong capital position and has a consistent record of strong profitability. The Group actively monitors its capital requirements and resources against financial forecasts, including MREL requirements, and undertakes stress testing analysis to subject its solvency ratios to extreme but plausible scenarios. The Group also holds prudent levels of capital buffers based on CRD IV requirements and expected balance sheet growth. The Group engages actively with regulators, industry bodies and advisers to keep abreast of potential changes and provides feedback through the consultation process. Following the issuance of £400m of MREL qualifying debt securities in January 2024, the Group met its interim MREL requirement including regulatory buffers.	**- Unchanged** The stable credit profile and ongoing profitability mean that the Group's capital resources remain strong. Risks remain around adverse credit profile performance resulting from higher inflation and higher interest rates.

7 - Operational risk	
Definition	**Risk appetite statement**
The risk of loss or a negative impact on the Group resulting from inadequate or failed internal processes, people or systems, or from external events.	The Group's operational processes, systems and controls are designed to minimise disruption to customers, damage to the Group's reputation and any detrimental impact on financial performance. The Group actively promotes the continuous evolution of its operating environment through the identification, evaluation and mitigation of risks, whilst recognising that the complete elimination of operational risk is not possible.
7.1 IT security (including cyber risk) The risks resulting from a failure to protect the Group's systems and the data within them. This includes both internal and external threats.	
Mitigation	**Direction**
The Group operates with a suite of detective controls to ensure services between the business and its customers operate securely with potential threats identified and mitigated as part of its IT risk and control assessment. This is further supported by documented and tested procedures intended to ensure the effective response to a security breach.	**- Unchanged** The Group has processes in place to allow it to operate effectively when employees work from home and manage the cyber risks related to working remotely. Whilst IT security risks continue to evolve, work continues to enhance the level of maturity of the

The Group programme of IT and cyber improvements continued with the aim of enhancing its protection against IT security threats, deploying a series of tools designed to identify and prevent network/ system intrusions.	Group's controls and defences, supported by dedicated IT security experts. The Group has an ongoing programme of penetration testing in place to drive enhancements by identifying potential areas of risk.
7.2 Data quality and completeness The risks resulting from data of a poor quality being captured or data not being maintained to a good standard.	
Mitigation	**Direction**
The Group has a suite of data governance policies and procedures along with dedicated resources to ensure the quality of data is maintained at an appropriate standard.	**- Unchanged** Progress was made in 2023 to embed Group-wide governance frameworks with further work planned for 2024 to move closer to the Group's target end state, including further enhancements to the Group's risk appetite metrics and key risk indicators.
7.3 Change management The risks resulting from unsuccessful change management implementations, including the failure to respond effectively to release-related incidents.	
Mitigation	**Direction**
The Group recognises that implementing change introduces significant operational risk and has therefore implemented a series of control gateways designed to ensure that each stage of the change management process has the necessary level of oversight.	**↑ Increased** The Group continued to adopt an ambitious change agenda, which was monitored and managed well in 2023. The Group made progress on its digitalisation journey, which will enable it to meet the future needs of customers, brokers and wider stakeholders, whilst delivering further operational efficiencies.
7.4 IT failure The risks resulting from a major IT application or infrastructure failure impacting access to the Group's IT systems.	
Mitigation	**Direction**
The Group continues to invest in improving the resilience of its core infrastructure. It has identified its prioritised business services and the infrastructure that is required to support them. Tests are performed regularly to validate the Group's ability to recover from an incident. The Group has established a site in Hyderabad to ensure that, in the event of an operational incident in Bangalore, services can be maintained.	**- Unchanged** Whilst progress was made in reducing both the likelihood and impact of an IT failure, the risks remain, in particular due to the hybrid working arrangement.

8 – Conduct risk	
Definition	**Risk appetite statement**
The risk that the Group's culture, organisation, behaviours and actions result in poor outcomes and detriment for customers and/or damage to consumer trust and integrity of the markets in which it operates.	The Group has a very low appetite to assume risks which may result in either poor or unfair customer outcomes and/or cause disruptions in the market segments in which it operates. The Group aims to avoid causing detriment or harm to its customers and operates to the highest standards of conduct. The Group will treat its customers, third-party partners, investors and regulators with respect, fairness and transparency. The Group will proactively look to identify where its products and services could lead to

	poor outcomes or harm to its customers and will take appropriate action to mitigate this. Where customer harm occurs, the Group will ensure that effective solutions are implemented to address the root cause and a fair outcome is achieved.
8.1 Conduct risk The risk that the Group fails to meet its expectations with respect to conduct risk.	
Mitigation	**Direction**
The Group's culture is clearly defined and monitored through its Purpose, Vision and Values driven behaviours. The Group has a strategic commitment to provide simple, customer-centric products. In addition, a Product Governance framework is established to oversee that products are designed and maintained to deliver good customer outcomes throughout the product lifecycle. The Group has an embedded Conduct Risk Management Framework which clearly defines roles and responsibilities for conduct risk management and oversight across the Group's three lines of defence.	↑ **Increased** During 2023, as a result of the cost of living and cost of borrowing crisis and changing customer and competitor behaviours, the Group's operations experienced high volumes of customer contact. Throughout 2023, the Group continued to review and evolve its approach to supporting customers, particularly those that are vulnerable and experiencing financial difficulty, to ensure they continue to receive the level of tailored support needed to deliver good customer outcomes. Conduct losses have remained stable with no breaches of risk appetite reported during the last 12 months.

9 - Regulatory risk	
Definition	**Risk appetite statement**
The risk of failure to effectively identify, interpret, implement and adhere to all regulatory or legislative requirements that impact the Group.	The Group views ongoing conformance with regulatory rules and standards across all the jurisdictions in which it operates as a critical facet of its risk culture. The Group has a very low appetite to assume regulatory risk, which could result in poor customer outcomes, customer detriment, regulatory sanctions, financial loss or damage to its reputation. The Group will proactively monitor for and will not tolerate any systemic failure to comply with applicable laws, regulations or codes of conduct relevant to its business. The Group acknowledges that regulatory rules and standards are subject to interpretation and subsequent translation into internal policies and procedures. The Group interprets requirements to ensure adherence with the intended purpose and spirit of the regulation whilst being cognisant of commercial considerations and good customer outcomes. To minimise regulatory risk, the Group proactively engages with its regulators in a transparent manner, participates in industry forums and seeks external advice to validate its interpretations, where appropriate.
9.1 Prudential regulatory changes The Group continues to see a high volume of key compliance regulatory changes that impact its business activities. These include consumer duty requirements and increased Resolvability Assessment Framework requirements.	
Mitigation	**Direction**

The Group has an effective horizon scanning process to identify regulatory change. All significant regulatory initiatives are managed by structured programmes overseen by the Project Management team and sponsored at Executive level. The Group has proactively sought external expert opinions to support interpretation of the requirements and validation of its response, where required.	**- Unchanged** The Group continued to have a high level of interaction with UK regulators and continues to identify and respond effectively to all regulatory changes.
9.2 Conduct regulation Regulatory changes focused on the conduct of business could force changes in the way the Group carries out business and impose substantial compliance costs. This includes the risk that product design, pricing, underwriting, arrears and forbearance and vulnerable customer policies are misaligned to regulatory expectations which result in customer harm, particularly those experiencing financial hardship or vulnerable customers, with the potential for reputational damage, redress and other regulatory actions.	
Mitigation	**Direction**
The Group has a programme of regulatory horizon scanning linking into a formal regulatory change management programme. In addition, the focus on simple products and customer-oriented culture means that current practice may not have to change significantly to meet any new conduct regulations. The Group implemented the FCA's Consumer Duty requirements within the required timelines. All Group entities utilise underwriting, arrears and forbearance and vulnerable customer policies, which are designed to comply with regulatory principles, rules and expectations. These policies articulate the Group's commitment to ensuring that all customers, including those who are vulnerable or experiencing financial hardship, are treated fairly, consistently and in a way that considers their individual needs and circumstances. The Group does not tolerate any systematic failure to deliver fair customer outcomes. On an isolated basis, incidents can result in customer harm due to human and/or operational failures. Where such incidents occur, they are thoroughly investigated, and the appropriate remedial actions are taken to address any customer harm and prevent recurrence.	**↑ Increased** The retail banking sector continues to be subject to heightened levels of regulatory focus and change, particularly in relation to conduct and customer outcomes. The Group actively assesses its approach and exposure to meeting current and emerging regulatory frameworks and remains cognisant of the potential risk of legacy decisions being subject to future supervisory focus and attention. The Group continues to proactively interact with regulatory bodies to take part in thematic reviews and information requests, as required. Identifying, monitoring and supporting vulnerable customers continues to be a key area of focus. The Group continues to review its approach to supporting customers experiencing financial difficulty to ensure they continue to receive the level of tailored support needed to deliver good customer outcomes.

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

The risk of financial or reputational loss resulting from a failure to implement systems and controls to manage the risk from money laundering, terrorist financing, sanctions, bribery, corruption and cyber-crime.	
Mitigation	**Direction**
The Group operates in a low-risk environment providing relatively simple products to UK domiciled customers serviced through UK registered bank accounts. The Group has an established screening programme that is deployed at the point of origination and on a regular basis throughout the customer lifecycle. Where applicable, enhanced due diligence is applied to ensure that any increase in risk is appropriately managed and any activity remains within risk appetite. The Group has a horizon scanning programme that identifies changes to money laundering regulations and any other financial crime related legislation to ensure that we comply with all regulatory obligations. The Group screens its customers on a regular basis against sanctions listings acting swiftly to react to any updates released in relation to the financial sanctions regime. Given the Group's customer target market, it has negligible exposure to any of the affected jurisdictions and no exposure to any specific individual or entity contained within revised sanctions listings. The Group's programme of cyber improvements continued with the aim of enhancing its protection against IT security threats, deploying a series of tools designed to identify and prevent network/ system intrusions.	- **Unchanged** The Group continues to focus primarily on the UK market with accounts serviced from UK bank accounts. IT security risks continue to evolve, and the level of maturity of the Group's controls and defences continues to be enhanced whilst being supported by dedicated IT security experts.

10.2 Fraud risk The risk of financial loss resulting from fraudulent action by a person either internal or external.	
Mitigation	**Direction**
The Group continues to invest in a range of systems and controls that are deployed across its product range to detect and prevent exposure to fraud throughout the customer lifecycle. At the point of origination, all new applications are subject to a range of controls to identify and mitigate the risk of fraud. Customer behavioural and transactional activity is closely monitored to identify potential suspicious behaviours or trends that may be indicative of fraud. All controls are supported by documented fraud related policies and procedures that are managed by experienced employees in a dedicated Financial Crime function. The Group continually monitors its detection capability with periodic reviews of the rules and parameters within its systems and control framework to ensure that these remain fit for purpose and aligned to mitigate any emerging risks.	↑ **Increased** The Group remains cognisant of the external fraud environment in which it operates and, in particular, the rise in the number of customers falling victims to elaborate scams. Whilst the Group's product functionality restricts the level of direct exposure to these types of events, the Group continues to look at options where it can educate and support its customers and help prevent them from becoming victims of this growing threat.

Stress testing

Stress testing is an integral component of the Group's ERMF and is used to evaluate the potential effects of a specific event and/or movement in a set of variables on the Group's financial and operating conditions. Stress tests comprise the following techniques:

- Sensitivity analysis: Assessment of exposures and risks to single factor shocks.
- Scenario analysis (Macro-economic): Technique to assess the adequacy of capital and financial resources based on severe adverse external events across the planning horizon.
- Scenario analysis (Risk-type): Analysis of actual or hypothetical scenarios undertaken to assess the level of risk exposure and assessment of financial resources maintained for specific risk types.
- Reverse Stress Tests: Exploration of economic scenarios that could threaten the Group's survival or viability.

Through the implementation of Securities Financing Transactions, the Group seeks to:

- Inform the assessment of its risk profile, both in respect of its existing business and also as regards any potential changes to its business activities (forward-looking basis);
- Test its ability to withstand the materialisation of risks in 'stressed' conditions;
- Assess the adequacy of the Group's financial resources (both capital and liquidity) and the potential management actions available to mitigate the effect of any adverse events;
- Identify any gaps in the Group's ERMF (such as a potential weakness in the controls operated by the Group); and
- Provide inputs for the Group's risk appetite, business planning processes, ICAAP, ILAAP and Recovery Plan.

(g) Information on the strategies and processes to manage, hedge and mitigate risks (Points (a) and (d) of Article 435(1) CRR)

The Group's ERMF is the overarching framework that sets out the principals and components through which the Group actively manages its risk profile in order to successfully fulfil its business strategy and objectives, including complying with all conduct and prudential regulatory requirements. The ERMF ensures effective interlinkages between the Group's strategic agenda, business planning and risk appetite. The Framework also outlines the distinction between risk management and oversight based on the 3 Lines of Defence principles.

The ERMF articulates the Group's risk management principals, culture, policies and procedures, which are embedded within the Group. The framework supports, organises and coordinates activities across the Group to enable the identification, assessment monitoring and management of material risks the Group faces.

Information on the Group's strategies and processes to manage and mitigate risk can be found in Section 3.1(f).

3.2 UK OVB – Disclosure on governance arrangements

(a) The number of directorships held by members of the management body (Point (a) of Article 435(2) CRR)

Number of external directorships held by Executive and Non-Executive Directors:

Name	Position	Number of directorships held
David Weymouth	Non-Executive	4
Noël Harwerth	Non-Executive	2
Sarah Hedger	Non-Executive	0
Rajan Kapoor	Non-Executive	3
Simon Walker	Non-Executive	2
Andy Golding	Executive	1
April Talintyre	Executive	0

(b) Information regarding the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise (Point (b) of Article 435(2) CRR)

The Group Nomination and Governance Committee is responsible for leading the process for the appointment of new members of the Board and Executives and provides oversight and guidance to the Board on all Corporate Governance matters in relation to the Group.

In relation to the values, ethics and overall culture of the Group, the Board sets the tone from the top leading the Group towards creating a sustainable business. The Group adheres to best practice in relation to Corporate Governance, which is in line with the Code and the requirements of the PRA and FCA. The Board, its Committees and the boards of the subsidiary companies operate effectively and have an appropriate balance of diversity, skills, experience, availability, independence and knowledge of the Group to enable them to discharge their respective responsibilities effectively.

Kal Atwal was appointed as a Non-Executive Director (NED) with effect from 7 February 2023 following approval from the Board and brings with her significant experience as a non-executive director across FTSE 100, FTSE 250 and Mutual businesses. The Group Nomination and Governance Committee acknowledges the need for an effective and robust succession plan for both NEDs and Executives in order to fill any potential skills gaps and to continue to develop broader diversity within the Board.

Korn Ferry[3] has been appointed as Executive succession planning adviser to assist the Group Nomination and Governance Committee with succession planning for key roles. Per Ardua[4] assisted with the search for the new NED which led to the appointment of Kal Atwal.

Further information on the Board of Directors in terms of their actual knowledge, skills and expertise can be found within the Group ARA.

(c) Information on the diversity policy with regard of the members of the management body (Point (c) of Article 435(2) CRR)

The Group recognises and embraces the benefits of having a diverse Board and workforce and sees diversity at Board level as an essential element in maintaining a competitive advantage. The Board believes that a truly diverse Board and workforce will include and make good use of differences in the skills, regional and industry experience, age, background, race, gender and other distinctions between people. The Board recognises for itself that diversity is the key to better decision-making and avoiding ‘group think’.

These differences are considered in determining the optimum composition of the Board and, where possible, will be balanced appropriately. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

For a number of years, the Group has subscribed to the Women in Finance Charter, which is an initiative to drive the representation of female employees at senior levels across the financial services industry. Having met the initial three-year target of ensuring that 30% of all senior roles would be filled by females by the end of 2020, the Committee agreed to a new three-year commitment to the end of 2023 to achieve 33%. As at 31 December 2023, 32.9% of all senior roles were undertaken by female employees.

In addition to Board and Executive succession planning resulting in the appointment of Kal Atwal during the year; other items considered by the Group Nomination and Governance Committee included Board effectiveness, the Executive Development Programme and NED conflicts of interest.

The Group’s Diversity, Equity and Inclusion Policy sets out the Board’s commitments in relation to diversity and inclusion. These commitments include addressing behavioural gender and ethnic bias and basing appointments on merit and objective criteria and, within this context, promoting diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. The policy also sets out the Board’s commitment to the Women in Finance Charter and has introduced measurable objectives with the Group committing to increase the percentage of female employees in senior management positions within the Group’s UK population.

(d) Information whether or not the institution has set up a separate risk committee and the frequency of the meetings (Point (d) of Article 435(2) CRR)

The Group has a separate Group Risk Committee which met seven times in 2023.

(e) Description on the information flow on risk to the management body (Point (e) Article 435(2) CRR)

The flow of information to the management body can be found in Section 3.1 (d).

---

[3] Korn Ferry also act as Remuneration Consultant to the Group Remuneration and People Committee. Korn Ferry has no other connection with the Company or any individual Director, with the exception of Mary McNamara who resigned from the Board on 11 May 2023. Korn Ferry provides services to another remuneration committee of a listed company that Mary McNamara chairs.

[4] Per Ardua has no other connection with the Company or any individual Director.

