PILLAR 3 DISCLOSURES

For the year ended 31 December 2022

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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 2022. The Group and the two banking entities within the Group are authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) (being OSBG, firm registration number 101961, OneSavings Bank plc (OSB), firm registration number 530504 and Charter Court Financial Services Limited (CCFSL), firm registration number 494549).

Disclosure requirements are designed to promote market discipline by banks through the publication of key information such as capital resources and adequacy, risk management, policies, objectives and risks the Group is exposed to.

The Basel Committee on Banking Supervision (BCBS) introduced the Basel framework with the primary goal of promoting the safety and soundness of the financial system. The framework consists of the following three pillars of regulation:

- Pillar 1 defines minimum capital requirements for certain risks, including credit, market and operational risks;
- Pillar 2 sets out the supervisory review process in order to identify additional capital requirements to cover risks not covered by Pillar 1; and
- Pillar 3 encourages market discipline which will allow market participants to assess key pieces of information on the firm's capital, risk exposures and risk assessment process.

The Group's disclosures have been prepared in accordance with the UK Capital Requirements Regulation (CRR) Disclosure part of the PRA rulebook following the implementation of PS22/21 'implementation of Basel Standards: Final rules' which came into force on 1 January 2022.

The Group's Annual Report and Accounts (ARA) and Pillar 3 Disclosures have been prepared on a fully consolidated basis, with all subsidiary undertakings being included in consolidation. There are no differences between statutory accounting and prudential consolidation methods. Where equivalent disclosures are available in other published financial statements, the Group will indicate where those disclosures can be found.

The Group's Pillar 3 disclosures should be read in conjunction with the ARA for the year ending 31 December 2022. Both can be found in an electronic format in a single medium location on the Group's website: www.osb.co.uk.

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

Resolvability Assessment Framework (RAF)

The Group has responded to the RAF 1 January 2023 deadline by providing to the BoE, documentation attesting to and evidencing the Group's current level of RAF compliance. In the course of 2022 RAF compliance was assessed and managed by the Risk function, as a programme, in which the capabilities, arrangements and resources supporting the three resolvability outcomes, (listed below) were documented in RAF barrier playbooks and tested through 'page-turning' fire-drill exercises with the responsible business as usual (BAU) subject experts.

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

Operational capability enhancements identified in the course of RAF fire-drills were documented and shared with the BoE, and each will be addressed as part of business as usual (BAU) in 2023 and beyond, with Risk providing oversight as second line and internal audit as the third line of defence.

The Group has received a waiver for OCIR compliance across all core business lines with compliance delivery required by 1 January 2024. Key enhancements to be addressed in 2023 include:

- the implementation of an enhanced Group stress testing capability which will support processes to perform detailed valuation in resolution assessments
- the development, testing and implementation of an enhanced resolution specific management information suite
- enhancements to the method and approach taken to fire-drill exercises to include more operational testing and a consistent approach to the establishment of resolution scenarios, metrics and parameters.

Countercyclical Capital Buffer (CCyB)

The Financial Policy Committee (FPC) increased the CCyB from 0% to 1% on the 13 December 2022 with a further 1% increase to be implemented on 5 July 2023 taking it to 2%. In December 2022 the FPC confirmed that they are maintaining the CCyB rate at 2%, which is due to come into effect on 5 July 2023. The global and UK economic outlooks have deteriorated and financial conditions have tightened. However, the FPC judges that the UK banking system can absorb the impact of expected weakening in the economic situation whilst continuing to meet credit demand from creditworthy households and businesses.

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[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 disclosure requirements

The PRA published its final rules implementing the remaining Basel III standards into the UK prudential regulatory framework. These rules are referred to as the 'UK Basel III' regime and came into force on 1 January 2022 and constitute the UK's prudential regulatory regime for UK banks and PRA designated investment firms. The Group has embedded the full suite of applicable templates in the 2022 disclosures.

Internal Rating based (IRB)

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

Basel 3.1

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

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

2.1 UK KM1 Key metrics

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

Ref		31 Dec 2022 (T)	30 Jun 2022 (T-2)	31 Dec 2021 (T-4)
Available own funds (amounts)				
1	Common Equity Tier 1 (CET1) capital (£m)	1,920.7	1,820.0	1,781.7
2	Tier 1 capital (£m)	2,070.7	1,970.0	1,931.7
3	Total capital (£m)	2,070.7	1,970.0	1,931.7
Risk weighted exposure amounts				
4	Total risk-weighted exposure amount (£m)	10,494.7	9,640.2	9,101.6
Capital ratios (as a percentage of risk-weighted exposure amount)				
5	Common Equity Tier 1 ratio (%)	18.3%	18.9%	19.6%
6	Tier 1 ratio (%)	19.7%	20.4%	21.2%
7	Total capital ratio (%)	19.7%	20.4%	21.2%
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%
UK 7b	Additional AT1 SREP requirements (%)	0.3%	0.3%	0.3%
UK 7c	Additional T2 SREP requirements (%)	0.4%	0.4%	0.4%
UK 7d	Total SREP own funds requirements (%)	9.5%	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%
9	Institution specific countercyclical capital buffer (%)	1.0%	0%	0%
11	Combined buffer requirement (%)	3.5%	2.5%	2.5%
UK 11a	Overall capital requirements (%)	13.0%	12.0%	12.3%
12	CET1 available after meeting the total SREP own funds requirements (%)[2]	10.3%	11.0%	11.7%

[2] Total Supervisory Review and Evaluation Process (SREP) own funds requirements of 9.5% of risk-weighted exposure amount are met by 8.0% CET1 and 1.5% AT1. This leaves available CET1 of 10.3% of RWAs after meeting total SREP own funds requirements.