4. Annex V| Scope of application

4.1 UK LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

£m		a	b	c	d	e	g
				Carry Values of items			
		Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Not subject to capital requirements or subject to deduction from capital
Breakdown by asset class according to the balance sheet in the published financial statements							
1	Cash in hand	0.4	0.4	0.4	-	-	-
2	Loans & advances to credit Institutions	2,813.6	2,813.6	2,615.0	-	-	198.6
3	Investment securities	621.7	621.7	296.0	-	325.7	-
4	Loans and advances to customers	25,765.0	25,765.0	25,765.0	-	-	-
5	Fair value adjustment on hedged assets	(243.5)	(243.5)	-	-	-	(243.5)
6	Derivative assets	530.6	530.6	-	530.6	-	-
7	Other assets	27.6	27.6	27.6	-	-	-
8	Current taxation asset	0.6	0.6	0.6	-	-	-
9	Deferred taxation asset	3.9	3.9	3.6	-	-	0.3
10	Property, fixtures, and equipment	43.8	43.8	43.8	-	-	-
11	Intangible assets	26.1	26.1	-	-	-	26.1
12	**Total Assets**	29,589.8	29,589.8	28,752.0	530.6	325.7	(18.5)
Breakdown by liability classes according to the balance sheet in the published financial statements							
1	Amounts owed to credit institutions	3,575.0	3,575.0	-	212.8	-	3,362.2
2	Amounts owed to retail depositors	22,126.6	22,126.6	-	-	-	22,126.6
3	Fair value adjustment on hedged liabilities	21.9	21.9	-	-	-	21.9
4	Amounts owed to other customers	63.3	63.3	-	-	-	63.3
5	Debt securities in issue	818.5	818.5	-	-	-	818.5
6	Derivative liabilities	199.9	199.9	-	199.9	-	-
7	Lease liabilities	11.2	11.2	-	-	-	11.2
8	Other liabilities	39.6	39.6	-	-	-	39.6
9	Provisions	0.8	0.8	-	-	-	0.8
10	Deferred taxation liability	6.3	6.3	-	-	-	6.3
11	Senior notes	307.5	307.5	-	-	-	307.5
12	Subordinated liabilities	259.5	259.5	-	-	-	259.5
13	Perpetual subordinated bonds	15.2	15.2	-	-	-	15.2
14	**Total Liabilities**	27,445.3	27,445.3	-	412.7	-	27,032.6

4.2 UK LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

£m		a	b	C	d
			Items subject to		
		Total	Credit risk framework	Securitisation framework	CCR framework
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)**	29,844.6	28,988.3	325.7	530.6
2	**Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)**	199.9	-	-	199.9
3	**Total net amount under the regulatory scope of consolidation**	29,644.7	28,988.3	325.7	330.7
4	**Off-balance-sheet amounts**	999.4	999.4	-	-
5	*Differences in valuations*	-	-	-	-
6	*Differences due to different netting rules, other than those already included in row 2*	0.3	0.3	-	-
7	*Differences due to consideration of provisions*	23.4	23.4	-	-
8	*Differences due to the use of credit risk mitigation techniques (CRMs)*	-	-	-	-
9	*Differences due to credit conversion factors*	(828.6)	(828.6)	-	-
10	*Differences due to Securitisation with risk transfer*	-	-	-	-

11	*Other differences*	**-**	**-**	**-**	**-**
12	**Exposure amounts considered for regulatory purposes**	29,839.2	29,182.8	325.7	330.7

4.3 UK LI3 – Outline of the differences in the scopes of consolidation (entity by entity)

There are no differences in the scope of accounting or regulatory consolidation methods. Therefore, the Group has not disclosed this template.

4.4 UK LIA – Explanations of differences between accounting and regulator exposure amounts

(a) Differences between columns (a) and (b) in template UK LI1 (Article 436(b) CRR)

There are no differences between column (a) and column (b) in template LI1.

(b) Qualitative information on the main sources of differences between the accounting and regulatory scope of consolidation shown in template UK LI2 (Article 436(d) CRR)

The differences shown in template LI2 are due to the COVID-19 transitional arrangements, the application of credit conversion factors to loan commitments and the counterparty credit risk calculation methodology for interest rate swaps.

4.5 UK LIB – Other qualitative information on the scope of application

(a) Impediment to the prompt transfer of own funds or to the repayment of liabilities within the group (Article 436(f) CRR)

Management do not see any practical or legal impediment to the prompt transfer of own funds or the repayment of liabilities within the Group.

(b) Subsidiaries not included in the consolidation with own funds less than required (Article 436(g) CRR)

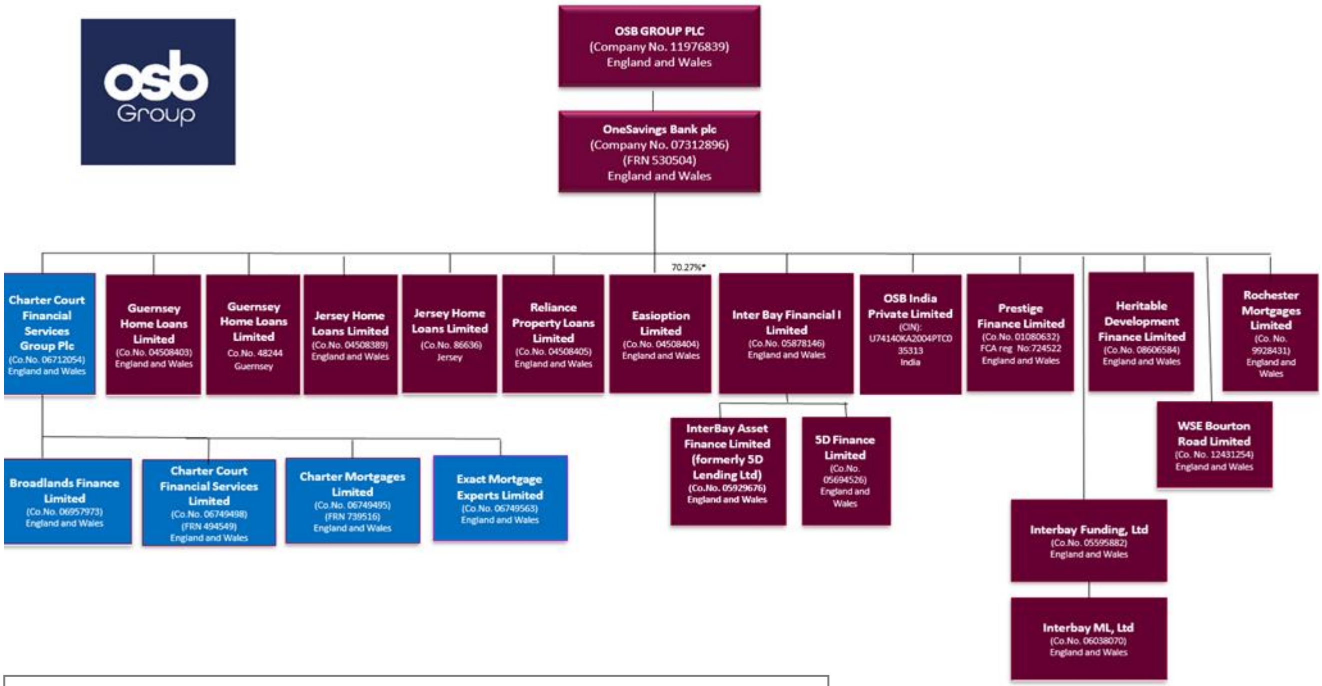
All subsidiaries are included in the Group consolidation.

(c) Use of derogation referred to in Article 7 CRR or individual consolidation method laid down in Article 9 CRR (Article 436(h) CRR)

The Group and its two banking entities are required to calculate and maintain capital on a consolidated basis as well on an individual basis. On a Group basis the derogations referred to in Article 7 or Article 9 CRR are not applied, however OSB makes use of Article 9 CRR where the PRA has granted the firm permission to incorporate in the calculation of its requirement under Article 6(1) of the CRR the undertakings listed below:

- Jersey Home Loans Limited (incorporated in England and Wales)
- Jersey Home Loans Limited (incorporated in Jersey)
- Guernsey Home Loans Limited (incorporated in England and Wales)
- Guernsey Home Loans Limited (incorporated in Guernsey)
- Reliance Property Loans Limited (incorporated in England and Wales)
- 5D Finance Limited (incorporated in England and Wales)
- InterBay Asset Finance Ltd (incorporated in England and Wales)
- InterBay Financial I Limited (incorporated in England and Wales)
- InterBay Funding, Ltd (incorporated in England and Wales)
- InterBay ML, Ltd (incorporated in England and Wales)
- Prestige Finance Limited (incorporated in England and Wales)
- Heritable Development Finance Limited (incorporated in England and Wales)

Group structure as at 31 December 2023



Interbay Group Holdings Limited (08068042), Interbay Holdings Ltd (05878379) and InterBay Financial II Limited (06672384) were dissolved on 24 October 2023

*100% shareholding unless otherwise stated.
Additional shareholders:

- Easioption Limited 29.72% /Reliance Property Loan Limited 0.01%

(d) Aggregate amount by which the actual own funds are less than required in all subsidiaries that are not included in the consolidation (Article 436(g) CRR)

Not applicable to the Group.

4.6 UK PV1 Prudent valuation adjustments (PVA)

Not applicable to the Group. The Group calculates PVA under the simplified approach.

5. Annex VII | Own funds

5.1 UK CC1 – Composition of regulatory own funds

The table below provides detail on the composition of the Group's regulatory own funds capital position.

		a	b
£m		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 (CET1) capital: Instruments and reserves			
1	Capital instruments and the related share premium accounts	7.7	
	of which: fully paid up capital instruments	3.9	(d)
	of which: share premium	3.8	(e)
2	Retained earnings	3,244.5	(f)
3	Accumulated other comprehensive income (and other reserves)	(1,343.4)	(g)
UK 5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	1,908.8	
Common Equity Tier 1 (CET 1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(0.5)	
8	Intangible assets (negative amount)	(26.1)	(b)
10	Deferred tax asset that rely on future profitability (negative amount)	(0.3)	(a)
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	23.8	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	(3.1)	
29	**Common Equity Tier 1 Capital**	1,905.7	
Additional Tier 1 (AT1) capital: Instruments			
30	Capital instruments and the related share premium accounts	150.0	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	(f)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	150.0	
Additional Tier 1 (AT1) capital: regulatory adjustments			
44	**Additional Tier 1 (AT1) capital**	150.0	
45	**Tier 1 capital (T1 = CET1 + AT1)**	2,055.7	
Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	250.0	(c)
51	**Tier 2 (T2) capital before regulatory adjustments**	250.0	
Tier 2 (T2) capital: regulatory adjustments			
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	
58	**Tier 2 (T2) capital**	250.0	
59	**Total capital (TC = T1 + T2)**	2,305.7	
60	**Total Risk exposure amount**	11,845.6	
	Capital Ratio and Buffers	-	
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.1	
62	Tier 1 (as a percentage of total risk exposure amount)	17.4	
63	Total capital (as a percentage of total risk exposure amount)	19.5	
64	Institution CET1 overall capital requirement[5]	9.8	
65	of which: capital conservation buffer requirement	2.5	

[5] Institutions CET1 overall capital requirement (CET1 requirement in accordance with article 92.1(a) CRR, plus additional CET1 requirement in accordance with Article 104.1(a) CRD, plus combined buffer requirement in accordance with Article 128.6 CRD) expressed as a percentage of RWEA.

66	of which: countercyclical buffer requirement	2.0	
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)** [6]	10.0	
Amounts below the threshold for deduction (before risk weighting)			
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	3.3	
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	3.6	

5.2 UK CC2 - Reconciliation of regulatory own funds to balance sheet in the audited financial statements

		a	c
£m		**Balance sheet as in published financial statements and under regulatory scope of consolidation**	**Reference**
Assets - Breakdown by asset class according to the balance sheet in the published financial statements			
1	Cash in hand	0.4	
2	Loans & advances to credit Institutions	2,813.6	
3	Investment securities	621.7	
4	Loans and advances to customers	25,765.0	
5	Fair value adjustment on hedged assets	(243.5)	
6	Derivative assets	530.6	
7	Other assets	27.6	
8	Current taxation asset	0.6	
9	Deferred taxation asset	3.9	(a)
10	Property, plant and equipment	43.8	
11	Intangible assets	26.1	(b)
12	**Total Assets**	29,589.8	
Liabilities - Breakdown by liability class according to the balance sheet in the published financial statements			
1	Amounts owed to credit institutions	3,575.0	
2	Amounts owed to retail depositors	22,126.6	
3	Fair value adjustment on hedged liabilities	21.9	
4	Amounts owed to other customers	63.3	
5	Debt securities in issue	199.9	
6	Derivative liabilities	818.5	
7	Lease liabilities	11.2	
8	Other liabilities	39.6	
9	Provisions	0.8	
10	Deferred taxation liability	6.3	
11	Senior notes	307.5	
12	Subordinated liabilities	259.5	
	Of which Tier 2	250.0	(c)
13	Perpetual subordinated bonds	15.2	
14	**Total Liabilities**	27,445.3	
Shareholders' equity			
1	Share capital	3.9	(d)
2	Share premium	3.8	(e)
3	Other equity instruments	150.0	
3	Retained earnings	3,330.2	(f)
4	Other reserves	(1,343.4)	(g)
5	**Total shareholders' equity**	2,144.5	

[6] CET 1 available to meet buffers expressed as a percentage of RWA (Available CET 1, less CET 1 capital requirements in accordance with Article 92.1(a) CRR and Article 104.1(a) CRD and less any CET 1 items used to meet additional Tier 1 and Tier 2 capital requirements).

5.3 UK CCA – Main features of regulatory own funds instruments and eligible liabilities instruments

The table below details the main features of the Group's regulatory own funds instruments.

Ref	Capital instruments main features	CET1	AT1	Tier 2	Senior unsecured
1	Issuer	OSB GROUP PLC	OSB GROUP PLC	OSB GROUP PLC	OSB GROUP PLC
2	Unique Identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	GB00BLDRH360	XS2391408072	XS2613354922	XS2642668821
2a	Public or private placement	Public	Public	Public	Public
3	Governing law(s) of the instrument	English law	English law	English law	English law
3a	Contractual recognition of write-down and conversion powers of resolution authorities	n/a	Yes	Yes	Yes
Regulatory treatment					
4	Current treatment taking into account, where applicable, transitional CRR rules	CET1	Additional Tier 1	Tier 2	n/a
5	Post-transitional CRR rules	CET1	Additional Tier 1	Tier 2	n/a
6	Eligible at solo/(sub-)consolidated/solo and (sub-)consolidated	Consolidated	Consolidated	Consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Additional Tier 1 Instruments	Tier 2 Instruments	Senior Unsecured
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	GBP 3,931,867[7]	GBP 150,000,000	GBP 250,000,000	GBP 300,000,000
9	Nominal amount of instrument	GBP 0.01	GBP 150,000,000	GBP 250,000,000	GBP 300,000,000
UK-9a	Issue price	100%	100%	100%	100%
UK 9b	Redemption price	n/a	100%	100%	100%
10	Accounting classification	Shareholders' Equity	Shareholders' Equity	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	26 February 2021[8]	7 October 2021	27 April 2023	7 September 2023
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	No maturity	No maturity	27 July 2033	7 September 2028
14	Issuer call subject to prior supervisory approval	No	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	No	Optional Call Date – any date from (and including) 7 October 2026 to (and including) 7 April 2027 Regulatory Call – Yes	Optional Call Date – any date from (and including) 27 April 2028 to (and including) 27 July 2028	Optional Call Date – 7 September 2027 Regulatory Call – No Loss Absorption Disq Call – Yes

[7] Ordinary shares excluding share premium

[8] This is the date of the first issuance of shares with a nominal value of £0.01. This followed the reduction of nominal value from £3.04 to £0.01 on 26 February 2021. Further shares have been issued from time to time since that date

Ref	Capital instruments main features	CET1	AT1	Tier 2	Senior unsecured
			Tax Call – Yes Redemption Price – 100%	Regulatory Call – Yes Tax Call – Yes Redemption Price – 100%	Tax Call – Yes Redemption Price – 100%
16	Subsequent call dates if applicable	n/a	7 April 2032 and every 5 years thereafter	n/a	n/a
	Coupons / dividends				
17	Fixed or floating dividend/coupon	n/a	Fixed	Fixed	Fixed
18	Coupon rate and any related index	n/a	6% per annum until 7 April 2027. Resets to a fixed rate equal to the 5-year Benchmark Gilt Rate + 5.393% if not called	9.993% per annum until 27 July 2028. Resets to a fixed rate equal to the 5-year Benchmark Gilt Rate + 6.296% if not called	9.500% per annum until 7 September 2027. Resets to a fixed rate equal to the 1-year Benchmark Gilt Rate + 4.985% if not called
19	Existence of a dividend stopper	No	No	No	No
UK-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Mandatory	Mandatory
UK-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No
22	Noncumulative or cumulative	Non-Cumulative	Non-Cumulative	n/a	n/a
23	Convertible or non-convertible	Non-Convertible	Convertible	Convertible (Statutory/bail-in only)	Convertible (Statutory/bail-in only)
24	If convertible, conversion trigger(s)	n/a	Contractual, if the Group's fully loaded CET1 falls below 7% Statutory conversion or bail-in by the UK Resolution Authority	Statutory conversion or bail-in by the UK Resolution Authority	Statutory conversion or bail-in by the UK Resolution Authority
25	If convertible, fully or partially	n/a	Fully	n/a	n/a
26	If convertible, conversion rate	n/a	£3.1247 subject to certain anti-dilution adjustments.	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	Mandatory	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	Common Equity Tier 1	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	OSB GROUP PLC	n/a	n/a
30	Write down features	No	Yes (Statutory / Bail in only)	Yes (Statutory / Bail in only)	Yes (Statutory / Bail in only)
31	If write-down, write-down trigger(s)	n/a	Statutory write-down or bail-in by the UK Resolution Authority	Statutory write-down or bail-in by	Statutory write-down or bail-in by the UK Resolution Authority

Ref	Capital instruments main features	CET1	AT1	Tier 2	Senior unsecured
				the UK Resolution Authority	
32	If write-down, full or partial	n/a	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a
34a	Type of subordination (only for eligible liabilities)	n/a	n/a	Structural	Structural
UK-34b	Ranking of the position in normal insolvency proceedings	Common Equity Tier 1 – subordinate to Additional Tier 1, Tier 2 and senior unsecured.	Additional Tier 1	Tier 2	Senior Unsecured
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Immediately subordinate to Additional Tier 1	Tier 2	Senior Unsecured	N/A
36	Non-compliant transitioned features	No	No	No	No
37	If yes specify non-compliant features	n/a	n/a	n/a	n/a
37a	Link to full terms and conditions of the instrument (signposting)	n/a	Link	Link	Link