Leverage ratio[3]				
13	Total exposure measure excluding claims on central banks (£m)	24,725.4	22,644.6	24,555.5
14	Leverage ratio excluding claims on central banks (%)	8.4%	8.7%	7.9%
Liquidity coverage[4]				
15	Total high-quality liquid assets (HQLA) (Weighted value average) (£m)	2,907.1	2,678.5	2,636.3
16a	Cash outflows - Total weighted value (£m)	1,656.8	1,486.9	1,442.0
16b	Cash inflows - Total weighted value (£m)	165.3	128.3	93.8
16	Total net cash outflows (adjusted value) (£m)	1,491.5	1,358.5	1,348.3
17	Liquidity coverage ratio (%)	197.0%	197.6%	195.5%
Net stable funding ratio[5]				
18	Total available stable funding (£m)			
19	Total required stable funding (£m)			
20	NSFR ratio (%)			

Total Capital

The Group's capital position remained strong, with a CET1 ratio of 18.3% and a total capital ratio of 19.7% as at the end of 2022 (31 December 2021: 19.6% and 21.2%, respectively). Both ratios reflected strong capital generation from profitability in the year offset by loan book growth, dividend payments and the impact of the £100m share repurchase programme completed in 2022. The Group is targeting a CET 1 ratio of 14%, once the capital stack has been optimised fully over the next couple of years, subject to market conditions, through planned Tier 2 and MREL qualifying debt issuance.

Leverage Ratio

The Group had a leverage ratio excluding claims on central banks of 8.4% as at 31 December 2022 (31 December 2021: 7.9%).

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

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

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

In 2022, both Banks actively managed their liquidity and funding profiles within the confines of their risk appetites as set out in the Group Internal Liquidity Adequacy Assessment Process (ILAAP). Both OSB and CCFSL remain well above risk appetite and regulatory minimums.

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[3] In line with the latest UK Leverage Ratio Framework which came into effect on 1 January 2022, the leverage ratio now excludes claims on central banks. As at 31 December 2021, the ratio would have been 8.9% on a like for like basis with a leverage exposure measure of £21,742.2m.

[4] Liquidity coverage has been restated for June 2022 and December 2021 due to a change in methodology. Previous disclosures were prepared using a 3 month quarterly average. Disclosure have now been restated to incorporate a 12 month average preceding the quarter in line with regulation.

[5] In line with PS22/21, Net Stable Funding Disclosures are not due until 1 January 2023.

2.2 IFRS 9 – Impact of IFRS 9 transitional arrangement

The table below details capital, risk weighted assets, capital and leverage ratios with and without the International Financial Reporting Standard (IFRS) 9 transitional arrangement (as if IFRS 9 or analogous Expected Credit Loss (ECLs) transitional arrangements had not been applied).

	31 Dec 2022	31 Dec 2021
Available capital (amounts)		
Common Equity Tier 1 capital (CET1)	1,920.7	1,781.7
Common Equity Tier 1 capital (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	1,893.4	1,759.8
Tier 1 capital	2,070.7	1,931.7
Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	2,043.4	1,909.8
Total capital	2,070.7	1,931.7
Total capital as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	2,043.4	1,909.8
Risk weighted assets (amounts)		
Total risk-weighted Assets	10,494.7	9,101.6
Total risk-weighted Assets as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	10,467.4	9,092.4
Capital Ratios		
Common Equity Tier 1 (as a percentage of risk exposure amount)	18.3%	19.6%
Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	18.1%	19.4%
Tier 1 (as a percentage of risk exposure amount)	19.7%	21.2%
Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	19.5%	21.0%
Total capital (as a percentage of risk exposure amount)	19.7%	21.2%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	19.5%	21.0%
Leverage ratios[6]		
Leverage ratio total exposure measure excluding claims on central banks	24,725.4	24,555.5
Leverage ratio excluding claims on central banks	8.4%	7.9%
Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	8.3%	7.8%

Regulatory capital includes a £1.4m add-back under IFRS 9 transitional arrangements. This represents 25.0% of the IFRS 9 transitional adjustment booked directly to retained earnings of £5.9m. The COVID-19 ECL transitional adjustment of £25.9m relates to 75% of the Group's increase in stage 1 and stage 2 ECL following the impacts of COVID-19 and for which transitional rules are being adopted for regulatory capital purposes.

2.3 UK OV1 Overview of risk weighted exposure amounts

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

		Risk weighted exposure amount		Own funds requirement
		2022 £m	2021 £m	2022 £m
1	**Credit risk (excluding CCR)**	**9,496.8**	**8,298.0**	**759.7**
2	*of which the standardised approach*	*9,496.8*	*8,298.0*	759.7
6	**Counterparty credit risk – CCR**	**5.3**	**44.7**	**0.4**
7	*of which standardised approach*	*4.2*	*36.1*	0.3
UK 8a	*of which exposures to a CCP*	*1.1*		0.1
UK 8b	*of which credit valuation adjustment - CVA*	*0.0*	*8.6*	0.0
9	*Of which other CCR*			
16	**Securitisation exposures in the non-trading book**	**32.9**	**31.2**	**2.6**
19	*of which SEC-SA approach*	*32.9*	*31.2*	*2.6*

[6] In line with the latest UK Leverage Ratio Framework which came into effect on 1 January 2022, the leverage ratio now excludes claims on central banks. As at 31 December 2021, the ratio would have been 8.9% on a like for like basis with a leverage exposure measure of £21,742.2m

23	**Operational risk**	**959.6**	**727.7**	**76.8**
UK 23b	*of which standardised approach*	*959.6*	*727.7*	*76.8*
24	*Amounts below the thresholds for deduction (subject to 250% risk weight) (for information)*	*4.6*	*13.2*	*0.4*
29	**Total**	**10,494.7**	**9,101.6**	**839.6**

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, while 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 the business and to ensure that 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 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 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), the Group Risk Committee and the 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 2022 the Group’s combined TCR was 9.27% (December 2021: 9.27%) excluding a static integration add-on of £19.5m.

The Group’s Pillar 2a requirement as at December 2022, excluding the static integration add-on equates to a £133.3m[7] capital requirement (December 2021: £115.6m) which must be met at all times with a minimum of £75.0m of CET1 (December 2021: £65.0m).