6. Annex IX | Countercyclical capital buffers

6.1 UK CCyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

		A	b	c	d	e	f	g	h	i
		General credit exposure	Securitisation exposures		Own Funds Requirements					
£m		Exposure Value under Standardised Approach	Exposure value (for non-trading book)	Total exposure value	Relevant credit risk exposures – credit risk	Relevant credit exposures – Securitisation in the non-trading book	Total	Risk weighted exposure amounts	Own Funds requirements weights (%)	CCyB rate (%)
010	Breakdown by country									
	United Kingdom	25,367.6	325.7	25,693.3	860.9	3.1	864.0	10,800.5	99.5	2.0
	Other	83.8	-	83.8	4.2	-	4.2	52.2	0.5	-
020	**Total**	25,451.4	325.7	25,777.1	865.1	3.1	868.2	10,852.7	100.0	

6.2 UK CCyB2 – Amount of Institution specific countercyclical capital buffer

		a	b
£m		31 Dec 23	30 Jun 23
1	Total risk exposure amount	11,845.6	11,353.9
2	Institution specific countercyclical capital buffer rate (%)	2.0	1.0
3	Institution specific countercyclical capital buffer requirement	234.8	111.3

7. Annex XI | Leverage ratio

7.1 UK LR1 – LRSum: Summary reconciliation of assets and leverage ratio exposure

£m		a
		31 Dec 23
1	**Total Assets per published financial statements**	29,589.8
4	Adjustment for the exemption of exposures to central banks	(2,250.0)
8	Adjustments for derivative financial instruments	(179.8)
9	Adjustments for securities financing transactions (SFTs)	-
10	Adjustment for off-balance sheet items	185.0
12	Other Adjustments	93.8
13	**Total exposure measure**	27,438.8

7.2 UK LR2 – LRCom Leverage ratio common disclosures

£m	Leverage ratio common disclosures	a 31 Dec 23	b 30 Jun 23
On balance sheet exposures (excluding derivatives and SFTs)			
1	On balance sheet items (excluding derivatives, SFTs, but including collateral)	29,257.1	28,245.8
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(General credit risk adjustments to on-balance sheet items)	-	-
6	(Assets amounts deducted in determining Tier 1 Capital)	(3.0)	8.4
7	**Total on balance sheet exposures (excluding derivatives and SFTs)**	29,254.2	28,254.2
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	165.4	349.5
UK-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	-	-
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	84.3	82.5
UK-9b	Exposure determined under the original exposure method	-	-
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	-	-
UK-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	-	-
UK-10b	(Exempted CCP leg of client-cleared trade exposures) (original exposure method)	-	-
13	**Total derivative exposures**	249.7	432.1
Securities financing transactions (SFT) exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	7.5
16	Counterparty credit risk exposure for SFT assets	-	5.9
UK-16a	Derogation for SFTs: counterparty credit risk exposure in accordance with Articles 429e(5) and 222 of the CRR	-	-
18	**Total securities financing transaction exposures**		13.4
Other off balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	999.5	1,112.9
20	(Adjustments for conversion to credit equivalent amounts)	(814.5)	(906.6)
21	(General provisions deducted in determining tier 1 capital (leverage) and specific provisions associated with off-balance sheet exposures)	-	-
22	**Total off balance sheet exposures**	185.0	206.3
Excluded exposures			
UK-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)	-	-

UK-22b	(Exposures exempted in accordance with point (j) of Article 429a(1) of the CRR (on- and off- balance sheet))	-	-
UK-22k	**Total exempted exposures**	-	-
Capital and total exposure measure			
23	**Tier 1 Capital (leverage)**	2,055.7	1,928.5
24	Total exposure measure including claims on central banks	29,688.8	28,905.9
UK-24a	(-) Claims on central banks excluded	(2,250.0)	(3,040.5)
UK-24b	**Total exposure measure excluding claims on central banks**	27,438.8	25,865.4
Leverage ratio			
25	Leverage ratio excluding claims on central banks (%)	7.5	7.5
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	7.4	7.3
UK-25b	Leverage ratio excluding central bank reserves as if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income had not been applied (%)	7.5	7.5
UK-25c	Leverage ratio including claims on central banks (%)	7.0	6.7

7.3 UK LR3 – LRSpl: Split of on balance sheet exposures (excluding derivatives, SFT and exempted exposures

		a
		Leverage ratio exposures
£m	**Split of On Balance Sheet Exposures**	**31 Dec 23**
UK-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	29,257.1
UK-3	Banking book exposures, of which:	29,257.1
UK-5	Exposures treated as sovereigns	2,636.6
UK-7	Institutions	271.4
UK-8	Secured by mortgages of immovable properties	24,767.7
UK-9	Retail exposures	207.2
UK-10	Corporates	1.7
UK-11	Exposures in default	716.9
UK-12	Other Exposures (e.g. equity, securitisation, and other non-credit obligation assets)	655.5

7.4 UK LRA Description of LR qualitative information

(a) Description of the processes used to manage the risk of excessive leverage (Point (d) of Article 451(1))

The Group’s balance sheet predominantly relates to mortgage lending activities resulting in a low risk of large, unexpected movements in the leverage exposure measure.

In 2021, the PRA issued PS21/21 the UK Leverage ratio framework that set out the expectations that all firms not in scope of the leverage ratio capital requirement should manage their leverage risk such that their leverage ratio does not fall below 3.25%.

The Board recognises the importance of managing leverage which forms an essential part of capital planning and risk management. At 31 December 2023, the Group had a leverage ratio excluding claims on central banks of 7.5% (2022: 8.4%). The Group manages and plans to maintain capital in excess of the 3.25% minimum requirement throughout its forecast horizon. Furthermore, it monitors its leverage ratio relative to its regulatory requirements, internal requirements as well as its peer group and the broader sector in which it operates.

The Group's capital plan and risk appetite statements set out the internal leverage ratio limits, targets, notification points, decisions, and action plans, including supporting forecasts and stress scenarios that the Group manages to remain in compliance at all times. The Group's ERMF sets out the governance framework for the management of the leverage ratio. Changes to the policy are initially considered by the Group Risk Committee before being approved by the Board. The Group's ALCO provides oversight and monitors the Group's compliance with the capital plan and risk appetite policy on an ongoing basis.

(b) Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers (Point (e) of Article 451 (1))

The Group's leverage ratio excluding claims on central banks decreased from 8.4% as at 31 December 2022 to 7.5% as at 31 December 2023. The movement in the leverage ratio is driven by a decrease in the numerator and an increase in the denominator of the ratio with Tier 1 capital decreasing by £15.0m along with an increase of £2,597.9m in the total leverage exposure measure excluding claims on central banks.

Tier 1 capital remained strong, although reduced due to lower profitability in the year as a result of the adverse EIR adjustment, loan book growth, foreseeable and paid dividends and the impact of the £150m share repurchase programme completed in 2023. The increase in the leverage exposure measure excluding claims on central banks is predominantly driven by loan book.

8. Annex XIII | Liquidity requirements

8.1 UK LIQA – Liquidity risk management

(a) Strategies and processes in the management of the liquidity risk, including policies on diversification in the sources and tenor of planned funding

The Group adopts a thorough approach to risk management ensuring the effective identification, assessment, monitoring and management of all risks as defined by the ERMF.

Liquidity and funding risk is a principal risk included within the ERMF.

The ERMF ensures that internal and external expectations (including the PRA Rulebook and BCBS Principles for Sound Liquidity Risk Management and Supervision) are met and liquidity usage is optimised. This includes the reporting of metrics including the LCR, Net Stable Funding Ratio (NSFR) and internal stress test scenarios.

A set of standard operating procedures sit below the policies. These are a formal set of instructions to be followed when executing an analytical or reporting process.

In addition to the LCR, NSFR and internal stress scenarios, the Group manages within a Board-approved risk appetite framework which sets limits around the concentration of certain sources of funding and the tenor of that funding. Any planned funding is measured against these limits to ensure funding sources remain well diversified.

(b) Structure and organisation of the liquidity risk management function (authority, statute, other arrangements)

The Market and Liquidity Risk Policy articulates how the Group manages funding and liquidity risk and is developed based on the principles, structure and ethos of the ERMF.

Submission of the ILAAP is a key regulatory requirement and is underpinned by the liquidity risk governance structures in place across both banks, in conjunction with reporting how the liquidity and funding profile influences the liquidity requirements of both OSB and CCFSL.

The Group utilises a hierarchical committee structure to oversee and manage market and liquidity risk. Key decisions are reviewed and challenged at Board and relevant Committees, including the Group Risk Committee and ALCO. ALCO delegates the day-to-day monitoring of the liquidity and funding position of the Group to the Liquidity Working Group (LWG).

(c) A description of the degree of centralisation of liquidity management and interaction between the group's units

Liquidity Risk management is carried out at a solo bank level and across the wider Group. OSB and CCFSL hold individual HQLA portfolios and liquidity risk appetites. Risk appetite is also set at Group level for some key metrics.

(d) Scope and nature of liquidity risk reporting and measurement systems

Regular and accurate liquidity risk management information and analytics are produced in order to assist the Board, Senior Management and external parties in understanding the risk to which the Group is exposed, and providing confirmation that the Group is operating within its market and liquidity risk limits.

- **Cash flow forecasting:** Daily cash flow forecasting to ensure OSB and CCFSL will continue to meet risk appetite and regulatory requirements.
- **Advances, redemptions and rollovers:** The Group models expected fixed rate savings rollovers and mortgage advances and redemptions based on historical information, seasonality and key future events such as repricing periods and reversion to SVR. Advances, redemptions and rollovers are monitored on a weekly basis through the Liquidity Working Group (LWG) and reported monthly to ALCO.
- **Stress Testing:** Stress tests are conducted on a regular basis by the Risk function to identify sources of potential liquidity stress. The stress testing considers the potential impact of institution-specific, market-wide, combined and protracted global alternative scenarios. Different time periods and varying degrees of stressed conditions are considered. Reverse stress testing identifies which event, or sequence of events (scenarios), could potentially lead to OSB or CCFSL becoming unviable.
- **ALCO Reporting:** The Group's key funding and liquidity risk report is the ALCO MI pack, which is reviewed by the Committee on a monthly basis and extracts from the pack are provided to the Group Risk Committee.
- **LWG Reporting:** the LWG pack is prepared weekly to cover detailed funding and liquidity, operational and commercial MI.

(e) Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

The Group's risk appetite and early warning indicators mitigate the liquidity risk by ensuring sufficient levels of liquid assets are maintained and that funding concentration is at an acceptable level. The estimated liquidity position for OSB and CCFSL is projected for at least the next three months on a daily basis. The Group maintains and tests its monetisation channels on a regular basis to ensure non-cash assets can be liquidated in stress.

The Group maintains a variety of contingent funding options to mitigate liquidity risk in times of stress. Positions are monitored daily and must remain within the Board-approved risk appetite.

(f) An outline of the Group's contingency funding plans

The Group's contingency funding plan is embedded into its Recovery Plan (RP). The RP is reviewed and updated annually. The RP depicts the details on:

- The recognition of stress, such as the Early Warning Indicators and the Recovery Triggers;
- The Group's Recovery Options including the hierarchy of use and the Toal Recovery Capacity in stress; and
- Escalation process, communication plans and roles and responsibilities in stress.

(g) An explanation of how stress testing is used.

The Liquidity Risk stress tests are owned by the Group Head of Liquidity Risk. Market and Liquidity Risk run the suite of stress tests on a daily basis, which are then reported and distributed to the Group's liquidity working group; results are also presented to the Group's ALCO on a monthly basis. Results are compared with risk appetite set by Board and any forecast divergence to target is discussed at the Liquidity Working Group, with any strategic management actions to resolve any shortfalls presented to ALCO for approval.

In addition, the Group identifies a range of catastrophic stress scenarios, which could result in the failure of its current business model. Business model failure scenarios (reverse stress tests) are primarily used to inform the Board and senior management of the outer limits of the Group's risk profile.

(h) A declaration approved by the management body on the adequacy of liquidity risk management arrangements of the institution providing assurance that the liquidity risk management systems put in place are adequate with regard to the institution's profile and strategy

The Board and senior management are confident that the Group is in full compliance with the Overall Liquidity Adequacy Rule (OLAR). The Group's Board-approved ILAAP demonstrates that the Group:

- Has sufficient liquidity, at a point-in-time and on a forward looking basis under a range of scenarios to support its business and achieve its objectives;
- Has a robust corporate and risk governance framework based on the three lines of defence model which fosters a strong risk culture. This includes a clear risk appetite that is monitored on a daily basis and supported by a range of monitoring, metrics and risk assessments;
- Has a set of credible management actions that are available to mitigate funding and liquidity issues;
- Incorporates the cost of funding and liquidity risk into its pricing decisions and
- Has a prudent funding strategy in place to manage the balance sheet and liquidity position over the next five year horizon.

The Board and senior management are confident that the assessment process undertaken to produce the Group ILAAP is comprehensive and robust given the well-established governance processes. The senior management of the Group have a good understanding of the main drivers of funding and liquidity risk and vulnerabilities, the ILAAP and the coherence of the ILAAP with the Group's strategic plans. The Group manages to a conservative risk appetite and funding and liquidity risk is understood by the Group Risk Committee, ALCO and the Treasury, Risk and Savings functions.

(i) A concise liquidity risk statement approved by the management body succinctly describing the institution's overall liquidity risk profile associated with the business strategy

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

The Group manages liquidity risk within a Board-approved framework of risk appetite limits, which are set at Group and individual OSB and CCFSL level. Level 1 limits ensure overall liquidity adequacy linked to LCR and ILAAP stresses as well as NSFR, whilst Level 2 limits are set to manage more granular metrics to manage funding concentration (for example single counterparty and maturity profile) and asset encumbrance.

8.2 UK LIQ1 – Quantitative information of LCR

		a	b	c	d	e	f	g	h
£m		**Total unweighted value (average)**				**Total weighted value (average)**			
UK1a	Quarter ending on (DD Month YYY)	31 Dec 23	30 Sep 23	30 Jun 23	31 Mar 23	31 Dec 23	30 Sep 23	30 Jun 23	31 Mar 23
UK1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	**Total high-quality liquid assets (HQLA)**					3,078.0	3,033.2	2,986.5	2,923.3
CASH – OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	19,264.8	18,684.4	18,018.0	17,404.7	895.3	845.4	797.0	766.6
3	*Stable deposits*	4,924.8	4,769.6	4,721.5	4,676.4	246.2	238.5	236.1	233.8
4	*Less stable deposits*	4,760.5	4,450.6	4,063.2	3,741.9	606.7	561.9	514.5	475.1
5	Unsecured wholesale funding	571.7	592.5	590.6	535.6	228.5	236.8	236.1	214.1
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	571.7	592.4	590.6	535.6	228.5	236.8	236.1	214.1
8	*Unsecured debt*	-	-	-	-	-	-	-	-
9	Secured wholesale funding					21.1	20.3	23.2	20.1
10	Additional requirements	365.1	361.9	329.8	275.7	365.1	361.9	329.8	275.7
11	*Outflows related to derivative exposures and other collateral requirements*	365.1	361.9	329.8	275.7	365.1	361.9	329.8	275.7
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	-	-	-	-	-	-	-	-
14	Other contractual funding obligations	25.7	25.9	27.8	27.9	1.7	-	-	-
15	Other contingent funding obligations	924.0	1,022.3	1,142.4	1,206.5	335.5	377.6	423.3	449.7
16	**TOTAL CASH OUTFLOWS**					1,847.2	1,842.0	1,809.4	1,726.2
CASH – INFLOWS									
17	Secured lending (e.g. reverse repos)	7.8	7.8	7.8	21.0	0.0	0.0	0.0	0.0
18	Inflows from fully performing exposures	218.6	209.1	192.7	184.1	205.7	197.8	174.7	153.8
19	Other cash inflows	75.9	64.0	52.0	18.9	75.9	64.0	52.0	18.9
UK19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
UK19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	**TOTAL CASH INFLOWS**	302.3	281.0	252.6	224.0	281.6	261.8	226.7	172.7
UK20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
UK20b	*Inflows subject to 90% cap*	-	-	-	-	-	-	-	-
UK20c	*Inflows subject to 75% cap*	302.3	281.0	252.6	224.0	281.6	261.8	226.7	172.7
TOTAL ADJUSTED VALUE									
UK21	Liquidity buffer					3,078.0	3,033.2	2,986.5	2,923.3
22	Total net cash outflows					1,565.6	1,580.2	1,582.7	1,553.5
23	**Liquidity coverage ratio (%)**					197.1	192.7	189.9	189.2

8.3 UK LIQB Qualitative information on LCR, which complements template UK LIQ1

(a) Explanations on the main drivers of LCR results and the evolution of the contribution of inputs to the LCR's calculation over time

The Group's business model centres on lending to retail and SME customers including professional landlords, which are predominantly funded by retail savings products. Consequently, the main drivers of LCR results are retail deposit outflows and mortgage pipeline outflows, offset by mortgage repayments. The changes in the LCR over time are predominantly driven by changes in the levels and remaining term of retail savings deposits held within OSB and CCFSL impacting the size of outflows, and also the Liquidity Buffer, and by changes in the levels of mortgage pipeline and net lending flows. Due to the increased volatility of swap markets, the Group's swap margin requirement contribution in the LCR calculation has increased over time. This is calculated under the Historic Look Back Approach.

(b) Explanations on the changes in the LCR over time

During 2023, the Group 12-month average LCR increased quarter on quarter. This is primarily driven by the increase in HQLA, increased contractual mortgage repayments and reduced mortgage pipeline requirements, offset by increased retail savings and swap margin requirements.

(c) Explanations on the actual concentration of funding sources

In addition to the regulatory Additional Liquidity Monitoring Metrics (ALMM), the Group ensures that funding diversification is measured on a regular basis, paying particular attention to the split between sources of funding (retail, wholesale, central bank facilities, etc.) and any concentrations by maturity, customer and product type in its internal risk metrics. These monitoring metrics are reported on a regular basis and escalated to the appropriate levels for review. The Group's main source of funding is from retail depositors and is therefore considered well diversified. Internal risk appetite limits are set to limit the level of individual depositor balances to reduce concentration risk.

(d) High-level description of the composition of the institution`s liquidity buffer.