3. Annex III - Risk management objectives and policies

3.1 UK OVA Institution risk management approach

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

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

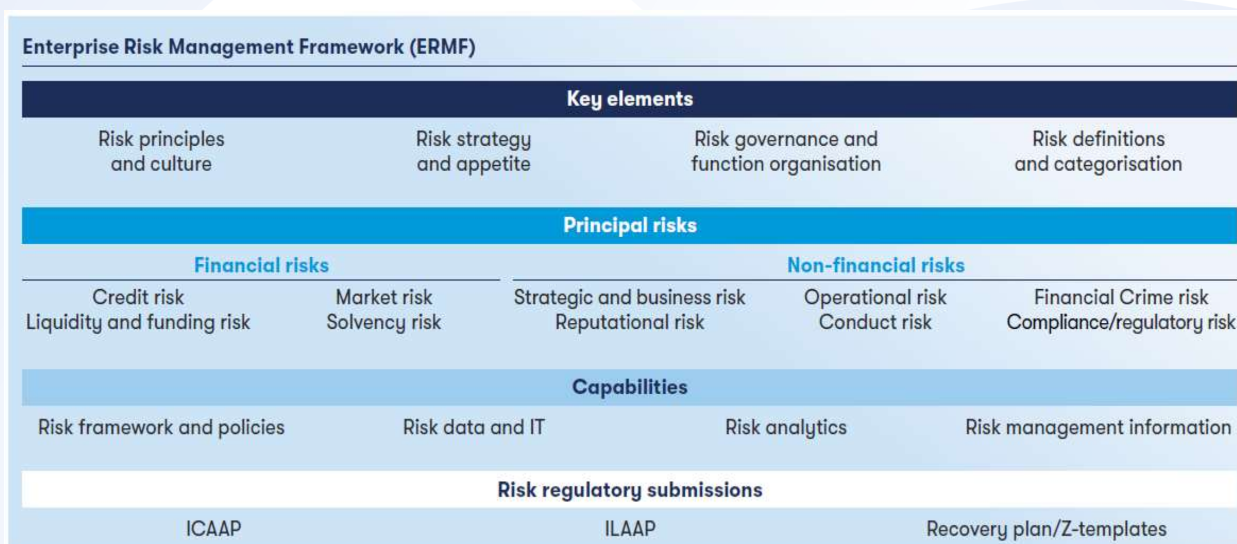
The ERMF is the overarching framework that enables the Board and senior management to actively manage and optimise the risk profile within the constraints of its risk appetite. The ERMF also enables informed risk-based decisions to be taken in a timely manner, ensuring that the interests and expectations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

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

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

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

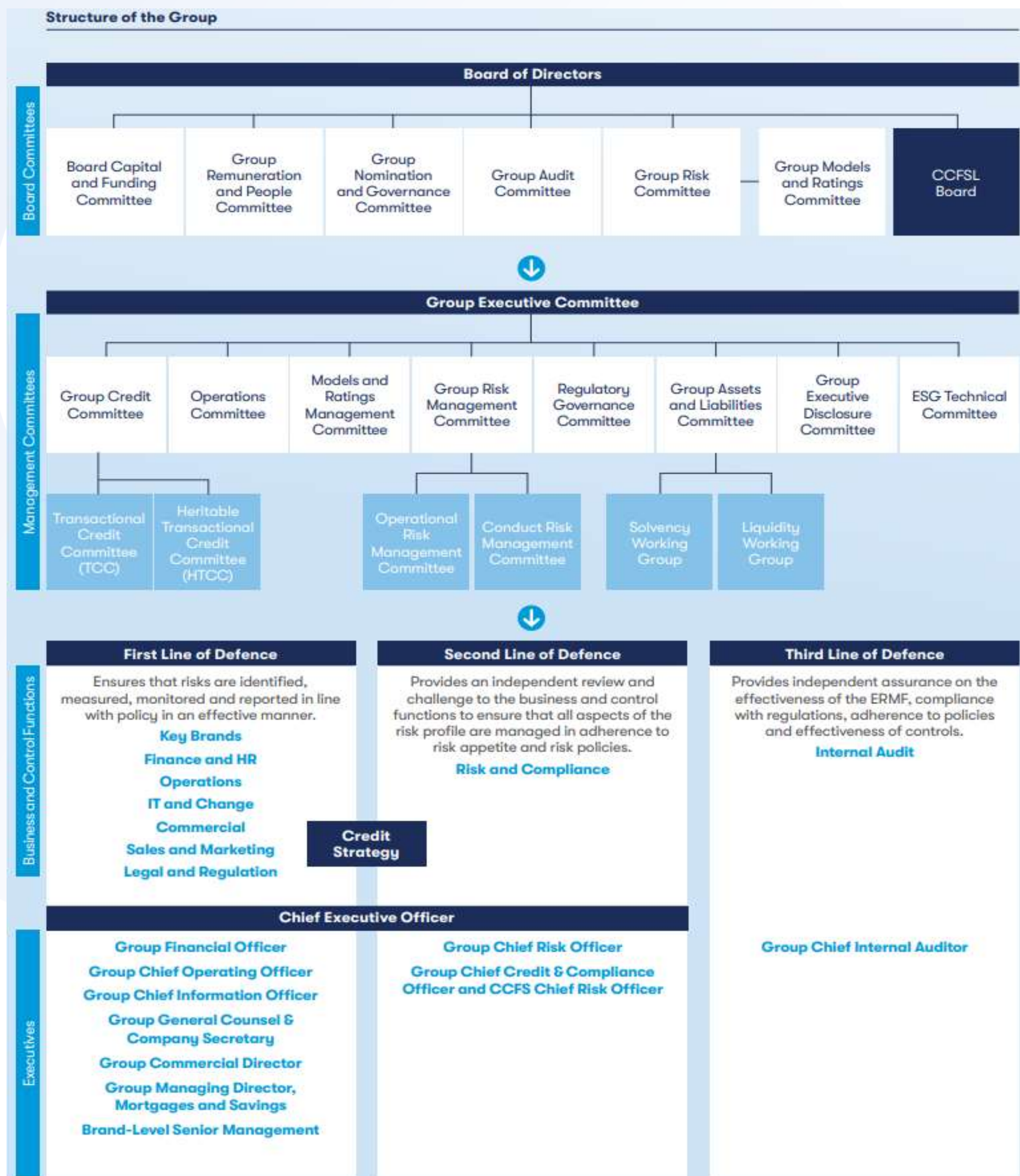
All related party transactions were made on terms equivalent to those that prevail in arm's length transactions. During the year there were no related party transactions between key management personnel and the Group. Other transactions made with key management personnel are disclosed in Note 53 to the 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 the risk controls and mitigants.

The Internal Audit function provides independent assurance to the Board and its Committees as to the effectiveness of the systems and controls and the level of adherence with 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 Groups 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. The Board continuously monitors the adequacy and effectiveness of risk management arrangements throughout the year and carries out a robust assessment of the risks facing the Group. Risks are managed in strict accordance with Board-approved risk appetite statements that are 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.

The Group has an established Board and independent risk management function. The Group has concluded that adequate risk management arrangements and systems are in place with regard to its risk profile and strategy. The Group continues to advance and strengthen its risk management capabilities, evolving in line with best practice and industry standards.

The Group Audit Committee is responsible for assessing and confirming the appropriateness of the Pillar 3 disclosures, including their verification and frequency.

The Board of Directors have approved the above statement and declaration.

(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.

To ensure that the Group's risk Management Information (MI) and reporting approach is effective in meeting the guiding principles, it is subject to the following standards:

- Fully aligned to the Board-approved risk appetite
- Appropriate combination of qualitative and quantitative risk assessment
- Use of approved risk analytics and data obtained from approved sources
- Clearly highlight emerging trends and/or risk events
- Provides appropriate level of narrative to facilitate appropriate decision making
- Highlight regulatory and business developments
- Identify key development initiatives and progress against plan
- Obtain approval from the appropriate officer or committee for introducing new MI and reports
- Updated sufficiently frequently to avoid extended gaps, notwithstanding operational constraints
- All material reporting errors and control failures need to be identified and logged within the Operational Risk Management System (ORMS).

The Group has established a comprehensive suite of risk MI and reports covering all principal risk types. Some of the key MI is noted below detailing the primary audience.

Type	Nature of Risk MI & Reports	Primary Audience
Risk Appetite and Early Warning Indicators (EWIs)	Actual position against risk appetite limits across Group, OSB and CCFSL Recovery Plan EWIs and triggers	Board Group Risk Committee Group Executive Committee Group Credit Committee ALCO GRMC GORMC GCRMC
Business and Strategic Risk	Enterprise Risk Register	Group Risk Committee Group Executive Committee
Credit Risk	Portfolio Overview – Key Risk Indicators update Risk Profile and EWI update Portfolio Segment Performance review Large Exposures Lending Exceptions Specific Provisions & asset management Model performance and risk review	Group Risk Committee Group Credit Committee
Solvency Risk	Solvency Risk Appetite and early warning indicators Capital Adequacy and Capital Composition Capital Adequacy Forecast Scenario analysis Issuance Plan	Group Risk Committee ALCO SWG
Liquidity and Funding Risk	Liquidity Forecast against risk appetite (LCR and Combined ILAAP scenario) 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	Group Risk Committee ALCO LWG
Market Risk	Market risk performance against risk appetite Interest Rate Risk Gap & Scenario Analysis Basis Risk Scenario Analysis IRR & Basis Risk Trend Profile	Group Risk Committee ALCO
Operational Risk	Operational Risk Losses v appetite and aggregated Operational Risk environment across Group and entities. Operational Risk KRI performance RCSA outputs Operational Risk Event Reporting (Riskonnect/ORMS) Risk acceptances Emerging Risks and issues	Group Risk Committee GRMC GORMC
Conduct Risk	Group Conduct risk appetite Level 1 and Group Level 2 KRI's 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 GCRMC
Regulatory Risk	Group Regulatory risk appetite Compliance update Senior Managers & Certification Regime update Compliance & Regulatory Risk - Key Risk Indicators update Compliance Assurance Actions update Compliance Routine Monitoring – Quarterly update Regulatory Developments	Group Risk Committee GRMC GCRMC
Financial Crime Risk	Financial crime risk appetite Financial Crime update & key statistics	Group Risk Committee GRMC GCRMC
Reputational Risk	Reputational risk appetite including an overall environment assessment	Group Risk Committee GRMC GORMC

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

The Group Risk Committee annually reviews the ERMF considering the design, structure and effectiveness before being 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 – Also known as an early warning indicator.

Limit – This is the level of risk that is considered sub-optimal in relation to the Group's desired risk/return profile.

Capacity – This is the maximum level of risk the Group can assume before breaching minimum strategic performance levels.

(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 has 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.

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 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 niche sub-sectors, is capable of adapting to growth objectives and external developments.

1.1 Performance against targets

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

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

1.2 Economic environment

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

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

Mitigation	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.	↑ **Increased** The increase in macroeconomic risk in 2022 related to inflation and increasing interest rates creating a squeeze on borrowers' affordability levels. The ongoing macroeconomic uncertainty will continue into 2023 with an increased risk to the Group's credit risk profile, including the possibility of a fall in house prices.
1.3 Competition risk The risk that new bank entrants and existing peer banks shift focus to the Group's market sub-segments, increasing the level of competition.	
Mitigation	**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 risk appetite for reputational risks. The Group will not conduct its business or engage with stakeholders in a manner that could adversely impact its reputation or franchise value. The Group recognises that reputational risk is a consequence of other risks materialising and in turn seeks to actively manage all risks within Board approved risk appetite levels. The Group strives to protect and enhance its reputation at all times.

2.1 Deterioration of reputation Potential loss of trust and confidence that our stakeholders place in us as a responsible and fair provider of financial services.	
Mitigation	**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 (MI) including complaint volumes, Net Promoter Scores, Customer Satisfaction results, Social Media and Trustpilot feedback.	↑ **Increased** The challenging macroeconomic environment in 2022 resulted in significant shifts within both the UK's lending and savings markets. This has brought about the need for all banks to become increasingly agile with products offered in order to ensure that all core targets continued to be met. Operational scalability and efficiency challenges have impacted the Group's reputational risk profile.

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 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	↑ **Increased**

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. Should there be problems with a loan, the Collections and Recoveries team works with customers who are unable to meet their loan service obligations to reach a satisfactory conclusion while adhering to the principle of treating customers fairly. Our strategic focus on lending to professional landlords means that properties are likely to be well managed, with income from a diversified portfolio mitigating the impact of rental voids or maintenance costs. Lending to owner-occupiers is subject to a detailed affordability assessment, including the borrower's ability to continue payments if interest rates increase. Lending on commercial property is based more on security, and is scrutinised by the Group's independent Real Estate team as well as by external valuers. Development finance lending is extended only after a deep investigation of the borrower's track record and stress testing the economics of the specific project.	The drivers of borrower default risk have shifted to rising inflation and the consequential increases in interest rates which impact affordability for accounts which revert onto higher interest rates and increase the risk of borrower default.

3.2 **Macroeconomic downturn**

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

Mitigation	**Direction**
The Group works within portfolio limits on Loan to Value (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 values.	The Group actively manages market risk arising from structural interest rate positions. The Group does not seek to take a significant interest rate position or a directional view on interest rates and it limits its mismatched and basis risk exposures.