The Group and the individual OSB and CCFSL liquidity buffers are mainly comprised of central bank reserves, as well as HQLA eligible government securities and Residential Mortgage Backed Securities (RMBS). In addition to HQLA eligible instruments, each entity holds RMBS (internally issued or third party) which can be used in a stress to generate liquidity and to which an element of value is given as part of their ILAAP assessments.

(e) Derivative exposures and potential collateral calls

The Group maintains the capability to value all derivative trades as often as necessary and at least daily. Margin calls are assessed and made in line with the contractual terms and standard market practices. The Group also considers the impact of external factors on its derivative margin and looks at the impact of shifts in the yield curve.

(f) Currency mismatch in the LCR

Due to the simple nature of the Group's balance sheet, currency mismatch does not pose a material risk.

(g) Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile

In its ILAAP, the Group has taken into consideration a range of risk factors that may not be captured by the regulatory LCR disclosure. As defined in its ILAAP document, these include; Intraday Liquidity Risk, Off Balance Sheet Risk, Concentration & Correlation Risk, and Liquid Asset Buffer Monetisation.

8.4 UK LIQ2 – Net stable funding

		a	b	c	d	e
£m		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	1,914.5			187.5	2,102.0
2	*Own funds*	1,914.5	-	-	187.5	2,102.0
3	*Other capital instruments*		-	-	-	-
4	Retail deposits		13,697.0	3,689.2	1,830.4	17,880.9
5	*Stable deposits*		6,449.3	1,608.6	756.3	8,411.4
6	*Less stable deposits*		7,247.7	2,080.5	1,074.1	9,469.5
7	Wholesale funding:		1,483.2	594.8	4,627.7	5,596.9
8	*Operational deposits*		-	-	-	-
9	*Other wholesale funding*		1,483.2	594.8	4,627.7	5,596.9
10	Interdependent liabilities					
11	Other liabilities:		289.3		507.2	507.2
12	*NSFR derivative liabilities*	-				
13	*All other liabilities and capital instruments not included in the above categories*		289.3	-	507.2	507.2
14	**Total available stable funding (ASF)**					26,087.0
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					118.3
UK-15a	Assets encumbered for more than 12m in cover pool					
16	Deposits held at other financial institutions for operational purposes		64.2			32.1
17	Performing loans and securities:		670.3	673.8	23,992.9	19,092.8
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		-	-	-	-
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		35.6	-	76.0	79.5
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		175.6	129.3	1,340.7	1,292.0
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		-	-	-	-
22	*Performing residential mortgages, of which:*		458.1	519.3	22,445.8	17,597.2
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		393.1	478.8	21,959.8	17,116.4
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		1.0	25.2	130.5	124.0
25	Interdependent assets					
26	Other assets:		271.4		96.2	349.8
27	*Physical traded commodities*				-	-
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		118.1	-	-	100.4

29	*NSFR derivative assets*		153.3	-	-	153.3
30	*NSFR derivative liabilities before deduction of variation margin posted*		-	-	-	-
31	*All other assets not included in the above categories*		-	-	96.2	96.2
32	Off-balance sheet items		910.2	-	-	45.5
33	**Total RSF**					19,638.6
34	**Net Stable Funding Ratio (%)**					132.8

9. Annex XV | Credit risk and credit quality

9.1 UK CRA – General qualitative information about credit risk

(a) In the concise risk statement in accordance with point (f) of Article 435(1) CRR, how the business model translates into the components of the institution's credit risk profile.

The Group's credit risk strategy is aligned to the Group's business model. The Group aims to continually enhance its credit risk management capabilities ensuring that it acts as a responsible lender and is attuned to the needs of the customer.

A robust framework of governance and controls ensures credit risk taking is based on sound credit risk management practices across its segments with responsible provision of credit through an appropriate assessment of affordability and credit worthiness of customers.

Credit risks can emerge due to changes in customer profiles or a downturn in the general macro-environment. Credit risk monitoring, analytics, and credit strategies across the customer lifecycle, detailed within policy and rigorously governed by the three lines of defence model, ensures performance remains in line with expectations and appetite.

(b) Strategies and processes to manage credit risk and the policies for hedging and mitigating that risk in accordance with points (a) and (d) of Article 435(1) CRR, the criteria and approach used for defining the credit risk management policy and for setting credit risk limits in accordance with points (a) and (d) of Article 435(1) CRR.

The Group's Credit Risk Management Framework, reviewed and approved annually, articulates how the Group identifies, assesses, monitors and manages the credit risks which it faces within each banking entity and subsequent subsidiaries. The risk appetite component of this framework sets out the level of risk taking that the Board is willing to accept in relation to credit risk for the Group, and the OSB and CCFSL solo banking entities.

The Group has an established Risk Appetite Framework in place with a clear linkage between strategy and appetite, ensuring that the setting and monitoring of risk appetite is embedded within the business. The risk appetite statements and limits articulate the level of risk which the Board is willing to accept, ensuring the safety and financial soundness of the Group, which in turn drives business strategy and financial objectives.

Credit Risk Policy is defined through the Group's suite of Lending, Arrears & Forbearance, and other supporting policies, with fulfilment through decision processes considering borrower affordability / rental coverage, credit scores and policy rules.

Credit risk quality is monitored throughout the life of the loan using up to date behavioural data and forward-looking indicators.

(c) The structure and organisation of the credit risk management and control function in accordance with point (b) of Article 435(1) CRR

The Board delegates responsibility to the Group Risk Committee, for oversight of the Group's risk appetite, risk monitoring, provisioning and capital and liquidity management. The primary objectives of the Group Risk Committee are therefore to provide oversight and advice to the Board on current risk exposures and future risk strategy and assist the Board to foster a culture within the Group that emphasises and demonstrates the benefits of a risk based approach to internal control and management of the Group.

The Group Risk Committee's primary responsibilities in respect to credit risk management are:

- The Group establishes appropriate methods for measuring its risk appetite;
- Adequate capital is maintained for the Group's risk exposures, both to ensure regulatory compliance and the achievement of its strategic objectives;
- The Group's current and proposed credit risk activities are reviewed against its risk appetite and capital budgets;
- Appropriate sub-committees and associated governance structures are established and monitored, including the Group Credit Committee and Transactional Credit Committee;
- Review of credit risk reports which detail the performance of the Group's credit profile performance; and
- Oversight of provisioning methodologies, judgements and estimates ensuring appropriateness, together with the Group Audit Committee.

The Group Credit Committee oversees, monitors and manages the credit profile of the Group, within the confines of the Board risk appetite limits.

A Transactional Credit Committee will be convened where there is a need to approve a specific case outside the mandate of the underwriters (either a value or exception mandate).

(d) The relationships between credit risk management, risk control, compliance and internal audit functions in accordance with point (b) of Article 435(1) CRR

The Credit Risk Management Framework clearly defines the roles and responsibilities for the management of credit risk. The Group adopts the 3 lines of defence model in respect of credit risk management activities ensuring that the roles and responsibilities are communicated and widely understood:

The first Line is responsible for the day-to-day management of risk and control.

The second line has responsibility to ensure that: 1) effective risk systems, controls and a clear articulation of the Group risk appetite is embedded throughout the business; 2) effective monitoring mechanisms are in place and issues are escalated in a timely manner; 3) the Group continues to adhere to all prudential, compliance and other regulatory requirements; and 4) there is independent oversight, assurance and advisory activity with respect to credit risk activity across the Group.

The third line provides objective assurance that risk and control arrangements implemented by the first and second lines of defence are appropriate and are being executed as prescribed.

9.2 UK CRB – Additional disclosure related to the credit quality of assets

(a) The scope and definitions of 'past-due' and 'impaired' exposures used for accounting purposes and the differences, if any, between the definitions of past due and default for accounting and regulatory purposes

	Definition
Past Due	A loan is defined as past due when the borrower fails to make a payment under the contractual terms of the loan agreement.
Impaired	If the present value of estimated future cash flows discounted at the original Effective Interest Rate (EIR) is less than the carrying value of the loan, a provision is recognised for the difference. Such loans are classified as impaired.
Default or Non-Performing	A loan is defined as in Default or Non-Performing when it meets one or more of the following criteria: • The rebuttable presumption that more than 90 days past due is an indicator of default. The Group has not rebutted this presumption and therefore deems more than 90 days past due as an indicator of default. • The Group has also deemed it appropriate to classify accounts that have moved into an unlikely to pay position, which includes forbearance, bankruptcy, repossession and interest-only term expiry.
Performing	A loan is defined as Performing when it does not meet the criteria of a Non-Performing loan.

(b) The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.

The Group does not have any past due exposures more than 90 days that are not considered to be impaired.

(c) Description of methods used for determining general and specific credit risk adjustments

Loans and advances to customers

The Group uses the IFRS 9 three stage Expected Credit Loss (ECL) approach for measuring impairment. The three impairment stages under IFRS 9 are as follows:

	Definition
Stage 1	Entities are required to recognise a 12-month ECL allowance where there is no significant increase in credit risk (SICR), initial recognition.
Stage 2	A lifetime loss allowance is held for assets where a SICR is identified since initial recognition. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period for the life of the loan.
Stage 3	Requires objective evidence that an asset is credit impaired, at which point a lifetime ECL allowance is required.

Further information on ECL can be found in the ARA.

(d) The institution's own definition of a restructured exposure used for the implementation of point (d) of Article 178(3) CRR specified by the European Banking Authority (EBA) Guidelines on default in accordance with Article 178 CRR when different from the definition of forborne exposure defined in Annex V to Commission Implementing Regulation (EU) 680/2014.

The Group considers the forbearance measure in conjunction with the impact on cash flow expectations for the purpose of regulatory and statutory default.

9.3 UK CR1 – Performing and non-performing exposures and related provisions

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures– accumulated				On performing exposures	On non-performing exposures
£m			Stage 1	Stage 2		Stage 2	Stage 3		Stage 1	Stage 2		Stage 2	Stage 3			
5	Cash balances at central banks and other demand deposits	2,372.5	2,372.5	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Loans and advances	25,555.4	21,017.9	4,524.3	796.5	13.4	709.8	(77.0)	(22.4)	(54.2)	(68.8)	(0.1)	(66.7)		24,815.5	726.0
20	*Central banks*	69.6	69.6	-	-	-	-	-	-	-	-	-	-	-	-	-
40	*Credit institutions*	371.4	371.4	-	-	-	-	-	-	-	-	-	-	-	-	-
60	*Non-financial corporations*	11,524.4	10,036.7	1,487.7	188.5	0.9	187.3	(36.2)	(14.0)	(21.9)	(30.5)	-	(30.4)	-	11,284.7	156.4
70	*Of which SMEs*	11,236.1	9,748.4	1,487.7	166.6	0.9	165.4	(35.8)	(13.9)	(21.9)	(26.6)	-	(26.5)	-	10,997.7	138.4
80	*Households*	13,589.9	10,540.1	3,036.6	608.0	12.5	522.5	(40.8)	(8.4)	(32.3)	(38.3)	(0.1)	(36.3)	-	13,530.8	569.7
90	Debt securities	621.7	621.7	-	-	-	-	-	-	-	-	-	-	-	-	-
110	*General governments*	296.0	296.0	-	-	-	-	-	-	-	-	-	-	-	-	-
130	*Other financial corporations*	325.8	325.8	-	-	-	-	-	-	-	-	-	-	-	-	-
150	Off-balance-sheet exposures	999.4	999.4	-	-	-	-	-	-	-	-	-	-		-	-
200	*Non-financial corporations*	595.1	595.1	-	-	-	-	-	-	-	-	-	-		-	-
210	*Households*	404.4	404.4	-	-	-	-	-	-	-	-	-	-		-	-
220	**Total**	29,549.0	25,011.5	4,524.3	796.5	13.4	709.8	(77.0)	(22.4)	(54.2)	(68.8)	(0.1)	(66.7)	-	24,815.5	726.0

9.4 UK CR1-A – Maturity of exposures

		a	b	c	d	e	f
		Net exposure value					
£m		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Loans and advances	251.2	738.4	1,511.9	23,704.6	-	26,206.1
2	Debt securities	-	402.9	218.8	-	-	621.7
3	**Total**	251.2	1,141.3	1,730.7	23,704.6	-	26,827.8

9.5 UK CR2 – Changes in the stock of non-performing loans and advances

Not applicable to the Group due to the non-performing loan ratio being <5%.

9.6 UK CR2a – Changes in the stock of non-performing loans and advances and related net accumulated recoveries

Not applicable to the Group due to the non-performing loan ratio being <5%.

9.7 UK CQ1 – Credit quality of forborne exposures

		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing Forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
£m				Of which defaulted	Of which impaired				
010	Loans and Advances	357.2	315.9	299.6	299.6	(4.4)	(19.7)	648.8	296.2
060	*Non-financial Corporations*	40.7	29.9	28.9	28.9	(0.8)	(6.3)	63.5	23.6
070	*Households*	316.6	286.0	270.7	270.7	(3.6)	(13.5)	585.4	272.5
100	**Total**	357.2	315.9	299.6	299.6	(4.4)	(19.7)	648.8	296.2

9.8 UK CQ2 – Quality of forbearance

Not applicable to the Group due to the non-performing loan ratio being <5%.

9.9 UK CQ3 – Credit quality of performing and non-performing exposures by past due days

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount 2023											
		Performing exposures			Non-performing exposures								
£m			Not past due or past due <30 days	Past due >30 days <90 days		Unlikely to pay that are not past due or are past due <90 days	Past due >90 days <180 days	Past due >180 days <1 year	Past due >1 year <2 years	Past due >2 years <5 years	Past due >5 years <7 years	Past Due > 7 years	Of which Defaulted
005	Cash balances at central bank and other demand deposits	2,372.5	2,372.5	-	-	-	-	-	-	-	-	-	-
010	Loans and advances	25,555.4	25,359.1	196.3	796.5	445.7	171.9	122.4	43.0	12.4	0.4	0.7	743.2
020	*Central banks*	69.6	69.6	-	-	-	-	-	-	-	-	-	-
040	*Credit institutions*	371.4	371.4	-	-	-	-	-	-	-	-	-	-

060	*Non-financial corporations*	11,524.4	11,475.0	49.4	188.5	141.0	27.5	13.0	5.2	1.8	0.4	0.7	187.3
070	*Of which SMEs*	11,236.1	11,186.7	49.4	166.6	119.2	27.5	13.0	5.2	1.8	-	-	165.4
080	*Households*	13,589.9	13,443.1	146.9	608.0	304.7	144.4	109.4	37.9	10.5	-	-	555.9
090	Debt Securities	621.7	621.7	-	-	-	-	-	-	-	-	-	-
110	*General governments*	296.0	296.0	-	-	-	-	-	-	-	-	-	-
130	*Other financial corporations*	325.8	325.8	-	-	-	-	-	-	-	-	-	-
150	Off-balance-sheet exposures	999.5			-								-
200	*Non-financial corporations*	595.1			-								-
210	*Households*	404.4			-								-
220	**Total**	29,549.1	28,353.3	196.3	796.5	445.7	171.9	122.4	43.0	12.4	0.4	0.7	743.2

9.10 UK CQ4 – Quality of non-performing exposures by geography

Not applicable to Group due to the non-domestic exposures being <10%.

9.11 UK CQ5 – Credit quality of loans and advances to non-financial corporations by industry

		a	b	c	d	e
		Gross carrying amount				**Accumulated impairment**
			Of which non-performing		**Of which loans and advances subject to impairment**	
£m				**Of which defaulted**		
010	Agriculture, forestry, and fishing	-	-	-	-	-
020	Mining and quarrying	-	-	-	-	-
030	Manufacturing	0.3	-	-	0.3	-
040	Electricity, gas, steam and air conditioning supply	-	-	-	-	-
050	Water supply	-	-	-	-	-
060	Construction	17.0	7.0	7.0	17.0	(5.3)
070	Wholesale and retail trade	2.5	-	-	2.5	(0.1)
080	Transport and storage	-	-	-	-	-
090	Accommodation and food service activities	2.2	1.3	1.3	2.2	(0.6)
100	Information and communication	0.9	-	-	0.9	-
110	Financial and insurance activities	1.5	-	-	1.5	-
120	Real estate activities	11,449.6	156.1	155.1	11,449.6	(54.0)
130	Professional, scientific and technical activities	0.7	-	-	0.7	-
140	Administrative and support service activities	3.1	-	-	3.1	-
150	Public administration and defence, compulsory social security	-	-	-	-	-
160	Education	-	-	-	-	-
170	Human health services and social work activities	1.1	-	-	1.1	-
180	Arts, entertainment and recreation	-	-	-	-	-
190	Other services	233.9	24.2	24.2	233.9	(6.7)
200	**Total**	11,712.9	188.5	187.5	11,712.9	(66.7)

9.12 UK CQ6 – Collateral valuation - loans and advances

The Group’s non-performing loan ratio does not exceed the 5% threshold.

9.13 UK CQ7 – Collateral obtained by taking possession and execution processes

Not applicable to the Group. The Group does not take possession of collateral that would result in recognition of an asset on its balance sheet.

9.14 UK CQ8 – Collateral obtained by taking possession and execution processes – vintage breakdown

The Group’s non-performing loan ratio does not exceed the 5% threshold.

10. Annex XVII | Credit risk mitigation (CRM) techniques

10.1 UK CRC – Qualitative disclosure requirements related to CRM techniques

(a) Core policies and processes for on- and off-balance sheet netting (Article 453 (a) CRR)

Financial assets and financial liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, the Group currently has a legally enforceable right to offset the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Group's derivatives are covered by industry standard master netting agreements. Master netting agreements create a right of set-off that becomes enforceable only following a specified event of default or in other circumstances not expected to arise in the normal course of business. These arrangements do not qualify for offsetting and as such the Group reports derivatives on a gross basis.

Collateral in respect of derivatives is subject to the standard industry terms of International Swaps and Derivatives Association (ISDA) Credit Support Annex. This means that the cash received or given as collateral can be pledged or used during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral. Collateral paid or received does not qualify for offsetting and is recognised in loans and advances to credit institutions and amounts owed to credit institutions, respectively.

(b) The core features of policies and processes for eligible collateral evaluation and management (Article 453 (b) CRR)

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

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

Asset Finance valuations are prepared by either the InterBay Asset Finance "in-house" valuer or panel valuers either in the form of a desktop assessment or a physical inspection of the asset.