4.1 Interest rate risk

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

Mitigation	**Direction**
The Group's Treasury function actively hedges to match the timing of cash flows from assets and liabilities.	**- Unchanged** Interest rate risk remained unchanged in 2022 due to the Group's simple asset and liability structure and ongoing careful management.

4.2 Basis risk

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

Mitigation	**Direction**
The Group did not require active management of basis risk in 2022 due to its balance sheet structure.	↓ **Decreased** Basis risk exposures reduced year on year as a result of the LIBOR Transition at the end of 2021.

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 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 Financial Services Compensation Scheme (FSCS) protection scheme, largely mitigating the risk of a retail run. In addition, the Group performs in-depth liquidity stress testing and maintains a liquid asset portfolio sufficient to meet obligations under stress. The Group holds prudential liquidity buffers to manage funding requirements under normal and stressed conditions. The Group has further diversified its retail channels by expanding the range of pooled deposit providers used. The Group proactively manages its savings proposition through both the Liquidity Working Group and the Group Assets and Liabilities Committee. Finally, the Group has prepositioned mortgage collateral and securitised notes with the Bank of England which allows it to consider alternative funding sources to ensure that it is not solely reliant on retail savings. The Group also has a mature Retail Mortgage Backed Security (RMBS) programme.	↑ **Increased** The Group's funding levels and mix remained strong throughout the year. In 2022, OSB and CCFSL were able to attract significant flows of new deposits and depositors, despite the volatile interest rate environment and competitive savings market. During periods of exceptionally high volatility, funding was drawn from the Bank of England using the Indexed Long-term Repo scheme to support retail funding and customer operations.

5.2 Wholesale funding stress

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

Mitigation	Direction
The Group continuously monitors wholesale funding markets and is experienced in taking proactive management actions where required. The Group issued one securitisation in 2022 and has a range of wholesale funding options available outside retained securitisation, including Bank of England facilities, for which collateral has been prepositioned.	**- Unchanged** The Group's range of wholesale funding options available, including repo or sale of retained notes or collateral upgrade trades remained broadly unchanged.

5.3 Refinancing of TFSME

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

Mitigation	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 via its strong franchises, to replace the TFSME borrowing gradually over the next few years ahead of the maturity of this funding.	**- Unchanged** TFSME borrowing remained unchanged during the year; however, the current funding plan to refinance TFSME requires significant securitisation issuance. These markets have seen increased volatility during 2022, which could continue into 2023 so additional refinancing options are being considered.

6 - Solvency risk

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	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

financial forecasts.	prudential requirements and strategic and financial objectives. We manage our capital resources in a manner which avoids excessive leverage and allows us flexibility in raising capital.

6.1 Deterioration of capital ratios Key risks to solvency arise from balance sheet growth and unexpected losses which can result in the Group' s capital requirements increasing, or capital resources being depleted, such that it no longer meets the solvency ratios as mandated by the PRA and Board risk appetite. The regulatory capital regime is subject to change and could lead to increases in the level and quality of capital that the Group needs to hold to meet regulatory requirements. In particular, we note the PRA's recently published CP on the implementation of Basel 3.1.	
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 and plans and undertakes stress testing analysis to subject its solvency ratios to extreme but plausible scenarios. The Group also holds prudent levels of capital buffers based on CRD IV requirements and expected balance sheet growth. The Group engages actively with regulators, industry bodies and advisers to keep abreast of potential changes and provides feedback through the consultation process.	↑ **Increased** The stable credit profile and ongoing profitability mean that the Group's capital resources remain strong. Risks remain around adverse credit profile performance resulting from rising inflation and interest rates. We have estimated the impact of Basel 3.1 on our 31 December 2022 CET1 ratio to be a reduction of up to 2% points, should the proposed rules be implemented as drafted in the CP and prior to the Group receiving IRB accreditation.

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 programme of IT and cyber improvements continued with the aim of enhancing its protection against IT security threats, deploying a series of tools designed to identify and prevent network/ system intrusions. This is further supported by documented and tested procedures intended to ensure the effective response to a security breach.	**- 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, the Group work continues to enhance the level of maturity of the Group's controls and defences, supported by dedicated IT security experts. The Group's has an ongoing programme of penetration testing in place to drive enhancements by identifying potential areas of risk.
7.2 Data quality and completeness The risks resulting from data being either inaccurate or incomplete.	
Mitigation	**Direction**
The Group previously established a dedicated Data Strategy Programme, involving the recruitment of a Chief Data Officer and a Data Governance Director, designed to ensure a consistent approach to the maintenance and use of data. This includes both documented procedures and frameworks and also tools intended to improve the consistency of data use.	**- Unchanged** Progress was made in 2022 to embed Group-wide governance frameworks, in part driven by the Group's IRB project. Further work is planned for 2023, to move closer to the Group's target end state.
7.3 Change management	

The risks resulting from unsuccessful change management implementations, including the failure to respond effectively to release-related incidents.	
Mitigation	**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 2022. We are now turning our attention towards identifying opportunities to further digitise our business operations, to deliver additional efficiencies and invest in the Group to ensure it remains well-positioned to meet the changing needs of our customers, brokers and wider stakeholders.

7.4 IT failure The risks resulting from a major IT application or infrastructure failure impacting access to the Group's IT systems.	
Mitigation	**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 its ability to recover from an incident. The Group has established a site in Hyderabad to ensure that, in the event of an operational incident in Bangalore, services can be maintained.	**- Unchanged** Whilst progress was made in reducing both the likelihood and impact of an IT failure, the risks remain, in particular due to the new hybrid working arrangement. Further work is planned during 2023.

8 – Conduct risk

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

9 - Regulatory risk

Definition	**Risk appetite statement**

The risk of failure to effectively identify, interpret, implement and adhere to all regulatory or legislative change that impacts 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 the implementation of Basel 3.1 capital rules and increased Resolvability Assessment Framework requirements, including updated minimum requirements for own funds and eligible liabilities (MREL).

Mitigation	**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 customers not being treated fairly, particularly those experiencing financial hardship or vulnerable customers, with the potential for reputational damage, redress and other regulatory actions.

Mitigation	**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 a customer-oriented culture means that current practice may not have to change significantly to meet new conduct regulations. All Group entities utilise underwriting, arrears and forbearance and vulnerable customer policies which are designed to comply with regulatory principles, rules and expectations. These policies articulate the Group's commitment to ensuring that all customers, including those who are vulnerable or experiencing financial hardship, are treated fairly, consistently and in a way that considers their individual needs and circumstances. The Group does not tolerate any systematic failure to deliver fair customer outcomes. On an isolated basis, incidents can result in detriment due to human and/or operational failures. Where such incidents occur, they are thoroughly investigated, and the appropriate remedial actions are taken to address any customer detriment and prevent recurrence.	↑ Increased The level of regulatory change continued to be high but the Group has sufficient resources and capabilities to respond to any changes in an effective and efficient manner. The Group continues to proactively interact with regulatory bodies to take part in thematic reviews and information requests, as required. Identifying, monitoring and supporting vulnerable customers continues to be a key area of focus. Ongoing reviews of long term arrears and forbearance customers continue to ensure that payment terms still remain appropriate. The Group has instigated a formal project to implement the FCA's new Consumer Duty requirements within the required timelines.

10 - Financial crime risk

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 a UK registered bank account. The Group has an established screening programme that is deployed at the point of origination and on a regular basis throughout the customer lifecycle. Where applicable, enhanced due diligence is applied to ensure that any increase in risk is appropriately managed and any activity remains within risk appetite. The Group has a horizon scanning programme that identifies changes to money laundering regulations and any other financial crime related legislation to ensure that we comply with all regulatory obligations. The Group reacted swiftly to the events in Ukraine and the regular updates released in relation to the Russia and Belarus financial sanctions regimes. The Group has negligible exposure to the affected jurisdictions and no exposure to any specific individual or entity contained within the revised sanctions listings. The Group's programme of cyber improvements continued with the aim of enhancing its protection against IT security threats, deploying a series of tools designed to identify and prevent network/system intrusions. The Group's Financial Crime team will support the Information Security Team where appropriate to ensure that there are robust and effective controls in place and sufficient training and awareness for all colleagues.	**- Unchanged** The Group continues to primarily focus on the UK market with accounts serviced from UK bank accounts. The Group has processes in place to allow it to operate effectively when employees work from home and manage the cyber risks related to working remotely. Whilst IT security risks continue to evolve, the level of maturity of the Group's controls and defences has significantly increased, supported by dedicated IT security experts.
10.2 Fraud risk The risk of financial loss resulting from fraudulent action by a person either internal or external.	
Mitigation	**Direction**
The Group continues to invest in a range of systems and controls that are deployed across its product range in order to detect and prevent the exposure to fraud through the customer lifecycle. All new business applications are subject to a range of controls to identify and mitigate fraud. Customer activity is monitored in order to detect suspicious activity or behaviour that may be indicative of fraud. These controls are further supported by documented policies and procedures that are managed by experienced employees in a dedicated Financial Crime function. The Group continually monitors its detection capability with periodic reviews of the parameters within its systems and control framework to ensure these remain fit for purpose and aligned to mitigate any emerging risks.	↑ Increased The Group remains aware that any potential downturn in the wider economic environment may increase the risk of fraud activity across its product range and will closely monitor changes in trends that may be indicative of any new or emerging risks.

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 STF, 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 weaknesses 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 enables the Group to actively manage 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 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 as at December 2022:

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

(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.

Following Simon Walker's appointment to the Board in January 2022, the Group Nomination and Governance Committee has continued to focus on the composition of the Board to ensure that the current mix of experience and skills remains fit for purpose. Kal Atwal has been appointed as a 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[8] has been appointed as Executive succession planning adviser to assist the Group Nomination and Governance Committee with succession planning for key roles. Per Ardua[9] 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 2022, 31% of all senior roles were undertaken by female employees and the Group is continuing to work towards achieving the increased target by the end of this year.

In addition to Board and Executive succession planning resulting in the appointments of Kal Atwal and Simon Walker during the year; other items considered by the Committee included Board effectiveness, the Executive Development Programme and NED conflicts of interest, as well as Environmental, Social and Governance (ESG) matters such as a focus on diversity and inclusion, the Gender Pay Gap Report, and recruitment activity across the Group.

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.

During the year, the Group Remuneration Committee's remit was expanded to include people matters. As a result of this change, some of the Committee's responsibilities relating to employee engagement, diversity, equity and inclusion and culture, were reallocated to the renamed Group Remuneration and People Committee.

(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 2022.

(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).

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

[9] 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 mapping of financial statement categories with regulatory risk categories 2022

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carry Values of items			
			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
	£m	£m	£m	£m	£m	£m
Assets	(a)	(b)	(c)	(d)	(e)	(g)
Cash in hand	0.4	0.4	0.4			
Loans & advances to credit Institutions	3,365.7	3,365.7	3,123.7			242.0
Investment securities	412.9	412.9	149.8		263.1	
Loans and advances to customers	23,612.7	23,612.7	23,612.7			
Fair value adjustment on hedged assets	(789.0)	(789.0)				(789.0)
Derivative assets	888.1	888.1		888.1		
Other assets	15.0	15.0	15.0			
Current taxation asset	1.7	1.7	1.7			
Deferred taxation asset	6.3	6.3	5.5			0.8
Property, fixtures and equipment	40.9	40.9	40.9			
Intangible assets	12.0	12.0				12.0
Total Assets	**27,566.7**	**27,566.7**	**26,949.7**	**888.1**	**263.1**	**(534.2)**
Liabilities						
Amounts owed to credit institutions	5,092.9	5,092.9		559.9		4,533.0
Amounts owed to retail depositors	19,755.8	19,755.8				19,755.8
Fair value adjustment on hedged liabilities	(55.1)	(55.1)	(33.7)			(21.4)
Amounts owed to other customers	113.1	113.1				113.1
Debt securities in issue	265.9	265.9				265.9
Derivative liabilities	106.6	106.6		106.6		
Lease liabilities	9.9	9.9				9.9
Other liabilities	38.7	38.7				38.7
Provisions	0.4	0.4				0.4
Current taxation liability						
Deferred taxation liability	22.3	22.3				22.3
Subordinated liabilities						
Perpetual subordinated liabilities	15.2	15.2				15.2
Total Liabilities	**25,365.7**	**25,365.7**	**(33.7)**	**666.5**	**-**	**24,732.9**

4.2 UK LI2 Main sources of differences between regulatory exposure amounts and carrying values in financial statements 2022