(c) Main types of collateral taken by the institution to mitigate credit risk; (Article 453 (c) CRR)

The Group's main form of collateral held is property. Cash is the only form of collateral posed or received to mitigate credit risk from derivatives.

(d) For guarantees and credit derivatives used as credit protection (Article 453 (d) CRR)

The Group does not use credit derivatives. The only guarantees recognised as credit protection are government guarantees in relation to the Coronavirus Business Interruption Loan Scheme (CBILS).

(e) Information about market or credit risk concentrations within the credit mitigation taken; (Article 453 (e) CRR)

Credit risk concentration is the risk of loss arising from imperfect diversification across single name, industry sector or geographic sector in the Group's business. The Group's roots as a regionally-based building society and the nature of its BTL business have resulted in a significant residential exposure across London and the South East of England. Further information can be found in Note 44 to the Group's financial statements.

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

10.2 UK CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques

		a	b	c	d	e
£m		Unsecured carrying amount	Secured carrying amount	Of which secured by collateral	Of which secured by financial guarantees	Of which secured by credit derivatives
1	Loans and advances	3,037.0	25,541.6	25,530.9	10.6	-
2	Debt securities	621.7	-	-	-	-
3	Total	3,658.7	25,541.6	25,530.9	10.6	-
4	*Of which non-performing exposures*	1.7	726.0	726.0	-	-
5	*Of which defaulted*	1.7	726.0			

11. Annex XIX | Standardised approach

11.1 UK CRD – Qualitative disclosure requirements related to standardised model

(a) Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) (Article 444(a) CRR)

The Group uses external credit assessments published by Fitch, Standard and Poor's and Moody's.

(b) The exposure classes for which each ECAI or ECA is used (Article 444 (b) CRR)

The ECAIs are used for the following exposure classes:

- Central governments or central banks
- Institutions

(c) A description of the process used to transfer the issuer and issue credit ratings onto comparable assets items not included in the trading book (Article 444 (c) CRR)

Not applicable to the Group. The Group does not have a trading book.

(d) The association of the external rating of each nominated ECAI or ECA (as referred to in row (a)) with the risk weights that correspond with the credit quality steps (Article 444 (d) CRR)

The Group have mapped the ECAI to UK CRR using EBA mappings.

11.2 UK CR4 – Standardised approach – credit risk exposure and CRM effects

		a	b	c	d	e	f
		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
£m	Exposure Class	On-Balance Sheet	Off-Balance Sheet	On-Balance Sheet	Off-Balance Sheet	RWAs	RWA Density %
1	Central governments or central banks	2,626.0	-	2,636.6	-	8.9	0.3
6	Institutions	271.4	-	271.4	-	68.2	25.1
7	Corporates	1.7	-	1.7	-	1.5	86.6
8	Retail	217.9	27.2	207.2	-	118.4	57.1
9	Secured by mortgages on immovable property	24,598.9	844.2	24,598.9	168.8	9,234.6	37.3
10	Exposures in default	716.9	-	716.9	-	717.7	100.1
11	Items associated with particularly high risk	251.6	127.4	251.6	1.3	379.4	150.0
15	Equity Exposures	4.5	-	4.5	-	4.5	100.0
16	Other Items	72.4	-	72.4	-	72.1	99.5
17	**Credit Risk-Standardised Approach**	28,761.4	998.8	28,761.4	170.1	10,605.3	36.7

11.3 UK CR5 – Standardised approach

		a	b	c	d	e	f	g	h	i
£m	**Exposure class**	**Risk weight**								
		0%	**20%**	**35%**	**75%**	**100%**	**150%**	**250%**	**Total**	**Of which unrated**
1	Central governments or central banks	2,633.1	-	-	-	-	-	3.6	2,636.6	-
6	Institutions	-	254.1	-	-	17.3	-	-	271.5	-
7	Corporates	-	-	-	-	1.7	-	-	1.7	1.7
8	Retail exposures	-	-	-	207.2	-	-	-	207.2	207.2
9	Exposures secured by mortgages on immovable property	-	-	23,505.4	26.3	1,236.1	-	-	24,767.7	24,767.7
10	Exposures in default	-	-	-	-	715.3	1.6	-	716.9	716.9
11	Exposures associated with particularly high risk	-	-	-	-	-	253.0	-	253.0	253.0
15	Equity exposures	-	-	-	-	4.5	-	-	4.5	4.5
16	Other items	0.4	-	-	-	72.1	-	-	72.4	72.4
17	**Total exposure value**	2,633.4	254.1	23,505.4	233.5	2,047.0	254.6	3.6	28,931.6	26,023.5

12. Annex XXI | Use of the IRB approach to credit risk and Annex XXIII Specialised lending

The Group does not currently have IRB permissions, nor does it have specialised lending and equity exposures under the simple risk weighted approach, therefore the following templates have not been disclosed.

12.1 UK CRE – Qualitative disclosure requirements related to IRB approach

12.2 UK CR6 – IRB approach – Credit risk exposures by exposure class and PD range

12.3 UK CR6-A – Scope of the use of IRB and SA approaches

12.4 UK CR7 – IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques

12.5 UK CR7-A – IRB approach – Disclosure of the extent of the use of CRM techniques

12.6 UK CR8 – RWEA flow statements of credit risk exposures under the IRB approach

12.7 UK CR9 – IRB approach – Back-testing of PD per exposure class (fixed PD scale)

12.8 UK CR9.1 – IRB approach – Back-testing of PD per exposure class (only for PD estimates according to point (f) of Article 180(1) CRR)

12.9 UK CR10 – Specialised lending and equity exposures under the simple risk weighted approach

13. Annex XXV | Counterparty credit risk – (CCR)

13.1 UK CCRA – Qualitative disclosure related to CCR

(a) Methodology used to assign internal capital and credit limits for counterparty credit exposures (Article 439 (a) CRR)

The Group's derivative contracts are calculated for regulatory purposes using the mark to market method referred to in Part Three, Title II, and Chapter 6 of the CRR.

The Group enters into repurchase agreements under the terms of the individual counterparty Global Master Repurchase Agreements (GMRA). These transactions are calculated for regulatory purposes using the Financial Collateral Comprehensive Method prescribed in Part Three, Title II, and Chapter 4 of the CRR.

The Group has a defined risk appetite for counterparty credit risk. The minimum defined counterparty rating must fall into Credit Quality Step 1 or 2. Limits are in place which are outlined in the Group's Market and Liquidity Risk Policy which sets out the maximum allowable exposures to a single counterparty. Counterparty limits are set by the Interest Rate Risk Working Group, taking into consideration anticipated use of the counterparty, reasonableness, along with a number of other on-boarding factors which are then presented to ALCO for final approval.

This risk is considered to be inherently low from a capital perspective due to the quality of the counterparties the Group transacts with, the prudent limits that are in place and the fact that Over the Counter derivative contracts are now subject to central clearing.

There are no limits in place for exposures to central counterparties.

(b) Policies related to guarantees and other credit risk mitigants (Article 439 (b) CRR)

Market Risk arising from the origination of fixed rate retail assets and liabilities is managed through interest rate derivative contracts. The Group trades in OTC derivative contracts under the terms of Clearing agreements and ISDAs. Under the terms of the Clearing Agreements, ISDAs and Credit Support Annexes (CSA), the Group will receive collateral for net exposures and post collateral for net liability positions. Historically these derivative contracts were all bilateral but since June 2019 all new interest rate derivatives have been cleared via a Central Clearing Counterparty in line with European Market Infrastructure Regulation (EMIR) requirements.

(c) Policies with respect to Wrong-Way risk as defined in Article 291 of the CRR (Article 439 (c) CRR)

Wrong way risk is defined as the risk that occurs when an exposure to a counterparty is adversely correlated with the credit quality of that counterparty.

The Group primarily enters into interest rate derivative contracts which have minimal exposure to wrong way risk. The Group's wrong way risk is immaterial.

(d) Other risk management objectives and relevant policies related to CCR (Article 439 (d) CRR)

Counterparty credit risk exposures are managed by Treasury in accordance with the Market and Liquidity Risk Policy. The security of assets will always be paramount when placing wholesale investments; preference is given to the quality and financial strength of a counterparty, and the liquidity value of the investment. Lending to wholesale counterparties other than the BoE and UK Government will increase credit risk and associated capital requirements under the CRR. The Group also has external exposures to commercial bank counterparties for operational accounts and derivatives.

Special Purpose Vehicles (SPVs)

Though each SPV related to a securitisation is structured as a bankruptcy remote entity, in some cases the SPVs are consolidated for accounting purposes within the Group. In each case, the Group (in its role as servicer on the transactions), may manage excess liquidity on behalf of the relevant SPV. Each SPV has its own investment criteria, which include minimum credit ratings for counterparties and investments.

Interest rate risk relating to securitised assets is managed through bilateral interest rate swap agreements entered in to by the SPVs with third party swap providers that are subject to margining and have rating triggers that require the swap counterparties to post collateral and/or be replaced in the event of multiple notch rating downgrades.

(e) The amount of collateral the institution would have to provide if its credit rating was downgraded Article 439 (e) CRR

The Group has a rating but it does not currently have any collateral obligations linked to that rating. Therefore, the risk of a downgrade in its own rating is not assessed.

13.2 UK CCR1 – Analysis of CCR exposure by approach

		a	b	c	d	e	f	g	h
£m		Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre CRM	Exposure value post CRM	Exposure value	RWEA
UK1	Original Exposure Method (for derivatives)	-	-		1.4	-	-	-	-
UK2	Simplified SA-CCR (for derivatives)	-	-		1.4	-	-	-	-
1	SA-CCR (for derivatives)	116.6	25.4		1.4	213.5	198.7	198.7	82.8
3	Financial collateral simple method (for SFTs)	-	-	-	-	-	-	-	-
4	Financial collateral comprehensive method (for SFTs)					-	-	-	-
5	VaR for SFTs					-	-	-	-
6	**Total**					213.5	198.7	198.7	82.8

13.3 UK CCR2 – Transactions subject to own funds requirements for CVA risk

		a	b
£m		Exposure value	RWEA
4	Transactions subject to the standardised method	198.7	83.1
5	**Total transactions subject to own funds requirements for CVA risk**	198.7	83.1

13.4 UK CCR3 – Standardised approach – CCR exposures by regulatory exposure class and risk weights

	a	b			c
		Risk weight			
£m	Exposure classes	2%	20%	50%	Total exposure value
6	Institutions	21.2	71.5	158.7	251.4
11	**Total exposure value**	21.2	71.5	158.7	251.4

13.5 UK CCR4 – IRB approach – CCR exposures by exposure class and PD scale

Not applicable to the Group. The Group uses the standardised approach for counterparty credit risk.

13.6 UK CCR5 – Composition of collateral for CCR exposures

Not applicable to the Group. The Group has not exceeded the £125 billion threshold prescribed in PS17/21.

13.7 UK CCR6 – Credit derivatives exposures

Not applicable to the Group. The Group does not have credit derivatives.

13.8 UK CCR7 – RWEA flow statements of CCR exposures under the IMM

Not applicable to the Group. The Group does not have exposures under the IMM.

13.9 UK CCR8 – Exposures to CCPs

		a	b
£m		**Exposure value**	**RWEA**
1	**Exposures to QCCPs (total)**		11.3
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	52.7	11.3
3	(i) OTC derivatives	52.7	11.3
4	(ii) Exchange-traded derivatives	-	-
5	(iii) SFTs	-	-
6	(iv) Netting sets where cross-product netting has been approved	-	-
7	Segregated initial margin	198.6	
8	Non-segregated initial margin	-	-
9	Prefunded default fund contributions	-	-

14. Annex XXVII | Securitisation positions

14.1 UK SECA – Qualitative disclosure requirements related to securitisation exposures

(a) Securitisation and re-securitisation activities (Article 449(a) CRR)

The Group actively utilises securitisations to achieve the following key objectives:

- provide long term funding to its balance sheet, diversifying its funding mix and increasing the weighted average life of its liabilities;
- generate retained bonds to utilise as collateral for third party sale and repurchase (Repo) agreements or as collateral for the BoE Sterling Monetary Framework including drawings under the Term Funding Scheme with additional incentives for SMEs and ILTR and
- enable the generation and release of capital through the sale of residual positions, derecognition of the underlying loans and achievement of Significant Risk Transfer (SRT).

The Group does not have a trading book, therefore all activity relates to the banking book. The Group's securitisations are traditional cash, pass through transactions. The Group has not engaged in any form of synthetic securitisation or re-securitisation.

The Group has issued two Simple, Transparent and Standardised (STS) securitisations, CMF 2020-1 and CMF 2023-1, and the following Securitisations have achieved SRT:

- Rochester Financing No.3
- Precise Mortgage Funding 2019-1B plc
- Precise Mortgage Funding 2020-1B plc

The Group also has access to a secured warehouse facility which provides access to funding on a contingent basis secured on a portfolio of residential mortgages.

Separately, the Group acts in the capacity of investor through the purchase of senior third party RMBS bonds (in each case being credit step 1, with a minimum ECAI rating of AAA, or equivalent) for liquidity and investment purposes.

Entities within the Group typically perform the roles of sponsor, originator, servicer and risk retention holder within the securitisation process.

Positions in third party RMBS bonds are routinely monitored to ensure the performance of underlying assets remains acceptable. They are stress tested annually through the ICAAP to determine Pillar 2a and Pillar 2b capital requirements.

Any changes to credit ratings are picked up in real time through the regular scanning of rating agency press releases. Month end positions are reported to ALCO.

From a liquidity standpoint, a number of third party bonds held at the 2023 year end are BoE Type B or Type C eligible collateral and are pre-placed with the BoE. As a result, the Group receives an implied mark on each bond from the BoE, which is monitored daily through treasury reporting. The Group does not operate a trading book and these positions are held to maturity.

The Group does not utilise hedging or unfunded protection to mitigate the risks of retained securitisation exposures, other than hedging the underlying mortgage assets for interest rate risk in the ordinary course of business.

(b) The type of risk the Group is exposed to in its securitisation and re-securitisation activities (Article 449(b) CRR)

(i) risk retained in own-originated transactions

As an issuer of RMBS transactions, the main risk faced by the Group is market risk at execution. The Group manages this risk by maintaining a diversified set of funding options. Once a deal has closed, the Group maintains a contingent exposure to breaches in representations and warranties given at the closing of each transaction.

A Group entity will typically maintain a subordinated 'first loss' piece, or exposure to variable excess spread cash-flows, with all other positions sold to third party investors. The Group will then recognise the mortgage assets (rather than the RMBS positions) on its balance sheet, on a look through basis for capital purposes. In some circumstances, Group Treasury will retain all or a part of the senior AAA rated positions for liquidity purposes.

The Group has several transactions where the majority of notes are retained for funding and collateral purposes, these being Canterbury Finance No.2, Canterbury Finance No.3, Canterbury Finance No.4 and Canterbury Finance No. 5.

The Group has not engaged in any re-securitisation activity.

(ii) risk incurred in relation to transactions originated by third parties, in accordance with point (b) of Article 449 CRR

Third party bonds acquired are all post crisis UK RMBS issued under the CRD IV risk retention regime. At the year end, all third party bonds held by the Group were rated AAA by at least two rating agencies.

As a holder of third party RMBS positions, the Group minimises liquidity risk and accounting volatility by holding such positions and, accordingly, accounting for such positions to maturity. As it has only purchased CRR compliant bonds at credit step 1, underlying credit risk is minimal. Nonetheless, it retains downgrade risk (being the risk that bonds will get downgraded below credit step 1, increasing the Group's capital requirements). The Group stresses for this risk within its Pillar 2b capital framework. To date, none of the bonds within its liquidity or investment portfolio have been downgraded.

The Group does not run a trading book; therefore it does not typically need to value its securitisation positions, other than for assessing the liquidity value of any senior retained position for liquidity purposes; using a third party market values of similar financial instruments.

(c) Approaches to calculating the risk-weighted exposure amounts applied to securitisation activities (Article 449(c) CRR)

Where the Group, being the originating institution has not transferred significant credit risk it shall calculate risk weighted exposure amounts as if they had not been securitised in accordance with Art 245.2 of the CRR.

For investment in securitisation positions the Group follows Article 254 of the CRR and has adopted a hierarchy approach to determine risk weights for positions held, taking into account STS designation.

(d) A list of Securitisation Special Purpose Entities (SSPEs) with a description of their types of exposures to those SSPEs (Article 449(d) CRR)

(i) SSPEs which acquire exposures originated by the Group

- Canterbury Finance No.2 plc
- Canterbury Finance No.3 plc
- Canterbury Finance No.4 plc
- Canterbury Finance No.5 plc
- CMF 2020-1 plc
- CMF 2023-1 plc
- Keys Warehouse No.1 Limited
- Precise Mortgage Funding 2019-1B plc
- Precise Mortgage Funding 2020-1B plc

(ii) SSPEs sponsored by the Group

Rochester Financing No.3

(iii) SSPEs and other legal entities for which the Group provide securitisation-related services, such as advisory, asset servicing or management services

Not applicable to the Group. The Group does not provide such services.

(iv) SSPEs included in the Group's regulatory scope of consolidation, in accordance with point (d) of Article 449 CRR

- Canterbury Finance No.2 plc
- Canterbury Finance No.3 plc
- Canterbury Finance No.4 plc
- Canterbury Finance No.5 plc
- CMF 2020-1 plc

- CMF 2023-1 plc
- Keys Warehouse No.1 Limited

(e) A list of any legal entities in relation to which the Group have disclosed that they have provided support in accordance with Chapter 5 of Title II of Part Three CRR (Article 449(e) CRR)

Not applicable to the Group. The Group does not provide support to securitisations beyond its contractual obligations.

(f) A list of legal entities affiliated with the Group and that invest in securitisations originated by the Group (Article 449(f) CRR)

Charter Court Financial Services Limited

OneSavings Bank plc

Broadlands Finance Limited

(g) A summary of accounting policies for securitisation activity (Article 449(g) CRR)

Where the Group acts as originator or sponsor and has retained control or residual risk on those mortgage assets, those mortgage assets will continue to be recognised on the Group's balance sheet. Where significant risk transfer has been achieved, those mortgages will not be included in the Group's balance sheet.

Where the Group invests in securitisation positions, the Group will account for those assets based on accounting principles in accordance with the Group's business model for each security. As at December 2023, the Group had securitisation positions held at amortised cost and Fair Value Through Profit and Loss (FVTPL). Further detail can be found in Note 16 to the financial statements within the ARA.

Further information regarding the Group's accounting policies in relation to securitisation activity can be found in Note 1 to the financial statements within the ARA.

(h) Names of the ECAIs used for securitisations and the types of exposure for which each agency is used (Article 449(h) CRR)

The Group to date, has used Fitch Ratings, Moody's, Standard and Poor's and DBRS Morningstar to rate its securitisations, with two of these four used on each transaction. The Group does not use particular agencies for particular transactions (all of which, for the avoidance of doubt, are RMBS transactions involving the securitisation of own-originated or acquired UK residential and Buy-to-Let mortgages).

(i) Where applicable, a description of the Internal Assessment Approach (Article 449(i) CRR)

This is not applicable to the Group.

14.2 UK-SEC1 – Securitisation exposures in the non-trading book

		a	b	c	d	e	f	g	h	i	j
		Institution acts as originator				Institution acts as sponsor			Institution acts as investor		
		Traditional				Traditional			Traditional		
£m	Total exposures	STS	Non-STS	*Of which SRT*	Sub-total	STS	Non-STS	Sub-total	STS	Non-STS	Sub-total
1	**Total exposures**	28.4	2,667.20	101	2,695.60	-	9.1	9.1	215.6	-	215.6
2	Retail (total)	28.4	2,667.20	101	2,695.60	-	9.1	9.1	215.6	-	215.6
3	Residential mortgage	28.4	2,667.20	101	2,695.60	-	9.1	9.1	215.6	-	215.6

14.3 UK SEC2 – Securitisation exposures in the trading book

Not applicable to the Group. The Group does not operate a trading book.

14.4 UK-SEC3 – Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Exposure values (by RW bands/deductions)				Exposure values by regulatory approach				RWEA by regulatory approach				Capital charge after cap			
£m		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	SEC-IRBA	SEC ERBA	SEC-SA	1250% deductions	SEC-IRBA	SEC ERBA	SEC-SA	1250% deductions	SEC-IRBA	SEC ERBA	SEC-SA	1250% deductions
1	**Total exposures**	110.1	-	-	-	-	9.1	101.0	-	-	1.4	15.1	-	-	0.1	1.2	-
2	Traditional transactions	110.1	-	-	-	-	9.1	101.0	-	-	1.4	15.1	-	-	0.1	1.2	-
3	Securitisation	110.1	-	-	-	-	9.1	101.0	-	-	1.4	15.1	-	-	0.1	1.2	-
4	Retail underlying	110.1	-	-	-	-	9.1	101.0	-	-	1.4	15.1	-	-	0.1	1.2	-

14.5 UK-SEC4 – Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Exposure values (by RW bands/deductions)				Exposure values by regulatory approach				RWEA by regulatory approach				Capital charge after cap			
£m		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	SEC-IRBA	SEC ERBA	SEC-SA	1250% deductions	SEC-IRBA	SEC ERBA	SEC-SA	1250% deductions	SEC-IRBA	SEC ERBA	SEC-SA	1250% deductions
1	Total exposures	215.6	-	-	-	-	-	215.6	-	-	-	22.6	-	-	-	1.8	-
2	Traditional securitisation	215.6	-	-	-	-	-	215.6	-	-	-	22.6	-	-	-	1.8	-
3	Securitisation	215.6	-	-	-	-	-	215.6	-	-	-	22.6	-	-	-	1.8	-
4	Retail underlying	215.6	-	-	-	-	-	215.6	-	-	-	22.6	-	-	-	1.8	-
7	Of which STS	215.6	-	-	-	-	-	215.6	-	-	-	22.6	-	-	-	1.8	-

14.6 UK-SEC5 – Exposures securitised by the institution - Exposures in default and specific credit risk adjustments

		a	b	c
		Exposures securitised by the institution - Institution acts as originator or as sponsor		
		Total outstanding nominal amount		Total amount of specific credit risk adjustments made during the period
£m			*Of which exposures in default*	
1	**Total exposures**	4,010.4	49.1	-
2	Retail (total)	4,010.4	49.1	-
3	Residential mortgage	4,010.4	49.1	-

15. Annex XXIX | Standardised approach and internal model

15.1 UK MRA – Qualitative disclosure requirements related to market risk

(a) A description of the institution's strategies and processes to manage market risk (Points (a) and (d) of Article 435 (1) CRR)

The Group does not engage in trading activities and, as such, it does not have a trading book. OSB Group market risk only arises within the banking book which covers all assets and liabilities.

For the Group, market risk is primarily interest rate risk and basis risk, with all interest rate positions in Treasury in GBP.

- Market risk - basis risk – is the risk associated with imperfect hedging due to adverse divergence in interest rates. It arises where assets and liabilities reprice from different variable rate indices and
- Market risk – interest rate risk – is generated from adverse movement in the overall level of interest rates, and is the risk that arises from mismatches in the timing of repricing of assets and liabilities, both on and off balance sheet. It includes risks arising from imperfect hedging of exposures and the risk of customer behaviour driven by interest rates (e.g. the prepayment risk - the ability to repay the principal borrowed in advance of contractual maturity dates). The Group's Treasury function actively hedges to match the timing of cash flows from assets and liabilities.

There is a very limited exposure to currency risk for services provided by the fully owned offshore service company OSBI which is managed through advance payments.

As the Group continues to expand and provide high-quality services to its customers, an integral part of its business strategy is establishing sound and reliable governance practices, with focus on efficiency in its market risk management, the development of an effective control and monitoring process and delivery of key business decisions in line with strategic goals and the overall Group risk appetite statement.

The Group has in place a comprehensive market risk framework which includes policies, limit setting and monitoring processes, in order to ensure a sound identification, measurement and control of overall market risks.

For an adequate mitigation and management of interest rate risk and basis risk, the Group applies three main approaches:

- Natural hedges (i.e. matching assets and liabilities with similar repricing tenor or index rates);

Use of derivative financial instruments - Fixed-Floating (or Floating-Fixed, or Floating-Floating) interest rate swaps and

Allocation of reserves

Quantitative risk appetite limits are set by the Board for duration risk and basis risk exposure. The Board ensures the maintenance of a sound and sufficiently hedged balance sheet, in order to survive a range of severe but plausible stress scenarios for interest rate risk and basis risk.

Sound monitoring of risk appetite limits and EWIs enables the Risk function to capture and report all material risks related to both interest rate risk and basis risk. Limits are documented within the Market and Liquidity Risk Policy which is reviewed at least annually and requires approval from ALCO and the Board. In addition to this, risk appetites are reviewed every six months which also require ALCO and Board approval.

(b) Description of the structure and organisation of the market risk management function (Point (b) of Article 435 (1) CRR)

The Market Risk function is structured to fully support the Group's risk strategy and appetite and is aligned to the risk categorisation, headed up by the Group CRO. The Risk function is responsible for 2nd line oversight in identifying, measuring and monitoring of market risks, and is fully independent from the Treasury function, having a direct reporting line to ExCo and other Management Bodies. The Risk function is responsible for oversight of market risk appetite exposure, limits, EWIs, and MI.

The Board is responsible for setting and approving market risk appetite, following review at both ALCO and Group Risk Committee. ALCO is also responsible for the approval of market risk policies and frameworks.

The strategic direction of the Group is overseen by Group Executive Committee (ExCo), which delegates the responsibility of day-to-day management of market risk to ALCO. Treasury are responsible for the daily risk mitigation of interest rate risk.

(c) Scope and nature of risk reporting and measurement systems Point (c) of Article 435 (1) CRR

The Group's business strategy is supported by a well-articulated and measurable risk appetite statement, with clearly defined risk appetite quantitative measures on interest rate and basis risk positions. The process surrounding possible breaches of risk appetite is documented within the Market and Liquidity Risk Policy.

The Group mitigates and controls interest rate risk through prudent management which seeks to minimise Interest Rate Risk in the Banking Book (IRRBB) exposures, typically through matching assets and liabilities with similar tenors, taking offsetting interest rate swaps or allocation of reserves against fixed rate assets. Despite the fact that the Group is exposed to interest rate in the banking book, in the normal course of its business activities it does not look to profit from and has no appetite for incremental interest rate risk, with all interest rate risk residing within the banking book.

The main measures in the Group’s management of interest rate risk and basis risk are:

- Economic Value (EV) – using an EV approach, the Group measures interest rate risk by estimating the fair value impact on the full portfolio of assets and liabilities under a range of interest rate scenarios and assumptions applied for modelling interest rate risk in the banking book. The interest rate scenarios used are reviewed by ALCO at least annually (and more frequently where required) and
- Earnings-based measures (Net Interest Income (NII)) – the Group measures a change in future profitability within a given time horizon. The Group measures interest rate risk as the impact of interest rate movements on future NII. Basis risk is measured by estimating the impact on NII under a range of dislocations between the bases over a period of one year, with the largest negative impact across the scenarios being the basis risk exposure tested against approved limits. ALCO is responsible for ensuring that the implementation and monitoring of this measure is fit for purpose.

In addition to the above internal measures applied, the Group also measures interest rate risk using the Economic Value of Equity (EVE) regulatory approach, in line with Supervisory Outlier Tests requirements.

15.2 UK MR1 – Market risk under the standardised approach

Not applicable to the Group. The Group does not have a trading book or any non-trading book positions that are subject to foreign exchange risk or commodity risk.

15.3 UK MRB – Qualitative disclosure requirements for institutions using the internal Market Risk Models

Not applicable to the Group. The Group does not have an internal model for market risk.

15.4 UK MR2-A – Market risk under the internal Model Approach (IMA)

Not applicable to the Group. The Group does not have an internal model for market risk.

15.5 UK MR2-B – RWA flow statements of market risk exposures under the IMA

Not applicable to the Group. The Group does not have an internal model for market risk.

15.6 UK MR3 – IMA values for trading portfolios

Not applicable to the Group. The Group does not have an internal model for market risk.

15.7 UK MR4 – Comparison of VaR estimates with gains/losses

Not applicable to the Group. The Group does not have an internal model for market risk.

16. Annex XXXI |Operational risk

16.1 UK ORA – Qualitative information on operational risk

(a) Disclosure of the risk management objectives and policies

The management of operational risk at the Group has three key objectives:

- Deliver an operational risk management capability owned and used across the business;
- Provide the frameworks, policies, procedures and tools to enable management to meet their risk management responsibilities while the second line of defence provides robust, independent, and effective oversight and challenge; and
- Deliver a consistent and aggregated measurement of operational risk that will provide clear and relevant insights, so that the right management actions can be taken to keep the operational risk profile consistent with the Group's strategy, the stated risk appetite and stakeholder needs.

The Group operates within a strong system of internal controls that enables business to operate within risk appetite without exposing the Group to unacceptable risk events, losses or reputational damages. Operational risks are grouped into risk categories to support effective risk management, measurement, and reporting.

Risk management processes

Risk management is the process of identifying an appropriate strategy to address the risk or issue in question. The Group's risk governance structure, including committees and the three lines of defence, is responsible for ensuring the effectiveness of the chosen risk management approach.

Roles and responsibilities

The prime responsibility for the management of operational risk and the compliance with the Operational Risk Management framework, policies and procedures rests with the business units where the risk arises. Review of the Group's operational risk control environment is monitored by the Group Operational Risk Management Committee. Depending on their nature and materiality, the outputs of these meetings are presented to the Group Risk Management Committee or the Group Risk Committee.

The Group Head of Operational Risk is responsible for establishing, owning and maintaining an appropriate Group-wide Operational Risk Management Framework and for providing oversight and challenge of the portfolio of operational risk across the Group. The Operational Risk Management function acts in a second line of defence capacity and is responsible for defining and overseeing the implementation of the framework and monitoring the Group's operational risk profile. The Operational Risk Management function monitors and alerts management when risk appetite levels are breached in order to drive timely decision making and appropriate actions by the first line of defence.

The Operational Risk Management Framework comprises a number of elements which allow the Group to manage, monitor and measure its operational risk profile and to calculate the amount of capital that the Group needs to hold to absorb potential operational risk losses. This framework is implemented across the Group with all business areas required to follow the framework. The Operational Risk Management Framework is a key component of the ERMF and has been designed to provide a consistent approach in respect of operational risk management and meet a number of external regulatory requirements. The Operational Risk Management Framework includes the following elements:

Risk and Control Self-Assessments: Risk and control self-assessments (RCSAs) is the Group's process in which existing, as well as new, risks are identified, assessed, monitored and recorded along with their related controls. The exercise primarily aims to support the Group in assessing the adequacy of operational risk management and the effectiveness of controls. RCSA helps the Group evaluate the level of operational risk against approved risk appetite statement, triggers and limits. The businesses / functions are then able to make decisions on what action, if any, is required to reduce the level of residual risk to within risk appetite. These risk assessments are monitored on a regular basis to ensure that each business / function understands the risks it faces and controls to mitigate the risks.

Risk Events: An operational risk event is something that occurs which places the business or companies / individuals with whom the business deals at risk, through the failure of internal systems and controls and could lead to breaking the law; a breach of regulation; an adverse effect on the operation of the business e.g. service issues; increasing costs; and financial losses. The definition includes situations in which the Group could have made a loss, but in fact made a gain, as well as risk events resulting in reputational damage or regulatory impact only. Part of the analysis includes the identification of improvements to processes or controls, to reduce the recurrence and/or magnitude of risk events.

Operational Risk Appetite: The Board approves an Operational Risk Appetite Statement, limits and trigger levels, on an annual basis, establishing the level of operational risk that is acceptable in pursuit of the Group's strategic objectives. Operational risks are assessed and monitored against the Board-approved operational risk appetite, with risk reduction plans established for any risks that are above the acceptable level. The operational risk profile is monitored through management and Board level committees in the context of operational risk appetite.

Key Risk Indicators: Key risk indicators (KRIs) are metrics which allow the operational risk profile to be measured and monitored against the Group's risk appetite. KRIs include defined thresholds and performance is reported regularly to management to drive action when risk exceeds acceptable limits.

Risk Scenarios: Risk scenarios are a summary of the extreme, but plausible, potential risk exposures for the Group covering the complete range of risks. The scenarios include an assessment of the key drivers for the exposure, occurrence and impact of the scenario and a review of the corresponding control environment. The risk scenario assessments are a key input to the calculation and benchmarking of economic capital requirements and the assessment considers analysis of internal and external loss experience, KRIs, RCSAs and other relevant information. The Group analyses potential extreme scenarios, considering the circumstances and contributing factors that could lead to an extreme event; potential financial impacts; controls that seek to limit the likelihood of such an event occurring; and the mitigating actions that would be taken if the event were to occur (for example crisis management procedures, business continuity or disaster recovery plans). Management then determine whether the potential risk exposure is acceptable or whether changes in risk management controls are required. The risk scenarios are regularly re-assessed taking into account trends in risk factors.

Reporting: The ongoing monitoring and reporting of operational risk is a key component of the Operational Risk Management Framework. Reports and MI are used by the business, the Operational Risk Management function, and through management and Board level committees to understand, monitor, manage and control operational risks and losses.

(b) Disclosure of the approaches for the assessment of minimum own funds requirements

The Group uses the standardised (TSA) approach to calculate Pillar 1 operational risk requirements.

The operational risk capital requirement is calculated as a blend of 12% of the three-year average of the Group's annual gross income relating to its retail business as defined by the CRR and 15% of the three-year average of the Group's annual gross income relating to its commercial business.

(c) Description of the Advanced Measurement Approach (AMA) methodology approach used (if applicable)

Not applicable to the Group. The Group does not use AMA.

(d) Disclose the use of insurance for risk mitigation in the AMA

Not applicable to the Group. The Group does not use AMA.

16.2 UK OR1 – Operational risk own funds requirements and risk-weighted exposure amounts

		a	b	c	d	e
		Relevant indicator				
£m	Banking activities	Year 3	Year 2	Last year	Own funds requirement	Risk weighted exposure amount
1	Banking activities subject to basic indicator approach (BIA)	-	-	-	-	-
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	623.0	769.1	625.8	81.9	1,023.9
3	*Subject to TSA:*	623.0	769.1	625.8		
4	*Subject to ASA:*	-	-	-		
5	Banking activities subject to advanced measurement approaches AMA	-	-	-	-	-

17. Annex XXXIII | Remuneration policy

17.1 UK REMA – Remuneration policy

(a) Information relating to the bodies that oversee remuneration

(i) Name composition and mandate of the management body and remuneration committee overseeing the Group's remuneration policy and the number of meetings held by that body during the year

The Group Remuneration and People Committee (the Committee) is responsible for the governance of remuneration for Executive Directors and other Material Risk Takers (MRT). During the year, the Committee comprised independent Non-Executive Directors; Sarah Hedger who replaced Mary McNamara as Chair on 11 May 2023, Noël Harwerth, Rajan Kapoor and David Weymouth.

The Committee met seven times during the 2023 financial year. The Committee has responsibility for setting and reviewing the Remuneration Policy and determining pay levels and structure for senior management including Executive Directors and Material Risk Takers. In determining the Remuneration Policy, the Committee takes into account all factors which it deems necessary (including relevant legal and regulatory requirements, the provisions and recommendations of the UK Corporate Governance Code (Code) and associated guidance). The terms of reference of the Committee are available at www.osb.co.uk.

(ii) External consultants whose advice has been sought, the body by which they were commissioned, and in which areas of the remuneration framework

The Committee obtains independent external advice from Korn Ferry, a consultancy specialising in executive remuneration. A separate team from Korn Ferry was also engaged as the Group's Executive succession planning adviser. Korn Ferry does not have any other connection to the Company, but provides services to another remuneration committee of a listed company that Mary McNamara chairs. The Committee also considers advice from the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Group HR Director, Chief Risk Officers, Group Risk Committee and the Group General Counsel and Company Secretary as relevant (though not in relation to their own remuneration). The Committee takes account of the overall approach to reward for employees of the Company as a whole when designing the pay structures for Executive Directors and other Material Risk Takers. The Committee engages proactively with major shareholders through consultation on material changes to the Remuneration Policy relating to Executive Directors and senior management.