	Total	**Items subject to**		
		Subject to credit risk framework	Subject to the securitisation framework	Subject to the CCR framework
	£m	£m	£m	£m

Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)	**28,100.9**	**26,949.7**	**263.1**	**888.1**
Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)	**632.8**	**(33.7)**		**666.5**
Total net amount under the regulatory scope of consolidation	**27,468.1**	**26,983.4**	**263.1**	**221.6**
Off-balance-sheet amounts	**1,212.2**	**1,212.2**	**-**	**-**
Differences in valuations				
Differences due to different netting rules, other than those already included in row 2	(156.8)	(1.7)		(155.1)
Differences due to consideration of provisions	28.0	28.0		
Differences due to the use of credit risk mitigation techniques (CRMs)	(19.2)	(19.2)		
Differences due to credit conversion factors	(1,005.1)	(1,005.1)		
Differences due to Securitisation with risk transfer				
Other differences				
Exposure amounts considered for regulatory purposes	**27,527.2**	**27,197.6**	**263.1**	**66.5**

4.3 UK LI3 Outline of the differences in the scopes of consolidation (entity by entity) 2022

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 regulatory 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 IFRS9 and 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 (OSB and CCFSL) are required to calculate and maintain capital on a consolidated basis as well on an individual basis. The Group does not make use of the derogations referred to in Article 7 or Article 9 CRR, however OSB does make 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)
- InterBay Group Holdings Limited (incorporated in England and Wales)
- InterBay Holdings Ltd (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 Financial II 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)

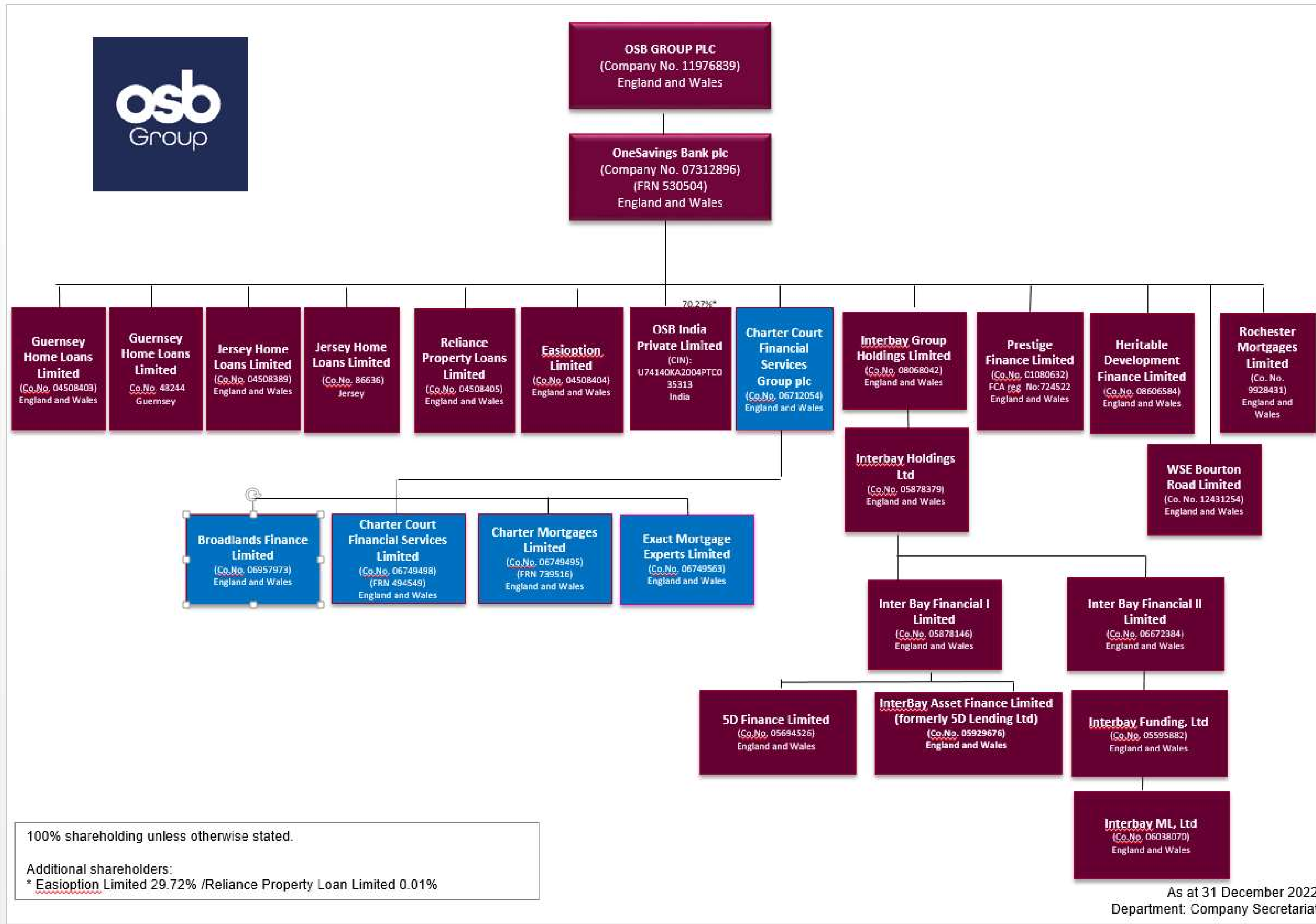
(d) Aggregate amount by which the actual own funds are less than required in all subsidiaries that are not included in the consolidation (Article 436(g) CRR)

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.

Group structure as at 31 December 2022



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.