(iii) Description of the scope of the Group's remuneration policy

The Group has remuneration policies that apply to Executive Directors and to all other employees across the wider Group. The Committee has regard to pay structures for both Executive Directors and other employees and ensures that policies at and below executive level are coherent.

For 2023, the Committee implemented the Remuneration Policy approved by shareholders of OSB GROUP PLC in May 2021, in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013 and developed taking into account a number of regulatory and governance principles, including:

- The UK Corporate Governance Code 2018;
- The regulatory framework applying to the Financial Services Sector (including the Dual-regulated firms Remuneration Code and provisions of CRD IV) and
- The executive remuneration guidelines of the main institutional investors and their representative bodies.

(iv) Description of the staff or categories of staff whose professional activities have a material impact on the Group's risk profile (identified staff)

The Group has identified MRTs in accordance with the UK FCA Remuneration Code (SYSC 19) which defines a MRT as a staff member whose professional activities have, or potentially have, a material impact on the risk profile of the Group.

The Group has identified the following Group's meeting the MRT criteria;

- Management Body (Board Executive Directors)
- Management Body (Board Supervisory, Non-Executive Directors)
- Other Senior management (Executive team)
- Other Code Staff (Beneath Executive team)
-

(b) Information relating to the design and structure of the remuneration system for identified staff

(i) Overview of the key features and objectives of remuneration policy, and information about the decision-making process used for determining the remuneration policy and the role of the relevant stakeholders

The Committee has approved remuneration principles which support a clear link between pay and performance. These principles govern the design of pay structures within the Group and include:

- Striking an appropriate balance between risk taking and reward;
- Encouraging and supporting a strong culture of service and delivery;
- Aligning employees' interests with those of shareholders and customers;
- Rewarding the achievement of the overall business objectives of the Group and
- Guarding against inappropriate risk taking.

The Group's pay and incentive structures reflect these principles. In addition, to enhance the link between pay and performance, a significant proportion of remuneration for members of the Group Executive Committee (ExCo) and other MRTs is delivered in shares and deferred, with the final value dependent on the price of the underlying shares at the time of vesting.

The main elements of remuneration for identified MRTs is set out below.

Fixed pay

In order to attract and retain individuals of a suitable calibre, MRTs are paid fixed pay components of base salary, pension contribution (or equivalent cash allowance) and benefits which may include a car allowance, medical and life insurance or income protection. These elements are set at a level to ensure that there is not an excessive dependence on variable remuneration.

Executive Bonus Scheme (EBS), including the Deferred Share Bonus Plan (DSBP)

Members of the ExCo are eligible to receive awards under the EBS. The purpose of the EBS is to incentivise and reward individuals for the achievement of pre-defined annual financial and operational objectives, which are approved by the Committee and are closely linked to the corporate strategy.

The maximum award for Executive Directors is 110% of base salary with the cap for other MRTs being determined by reference to the role and grade within the organisation, but no other employee is eligible for a bonus above 100% of salary.

For the majority of the ExCo, 90% of their overall bonus award is subject to achievement against the EBS Scorecard. The EBS scorecard contains a broad range of metrics so as to provide a comprehensive reflection of performance in all key areas of the business, including a strong focus on customer, staff and quality indicators. The remaining proportion of their bonus award is based on individual performance versus established role specific objectives. The aforementioned 90%:10% split does not apply to the Group CRO, Group Chief Credit and Compliance Officer or Group Chief Internal Auditor, for whom a 50%:50% split applies instead.

Prior to approving awards under the EBS, the Committee receives confirmation from the Group Risk Committee that the Company has operated within the Board-approved risk framework for the year under review and that the indicative award is appropriate in this context.

For 2023, the performance conditions for Executive Directors in the EBS which comprised 90% of the award were:

- 50% Financial (underlying profit before tax (PBT), all-in Return on Equity (RoE), cost to income ratio, net loan book growth)
- 15% Customer (customer satisfaction, broker satisfaction, complaints)
- 15% Quality (overdue management actions, arrears, high severity incidents)
- 10% ESG (gender and ethnic diversity, environment and employee engagement)

The remaining elements of the award (10%) were based on the Executive Directors' personal performance.

The objectives in the EBS scorecard, and the weightings, which are allocated to each ExCo member, are varied in order to appropriately reflect the nature of their respective roles.

Executive Directors and members of the ExCo receive 50% of any bonus as shares with a holding period. The holding period for Executive Directors is three years and one year for other members of ExCo, and could be up to seven years in some cases.

Annual bonus

Senior managers below ExCo who are MRTs also participate in the EBS (50% of bonus opportunity) and in the formulaic discretionary bonus scheme applicable to the broader employee base (50% of bonus opportunity). Under the formulaic discretionary bonus scheme, bonus award levels are defined on a matrix basis with the determining factors being the individual employee's annual performance rating and the Board's rating of Group performance, both of which are established via a 1 to 5 ratings scale.

Performance Share Plan

ExCo members and MRTs are eligible for awards under the Performance Share Plan (PSP). The purpose of the PSP is to incentivise and recognise execution of the business strategy over the longer term, reward strong financial performance over a sustained period and provide a strong equity component to the remuneration package.

The performance conditions for 2023 awards were based on Earnings per Share (EPS) (35% weighting), Total Shareholder Return (TSR) (35% weighting), RoE (15% weighting) and a non-financial risk-based measure (15% weighting). The performance criteria for PSP awards granted in 2023 are set out in the table below.

Performance criteria for PSP awards

Metrics	Weighting	Threshold (25% of maximum)	Stretch (100% of maximum)	Rationale
Adjusted EPS in 2025	35%	92p	105p	Measures the sustainable profitability of the business
Relative TSR versus FTSE 250	35%	Median	Upper quartile	Measures the success of the Company versus other listed companies
Average RoE	15%	15%	21%	Measures the sustainable financial performance and financial efficiency of the business
Non-financial/Risk	15%	For the risk-based measure, the Committee will assess the risk management performance with regard to all relevant risks including, but not limited to, conduct, credit, funding, liquidity, market, operational and regulatory risk. There will be full retrospective disclosure of the Committee's assessment.		Strong governance around risk and quality of the business underpins our operations

The awards vest over an extended time horizon with the awards to Executive Directors and ExCo vesting in tranches between the third and seventh anniversary of grant. Awards to other MRTs vest in tranches between the third and fifth years of grant.

At the time of vesting, the Committee will assess whether the formulaic vesting outcome is aligned with the underlying financial and non-financial performance, risk appetite and individual conduct over the period.

(ii) Information on the criteria used for performance measurement and ex ante and ex post risk adjustment

The Group uses variable pay to align reward with performance which is assessed against a number of metrics.

The Committee has discretion to apply ex ante and ex post risk adjustments, taking into account any risk events during the year from a Conduct and Compliance, Operational and Reputational, Culture, Credit perspective. Risk adjustment can result in reduction or cancellation of payment, deferred or unvested elements.

Variable rewards are subject to malus and clawback for MRTs (i.e. reduction and/or cancellation of unvested awards and repayment or recoupment of paid/vested awards).

(iii) Whether the management body or remuneration committee reviewed the Group's remuneration policy during the past year, and if so, an overview of any changes that were made, the reasons for those changes and their impact on remuneration.

No changes were made to the Remuneration Policy during 2023.

(iv) Information of how the institution ensures that staff in internal control functions are remunerated independently of the businesses they oversee.

For Other Code Staff within Risk and Compliance, half of their maximum bonus opportunity is determined via the outturn of the Executive bonus scheme (using the Balanced Business Scorecard with weighting appropriately adjusted), and the other half is based on a combination of their annual appraisal rating (which considers their performance versus individual objectives) and the Group's overall performance rating, both of which are established via a 1 to 5 ratings scale.

(v) Policies and criteria applied for the award of guaranteed variable remuneration and severance payments

The Company does not usually grant guaranteed variable remuneration and severance payments.

On termination, other than gross misconduct, the Executive Directors will be contractually entitled to salary, pension and contractual benefits (car allowance, private medical cover, life assurance and income protection) over their notice period. The Company may make a payment in lieu of notice equivalent to the salary for the remaining notice period. Payments in lieu of notice would normally be phased and subject to mitigation, by offsetting the payments against earnings elsewhere.

The Company may also provide reasonable legal in respect of any compromise settlement.

(c) Description of the ways in which current and future risks are taken into account in the remuneration processes

The Committee retains the discretion within the Remuneration Policy to adjust existing targets and/or set different measures for the annual bonus. For the PSP, if events happen that cause it to determine that the targets are no longer appropriate, an amendment could be made so that they can achieve their original intended purpose and ensure that the new targets are not materially less or more difficult to satisfy.

Any use of discretions would, where relevant, be explained in the Directors' Remuneration Report in the Group's ARA and may, as appropriate, be the subject of consultation with the Company's major shareholders. The Group operates in a heavily regulated sector, the rules of which are subject to frequent evolution. The Committee therefore also retains the discretion to make adjustments to payments under this Policy as required by financial services regulations.

(d) The ratios between fixed and variable remuneration set in accordance with point (g) of Article 94(1) CRD

The shareholders of OSB GROUP PLC have approved an increase to the variable pay of its MRTs to two times fixed pay, where legislation requires that pay is capped.

(e) Description of the ways in which the Group seeks to link performance during a performance measurement period with levels of remuneration

(i) Overview of the main performance criteria and metrics for the Group, business lines and individuals

The awards under the PSP are based on performance conditions; 35% on EPS growth, 35% on TSR versus the companies in the FTSE 250 Index (excluding Investment Trusts) and 15% each on RoE and a risk-based metric.

The Executive Bonus Scheme (EBS) is based on financial and non-financial metrics (collectively the EBS Scorecard).

- 50% Financial (underlying PBT, all-in RoE, cost to income ratio, net loan book growth)
- 15% Customer (customer satisfaction, broker satisfaction, complaints)
- 15% Quality (overdue management actions, arrears, high severity incidents)
- 10% ESG (gender and ethnic diversity, environment and employee engagement)

(ii) Overview of how amounts of individuals' variable remuneration are linked to Group-wide and individual performance

The targets for each measure in relation to the EBS and PSP take into account the business plan, external operating environment and market expectations. Furthermore, when assessing the performance outcome, the Committee may adjust the formulaic vesting outcome to ensure that it is aligned with the underlying performance, risk appetite and individual conduct over the period.

The Committee has regard to pay structures across the wider Group when setting the Remuneration Policy for Executive Directors and ensures that policies at and below the Executive level are coherent. There are no significant differences in the overall remuneration philosophy, although pay is generally more variable and linked more to the long-term for those at more senior levels. The Committee's primary reference point for the salary reviews for the Executive Directors is the average salary increase for the broader workforce. A highly collegiate approach is followed in the assessment of the annual bonus, with our Balanced Business Scorecard being used to assess bonus outcomes throughout the Group, with measures weighted according to role, where relevant.

Overall, the Remuneration Policy for the Executive Directors is more heavily weighted towards performance-related pay than for other employees. In particular, performance-related long-term incentives are not provided outside the most senior management population as they are reserved for those considered to have the greatest potential to influence overall levels of performance.

Although PSPs are awarded only to the most senior managers in the Group, the Company is committed to widespread equity ownership and a Sharesave Plan is available to all employees. Executive Directors are eligible to participate in this plan on the same basis as other employees.

(iii) Information on the criteria used to determine the balance between different types of instruments awarded including shares, equivalent ownership interest, options and other instruments

The Committee operates the share plans in accordance with their respective rules, the Listing Rules and His Majesty's Revenue and Customs requirements, where relevant. The Company currently grants conditional awards which are satisfied via the new issue of shares via an employee benefit trust. This is in line with market practice.

(iv) Information on the measures the Group will implement to adjust variable remuneration in the event that performance metrics are weak

The Committee has a general discretion to adjust the EBS and PSP outturn to reflect exceptional factors. Any use of discretion would, where relevant, be explained in the Directors' Remuneration Report in the Group's ARA and may, as appropriate, be the subject of consultation with the Company's major shareholders.

(f) Description of the ways in which the Group seeks to adjust remuneration to take account of long-term performance.

(i) Overview of the Group's policy on deferral, pay-out in instrument, retention periods and vesting of variable remuneration

50% of any bonus earned will be delivered in shares, subject to a three year holding period for Executive Directors and one year for other MRTs. In exceptional circumstances of high bonus payments, there may be a requirement to defer a proportion of bonus with vesting staggered over three to seven years, in line with the deferral.

(ii) Information of the Group's criteria for ex post adjustment adjustments (malus during deferral and clawback after vesting)

Malus and clawback provisions apply to incentive plans including the Executive Bonus Scheme (including the deferred element) and the PSP. These provide for incentive recovery in the event of the discovery of a material misstatement of results, an error in the calculation of bonus outcome, significant failure of risk management, regulatory censure or in instances of individual gross misconduct.

In order to effect any such clawback, the Committee may use a variety of methods, including withholding deferred bonus shares, reducing or withholding future PSP awards or cash bonuses, or seeking to recoup cash already paid.

(iii) Where applicable, shareholding requirements that may be imposed on identified staff

Members of ExCo are required to build and maintain a shareholding in the Company. The CEO is required to accumulate and maintain a shareholding of value equivalent to 250% of base salary; the CFO 200% of base salary; and other members of ExCo 100% of base salary. 50% of any vested share awards must be retained until the guideline is achieved. From 2020, the guidelines apply to Executive Directors for two years following cessation of employment.

Further information can be found in the Directors' Remuneration Report in the Group's ARA.

(g) The description of the main parameters and rationale for any variable components scheme and any other non-cash benefit in accordance with point (f) of Article 450(1) CRR

Further information can be found in the Directors Remuneration Report in the Group's ARA.

(h) Upon demand from the relevant Member State or competent authority, the total remuneration for each member of the management body or senior management

The remuneration of the Group's Executive and Non-Executive Directors can be found in the Directors Remuneration Report in the Group's ARA.

(i) Information on whether the Group benefits from a derogation laid down in Article 94(3) CRD in accordance with point (k) of Article 450(1) CRR

The Group is a proportionality 2 firm and does not benefit from a derogation.

(j) Large institutions shall disclose the quantitative information on the remuneration of their collective management body, differentiating between executive and non-executive members in accordance with Article 450(2) CRR.

Quantitative disclosures applicable to the Group can be found in REM1 – REM5 below.

17.2 UK REM1 – Remuneration awarded for the financial year

£000s			a	b	c	d
			MB Supervisory function[9]	MB Management function[10]	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	9	2	10	30
2		Total fixed remuneration	1,191.2	1,581.5	3,284.1	5,807.8
3		Of which: cash-based	1,191.2	1,581.5	3,284.1	5,807.8
9	Variable remuneration	Number of identified staff	9	2	10	30
10		Total Variable remuneration	-	2,284.9	4,128.8	5,643.0
11		Of which: cash-based	-	346.7	620.2	853.8
12		Of which: deferred	-	346.7	620.2	772.4
UK-13a		Of which: shares or equivalent ownership interests	-	1,591.6	2,888.5	4,016.7
17	**Total remuneration**		1,191.2	3,866.5	7,412.9	11,450.7

17.3 UK REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

£000s		a	b	c	d
		MB Supervisory function	MB Management function	Other senior management	Other identified staff
	Guaranteed variable remuneration awards				
1	Guaranteed variable remuneration awards - Number of identified staff	-	-	-	-
2	Guaranteed variable remuneration awards -Total amount	-	-	-	-
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	-	-	1	-
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	-	-	176.5	-
	Severance payments awarded during the financial year (£000s)				
6	Severance payments awarded during the financial year - Number of identified staff	-	-	-	2
7	Severance payments awarded during the financial year - Total amount	-	-	-	213.0

9 MB supervisory body includes Rod Duke (CCFSL Chairman)

10 Total variable remuneration includes the total value of the PSP Awards which were granted in March 2023 as well as 2023 bonus awards which are being paid in April 2024

8	Of which paid during the financial year	-	-	176.5	213.0
9	Of which deferred	-	-	-	-
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	-	-	176.5	213.0
11	Of which highest payment that has been awarded to a single person	-	-	176.5	213.0

17.4 UK REM3 – Deferred remuneration

		A	b	c	d	e	f	UK - g	UK - h
£000s	**Deferred and retained remuneration**	**Total amount of deferred remuneration awarded for previous performance periods**	**Of which due to vest in the financial year**	**Of which vesting in subsequent financial years**	**Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year**	**Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years**	**Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)**	**Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year**	**Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods**
1	MB Supervisory function	-	-	-	-	-	-	-	-
2	Cash-based	-	-	-	-	-	-	-	-
3	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
4	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
5	Other instruments	-	-	-	-	-	-	-	-
6	Other forms	-	-	-	-	-	-	-	-
7	MB Management function	2,049.8	495.3	1,554.4	-	-	-	495.3	-
8	Cash-based	-	-	-	-	-	-	-	-
	Shares or equivalent ownership interests	2,049.8	495.3	1,554.4	-	-	-	495.3	-
10	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
11	Other instruments	-	-	-	-	-	-	-	-
12	Other forms	-	-	-	-	-	-	-	-
13	Other senior management	1,482.0	632.5	849.6	-	-	-	632.5	-
14	Cash-based	-	-	-	-	-	-	-	-
	Shares or equivalent ownership interests	1,482.0	632.5	849.6	-	-	-	632.5	-
16	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
17	Other instruments	-	-	-	-	-	-	-	-

18	Other forms	-	-	-	-	-	-	-	-
19	Other identified staff	1,579.6	572.9	1,006.8	-	-	-	572.9	-
20	Cash-based	-	-	-	-	-	-	-	-
21	Shares or equivalent ownership interests	1,579.6	572.9	1,006.8	-	-	-	572.9	-
22	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
23	Other instruments	-	-	-	-	-	-	-	-
24	Other forms	-	-	-	-	-	-	-	-
25	Total amount	5,111.4	1,700.7	3,410.8	-	-	-	1,700.7	-

17.5 UK REM4 – Remuneration of 1 million EUR or more per year

		a
EUR		Identified staff that are high earners as set out in Article 450(i) CRR
1	1 000 000 to below 1 500 000	5
2	1 500 000 to below 2 000 000	1
3	2 000 000 to below 2 500 000	-
4	2 500 000 to below 3 000 000	1
5	3 000 000 to below 3 500 000	-
6	3 500 000 to below 4 000 000	-
7	4 000 000 to below 4 500 000	-
8	4 500 000 to below 5 000 000	-
9	5 000 000 to below 6 000 000	-
10	6 000 000 to below 7 000 000	-
11	7 000 000 to below 8 000 000	-

17.6 UK REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		a	b	c	d	e	f	g	h
		Management body remuneration			Business areas				
		MB Supervisory function	MB Management function	Total MB	Investment Banking	Retail Banking	Corporate function	Independent internal control	Total
1	**Total number of identified staff**	9	2	11	-	14	9	-	40
2	of which: members of the MB	9	2	11	-	-	-	-	
3	of which: other senior management	-	-	-	-	-	-	-	10

4	of which: other identified staff	-	-	-	-	-	-	-	30
5	**Total remuneration of identified staff (£000s)**	1,191.2	3,866.5	5,057.7	-	6,361.9	4,619.9	4,619.9	18,863.6
6	of which: variable remuneration	-	2,284.9	2,284.9	-	3,240.6	2,413.6	2,413.6	9,771.7
7	of which: fixed remuneration	1,191.2	1,581.5	2,772.7	-	3,121.3	2,206.2	2,206.2	9,091.9

18. Annex XXXV | Encumbered and unencumbered assets

18.1 UK AE1 – Encumbered and unencumbered assets

		010	030	040	050	060	080	090	100
		Carrying amount of encumbered assets		**Fair value of encumbered assets**		**Carrying amount of unencumbered assets**		**Fair value of unencumbered assets**	
£m			**of which notionally eligible EHQLA and HQLA**		**of which notionally eligible EHQLA and HQLA**		**of which EHQLA and HQLA**		**of which notionally eligible EHQLA and HQLA**
010	**Assets of the reporting institution**	7,383.1	15.1			21,779.5	3,024.9		
030	Equity instruments	-	-	-	-	-	-	-	-
040	Debt securities	22.4	15.1	22.4	18.4	417.3	262.6	394.9	241.1
050	of which: covered bonds	-	-	-	-	-	-	-	-
060	of which: securitisations	8.0	5.3	8.0	21.4	320.7	150.9	316.2	138.2
070	of which: issued by general governments	9.8	9.8	9.8	9.8	133.2	133.2	133.2	133.2
080	of which: issued by financial corporations	-	-	-	-	-	-	-	-
090	Of which: issued by non-financial corporations	-	-	-	-	-	-	-	-
120	Other assets	7,364.6	-	-	-	21,340.8	2,789.6	-	-

18.2 UK AE2 – Collateral received and own debt securities issued

		010	030	040	050
		Fair value of encumbered collateral received or own debt securities issued		**Unencumbered**	
				Fair value of collateral received or own debt securities issued available for encumbrance	
£m			**of which notionally eligible EHQLA and HQLA**		**of which notionally eligible EHQLA and HQLA**
130	**Collateral received by the reporting institution**	-	-	17.0	17.0
140	Loans on demand	-	-	-	-
150	Equity instruments	-	-	-	-
160	Debt securities	-	-	17.0	17.0
170	of which: covered bonds	-	-	-	-
180	of which: securitisations	-	-	-	-
190	of which: issued by general governments	-	-	17.0	17.0
200	of which: issued by financial corporations	-	-	-	-
210	of which: issued by non-financial corporations	-	-	-	-
220	Loans and advances other than loans on demand	-	-	-	-
230	Other collateral received	-	-	-	-
240	**Own debt securities issued other than own covered bonds or securitisations**	-	-	-	-
241	**Own covered bonds and asset-backed securities issued and not yet pledged**			1,691.0	-
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	7,383.1	15.1		

18.3 UK AE3 – Sources of encumbrance

		010	**030**
£m		**Matching liabilities, contingent liabilities or securities lent**	**Assets, collateral received and own debt securities Issued other than covered bonds and securitisations encumbered**
010	Carrying amount of selected financial Liabilities	4,625.29	7,275.86

18.4 UK AE4 – Accompanying narrative information

(a) General narrative information on asset encumbrance

In line with the business strategy, assets are encumbered as part of the Group's funding arrangements. Risk appetites set a limit on the overall amount of assets to be encumbered, with ALCO monitoring the current and projected encumbrance profiles of OSB, CCFSL and the Group monthly. Any events causing a change in the asset encumbrance levels are examined.

(b) Narrative information on the impact of the business model on assets encumbrance and the importance of encumbrance to the institution's business model, which provides users with the context of the disclosures required in Template UK AE1 and UK AE2

The main activities relate to securitisation, repurchase agreements, ILTR and TFSME. The Group also holds encumbered assets in the form of the required cash ratio deposit with the BoE and pledged derivative cash margin. Other asset items are deemed as unavailable for encumbrance including intangible assets, the deferred tax asset (DTA), property, plant and equipment, derivative assets and sundry debtors. OSB and CCFSL have similar levels of encumbrance and from time to time Charter Mortgages Limited and Broadlands Finance Limited encumbered assets related to securitisation transactions. Asset encumbrance is calculated using the median values of the four quarter end values in the year, determined by interpolation.

19. Annex XXXVII | Interest Rate Risk in the Banking Book

19.1 UK IRRBBA IRRBB – risk management objectives and policies

(a) A description of how the institution defines, measures, mitigates and controls IRRBB for the purposes of risk control and measurement.

IRRBB is defined by the Group as the current or prospective risk to capital and earnings arising from adverse movements in interest rates that affect its banking book positions. The Group is exposed to IRRBB in the normal course of business activities but does not look to profit from and has no appetite for incremental interest rate risk with all interest rate risk residing within the banking book. The Group is primarily exposed to IRRBB through duration risk, optionality risk and basis risk.

The Board has ultimate responsibility for IRRBB, with the monitoring of risk appetites delegated to ALCO. Treasury is responsible for the daily risk mitigation of IRRBB. The Group measures and monitors IRRBB by assessing the sensitivity of both Economic Value (EV) and Earnings to changes in the interest rate, alongside the regulatory requirements, and is undertaken at entity level.

The Group mitigates and controls IRRBB through prudent management which seeks to minimise IRRBB exposures, typically through matching assets and liabilities with similar tenors, taking offsetting interest rate swaps or allocation of reserves against fixed rate assets.

(b) A description of the institution's overall IRRBB management and mitigation strategies

The Group manages and mitigates IRRBB through a strong governance process which also allows for flexibility in changing circumstances. The Group holds a twice monthly IRRBB working group with any issues escalated up to ALCO. The working group monitors a range of internally derived 1 in 20 year scenarios for EV and Basis risk, alongside a parallel interest rate shock to assess Earnings sensitivity to duration risk as well as the Supervisory outlier test results. A suite of early warning indicators are also monitored at the IRRBB working group, with an overall risk alert level shared with ALCO.

Limits are documented within the Market and Liquidity Risk Policy which is reviewed annually and requires approval from ALCO and the Board. In addition to this, risk appetites are reviewed every six months which also requires ALCO and Board approval.

CCFSL and OSB also operate within Gap report repricing bucket EWI's, which require dispensation from second line for any forecast breaches.

The Group also monitors mortgage pipeline and prepayment assumptions closely, especially during times of stress, and how divergences from current assumptions would impact Capital at Risk and subsequent hedging requirements. Frequent analysis is also undertaken to consider the impact of any BoE base rate changes.

IRRBB is mitigated further through natural offsets between repricing assets and liabilities, interest rate swaps and allocation of reserves against fixed rate assets.

(c) The periodicity of the calculation of the institution's IRRBB measures, and a description of the specific risk measures that the institution uses to gauge its sensitivity to IRRBB, including changes to its economic value and earnings.

The Group runs scenarios to assess Capital at Risk, Earnings at Risk and basis risk sensitivity.

Capital at Risk metrics are monitored daily for CCFSL and twice monthly in OSB due to data availability. Earnings at Risk and basis risk metrics are calculated monthly but can be run more frequently when required.

Capital at Risk assesses EV sensitivity by estimating the change in the net present value of the Group's assets, liabilities and off-balance sheet items under a range of specific interest rate shock and stress scenarios. The largest negative result is compared against Tier 1 capital to ensure the sensitivity remains within limit.

The Group measures earnings sensitivity through Earnings at Risk, over a 12 month and 3 year horizon, and basis risk, over a 12 month horizon. All of these metrics assess the impact that specific interest rate shocks and scenarios have on net-interest income (NII), with the most adverse result compared against the projected NII for that year to ensure sensitivity remains within limit.

(d) A description of the interest rate shock and stress scenarios that the institution uses to estimate changes in its economic value and in earnings

Economic value is stressed by applying six different shaped shocks under internally calibrated interest rate scenarios to the Sterling overnight Index Average (SONIA) yield curve, with the shapes following the same pattern as the supervisory outlier tests.

Earnings sensitivity is measured by applying a 100bps parallel shock to a repricing balance sheet. In addition to this, earnings sensitivity is also calculated when monitoring basis risk with a 1-in-20 year interest rate dislocation incorporated into different scenarios including a flat, increasing and decreasing Bank of England Base Rate (BBR) accompanied by dislocations between BBR and SONIA.

(e) A high-level description of key modelling and parametric assumptions used in calculating change in economic value of equity (ΔEVE) and change in net interest income (ΔNII) in template UK IRRBB1

The change in EVE calculations are assessed as per the PRA guidance and includes the following assumptions:

- EVE sensitivity is calculated using a run-off balance sheet and incorporates BAU mortgage prepayment assumptions, in line with internal metrics. Interest flows are only included for fixed rate products as the interest for variable products will vary depending on the scenario;
- Commercial margins are also excluded from the calculation. The definition of commercial margin adopted by the Group for the purposes of the Supervisory Outlier Test (SOT) is the customer rate minus the relevant swap rate applicable at the date at which it was hedged;
- The discount curve used for the risk free rate is the SONIA curve;
- Equity is removed from the repricing balance sheet and
- For CCFSL non-maturing deposits reprice either on day 21 for Easy Access products, to reflect operational lag time, or upon notice periods for notice accounts. OSB also assume that Easy Access products re-price on day 21, however notice accounts reprice on either day 21 or notice period depending on the account Term and Conditions (T&C's). OSB Notice product T&C's were changed in September 2021 so that for new accounts only, customers do not have access to their funds before the end of the notice period, prior to this all notice accounts were accessible subject to a penalty charge.

The change in NII calculations are assessed as per the PRA guidance and include the following assumptions:

- NII sensitivity is calculated using a static balance sheet over a twelve month period, with balances assumed to reprice on like for like products.
- Administered rate products receive a full rate pass on in both the rate rise and rate fall scenarios, subject to contractual floors

(f) A description of significant modelling assumptions used in the institution's internal measurement systems (IMS) for purposes other than disclosure that differ from the modelling assumptions prescribed for the disclosure in Template UK IRRBB1, including their directional implications and the rationale for those differences.

The Group calculates the disclosures for template UK IRRBB1 in line with section 9.7 of the ICAAP in the PRA rulebook. For Economic Value of Equity Supervisory Outlier Tests (SOT) the only significant assumption differences are those that are prescribed, with equity included when calculating internal EV metrics. In addition to this, less severe interest rate shocks are applied to reflect historical changes, however following the same shapes.

For internal reporting of NII sensitivity less severe shocks are applied, with a +/- 100bps parallel shock scenario, however it is assumed that retail savings balances have an implied floor of 0bps. If this assumption is incorporated into the disclosures in UK IRRBB1 the NII sensitivity would increase, with the impact of this described further within section (h).

(g) A high-level description of how the institution hedges its IRRBB, as well as the associated accounting treatment

Where possible the Group allows for natural hedges between mortgages and savings, with this predominately occurring between two year savings and mortgage products. Outside of this the Group hedges its IRRBB by undertaking plain vanilla Fixed/SONIA interest rate swaps.

The mortgage pipeline is hedged through a mixture of forward starting interest rate swaps and by allocating a proportion of reserves against it until completion.

The Group has chosen to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of IFRS 9. The Group uses fair value hedge accounting for a portfolio hedge of interest rate risk, and micro fair value hedge accounting for specific fixed rate liabilities. The fair value movement of the hedging instruments is matched against appropriate hedged items fair value. The movement in each accounting period of the fair values of both hedging instruments and hedged items are offset in the statement of comprehensive income.

(h) Any other information which the institution wishes to disclose regarding its interpretation of the significance and sensitivity of the IRRBB measures disclosed and/or an explanation of any significant variations in the level of the reported IRRBB since previous disclosures

In previous disclosures, the IRRBB sensitivity has been split out for CCFSL and OSB, however the sensitivity has now been combined to report at OSB Group level, in line with other disclosures. June figures have therefore been recalculated to create the Group view to which December can be compared.

In line with the EVE calculation, the change in NII sensitivity under the 250bps parallel shock scenario reflects the assumption that the full shock can be passed onto administered rate products, unless contractual floors explicitly state otherwise.

If an implied floor of 0bps was applied to retail savings, to reflect the assumptions used within the internal calculation, this would result in greater NII sensitivity. For OSBG the loss in NII would be £47.8m, an increase of £8.76m compared to the amount reported in template UK IRRBB1.

Requirement	Quantitative information
Average repricing maturity assigned to non-maturing deposits (NMDs)	28 Days
Longest repricing maturity assigned to NMDs	120 Days

19.2 UK IRRBB1 – Quantitative information on IRRBBs

OSBG	∆EVE		∆NII		Tier 1 capital	
£m	**31-Dec-23**	**30-Jun-23**	**31-Dec-23**	**30-Jun-23**	**31-Dec-23**	**30-Jun-23**
Parallel shock up	-39.02	-16.53	36.50	44.79		
Parallel shock down	44.01	18.35	-39.06	-47.38		
Steepener shock	-0.90	1.06				
Flattener shock	-6.41	-4.11				
Short rates shock up	-18.96	-9.25				
Short rates shock down	19.95	9.73				
Maximum	44.01	18.35	-39.06	-47.38		
Tier 1 Capital					2,055.7	2,178.5

20. Glossary

ALCO	Group Assets and Liabilities Committee
ALMM	Additional Liquidity Monitoring Metrics
ARA	Annual Report and Accounts
AT1	Additional Tier 1 capital
BAU	Business As Usual
BBR	Bank of England Base Rate
BCBS	Basel Committee on Banking Supervision
BOE	Bank of England
CBILS	Coronavirus Business Interruption Loan Scheme
CCFSL	Charter Court Financial Services Limited
CCoB	Capital Conservation Buffer
CCyB	Countercyclical Buffer
CCR	Counterparty Credit Risk
CEO	Chief Executive Officer
Code staff	An employee of a dual-regulated firm whose professional activities have a material impact on the firm's risk profile, including any employee who is deemed to have a material impact on the firm's risk profile in accordance with the Material Risk Takers Regulation 2020
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CRR	Capital Requirements Regulation
COREP	Common Reporting
CRD	Capital Requirements Directive also known as CRD IV or CRD V
CRM	Credit Risk Mitigation
CRO	Chief Risk Officer
CSA	Credit Support Annexes
CVA	Credit Valuation Adjustment
DSBP	Deferred Share Bonus Plan
DTA	Deferred Tax Asset
DWF	Discount Window Facility
EBA	European Banking Authority
EBS	Executive Bonus Scheme
ECAI	External Credit Assessment Institution
ECL	Expected Credit Losses
EIR	Effective Interest Rate
EMIR	European Market Infrastructure Regulation
ERMF	Enterprise Risk Management Framework
EPS	Earnings Per Share
ESG	Environmental, Social and Governance
EWI	Early Warning Indicator
EV	Economic Value
ExCo	Group Executive Committee
FCA	Financial Conduct Authority
FINREP	Financial Reporting
FIR	Funding in Resolution
FMI	Financial Market Infrastructure
FPC	Financial Policy Committee
FSCS	Financial Services Compensation Scheme
GMRA	Group Master Repurchase Agreement
HQLA	High Quality Liquid Asset
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
ILTR	Index Long Term Repo
IRB	Internal Ratings-Based
IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swaps and Derivatives Association
KRI	Key Risk Indicator
LAB	Liquid Asset Buffer
LCR	Liquidity Coverage Ratio
LIBOR	London Interbank Offered Rate
LTV	Loan-to-Value
LWG	Liquidity Working Group
MI	Management Information

MREL	Minimum requirements for own funds and eligible liabilities
MRT	Material Risk Takers
NII	Net Interest Income
NSFR	Net Stable Funding Ratio
OCIR	Operational Continuity in Resolution
OTC	Over The Counter
OSB	OneSavings Bank plc
OSBG	OSB Group plc
PBT	Profit before Tax
Pillar 1	The first pillar - Minimum Capital Requirement covers total risk including the credit risk, market risk as well as Operational Risk
Pillar 2	The second pillar - Supervisory Review Process is intended to ensure that the banks have adequate capital to support all the risks associated in their businesses
Pillar 3	The third pillar complements the first and second pillar. This is completed through these disclosures of capital structure and approaches to assess the capital adequacy including the governance
PRA	Prudential Regulation Authority
PSP	Performance Share Plan
PVA	Prudent Value Adjustment
RAF	Resolvability Assessment Framework
RCSA	Risk and control self-assessments
RMBS	Residential Mortgage Backed Security
RMC	Risk Management Committee
ROE	Return on Equity
RWEA	Risk Weighted Exposure Amount
SCA	Strong Customer Authentication
SFT	Securities Financing Transactions
SONIA	Sterling Overnight Index Average
SOT	Supervisory Outlier Test
SREP	Supervisory Review and Evaluation Process
SRT	Significant Risk Transfer
SPV	Special Purpose Vehicle
TCR	Total Capital Requirement
T&C's	Term and Conditions
TFSME	Term Funding Scheme with additional incentives for SMEs
The Group	OSBG and its subsidiaries
TSR	Total Shareholder Return
UK	United Kingdom
VIR	Valuation in Resolution