Ref	Capital Resource	31 Dec 2022	
		Amounts	Source based on reference
	Common Equity Tier 1 (CET1) capital: Instruments and reserves		
1	Called up share capital	6.7	
	of which: fully paid up capital instruments	*4.3*	(c)
	of which: share premium	*2.4*	(d)
2	Retained earnings	3,245.4	(e)
3	Accumulated other comprehensive income (and other reserves)	(1,346.0)	(f)
UK 5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,906.1**	
	Common Equity Tier 1 (CET 1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	(0.1)	
8	Intangible assets (negative amount)	(12.0)	(b)
10	Deferred tax asset that rely on future profitability (negative amount)	(0.6)	(a)
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	27.3	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**13.7**	
29	**Common Equity Tier 1 Capital**	**1,920.7**	
	Additional Tier 1 (AT1) capital: Instruments		
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	150.0	(f)
44	**Additional Tier 1 (AT1) capital**	**150.0**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**2,070.7**	
59	**Total capital (TC = T1 + T2)**	**2,070.7**	
60	**Total Risk exposure amount**	**10,494.7**	
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	**18.3%**	
62	Tier 1 (as a percentage of total risk exposure amount)	**19.7%**	
63	Total capital (as a percentage of total risk exposure amount)	**19.7%**	
64	Institution CET1 overall capital requirement[10]	**8.8%**	
65	*of which: capital conservation buffer requirement*	**2.5%**	
66	*of which: countercyclical buffer requirement*	**1.0%**	
67	*of which: systemic buffer requirement*	**-**	
67a	*of which: G-SII or O-SII requirement*	**-**	
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)** [11]	**10.3%**	
	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)	**4.6**	

[10] 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).

[11] 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).

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

	Balance sheet as in published financial statements and under regulatory scope of consolidation £m	Reference
Assets		
Cash in hand	0.4	
Loans & advances to credit Institutions	3,365.7	
Investment securities	412.9	
Loans and advances to customers	23,612.7	
Fair value adjustment on hedged assets	(789.0)	
Derivative assets	888.1	
Other assets	15.0	
Current taxation asset	1.7	
Deferred taxation asset	6.3	(a)
Property, fixtures and equipment	40.9	
Intangible assets	12.0	(b)
Total Assets	**27,566.7**	
Liabilities		
Amounts owed to credit institutions	5,092.9	
Amounts owed to retail depositors	19,755.8	
Fair value adjustment on hedged liabilities	(55.1)	
Amounts owed to other customers	113.1	
Debt securities in issue	265.9	
Derivative liabilities	106.6	
Lease liabilities	9.9	
Other liabilities	38.7	
Provisions	0.4	
Current taxation liability		
Deferred taxation liability	22.3	
Subordinated liabilities		
Perpetual subordinated liabilities	15.2	
Total Liabilities	**25,365.7**	
Shareholders' equity		
Share capital	4.3	(c)
Share premium	2.4	(d)
Retained earnings	3,389.4	(e)
Other reserves	(1,195.1)	(f)
Total shareholders' equity	**2,201.0**	

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
1	Issuer	OSB GROUP PLC	OSB GROUP PLC
2	Unique Identifier	(ISIN:) GB00BLDRH360	(ISIN:) XS2391408072
2a	Public or private placement	Public	Public
3	Governing laws of the instrument	English law	English law
3a	Contractual recognition of write down and conversion powers of resolution authorities	n/a	Yes
Regulatory treatment			
4	Current treatment taking into account, where applicable, transitional CRR rules	CET1	Additional Tier 1

5	Post transitional CRR rules	CET1	Additional Tier 1
6	Eligible at solo/(sub-)consolidated / solo & (sub-)consolidated	Consolidated	Consolidated
7	Instrument type	Ordinary shares	Other Equity Instruments
8	Amount recognised in regulatory capital or eligible liabilities	4.3m	£150m
9	Nominal amount of instrument	4.3m	£150m
UK-9a	Issue price	0.01	100%
UK 9b	Redemption price	Not Applicable	100%
10	Accounting classification	Shareholders' Equity	Shareholders' Equity
11	Original date of issuance	Various	7 October 2021
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date contingent call dates and redemption amount	No	Optional redemption – Yes 100% 7 October 2026 and ending on (and including) the First Reset Date Regulatory call – Yes 100% Tax Call – Yes 100%
16	Subsequent call dates if applicable	Not Applicable	Any reset date thereafter
Coupons / dividends			
17	Fixed or floating dividend/coupon	Not applicable	Fixed
18	Coupon rate and any related index	Not Applicable	Initial fixed interest rate of 6% per annum. The interest rate will reset on each reset date. From (and including) each reset date to (but excluding) the next following reset date, the interest rate will be a fixed rate equal to the sum of the 5-year Gilt Rate plus the Margin of 5.393% per annum Reset Dates: 7 April 2027 (the "First Reset Date") and each date falling five, or an integral multiple of five, years after the First Reset Date
19	Existence of a dividend stopper	No	No
UK-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary
UK-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive redeem	No	No
22	Noncumulative or cumulative	Non-Cumulative	Non-Cumulative
23	Convertible or non-convertible	Non-Convertible	Convertible
24	If convertible, conversion trigger(s)	Not applicable	The Trigger Event shall occur if at any time the Common Equity Tier 1 Capital Ratio of the Group falls below 7%.
25	If convertible, fully or partially	Not applicable	Fully
26	If convertible, conversion rate	Not applicable	The Conversion Price per Ordinary Share in respect of the Securities is £3.199 subject to certain anti-dilution adjustments.
27	If convertible, mandatory or optional conversion	Not applicable	Mandatory
28	If convertible, specify instrument type convertible into	Not applicable	Ordinary shares
29	If convertible, specify issuer of instrument it converts into	Not applicable	OSB GROUP PLC
30	Write down features	No	Yes (Statutory / Bail in only)
31	If write-down, write-down trigger(s)	Not applicable	Statutory write-down or Bail-in by the UK Resolution Authority
32	If write-down, full or partial	Not applicable	Not applicable
33	If write-down, permanent or temporary	Not applicable	Not applicable
34a	Type of subordination (only for eligible liabilities)	Not applicable	Not applicable
UK-34b	Ranking of the position in normal insolvency proceedings	Common Equity Tier 1	Additional Tier 1
35	Position in subordination hierarchy in liquidation	Additional Tier 1	All liabilities
36	Non-compliant transitioned features	No	No
37	If yes specify non-compliant features	Not applicable	Not applicable
37a	Link to full terms and conditions of the instrument (signposting)	https://www.osb.co.uk/disclaimer-osb-group-plc-new-holding-company	Additional Tier 1 Securities

6. Annex IX - Countercyclical capital buffers

The CRD IV combined buffer requirement is made up of the following:

- Capital Conservation Buffer
- Institution Specific Countercyclical Buffer
- Systemic Risk Buffer
- Systemically Important Institution Buffer
- Global Systemically Important Buffer
- Other Systemically Important Institution Buffer

The only buffers applicable to the Group are the CCoB and CCyB. The Group does not meet the definition of a Systemic, Global or Other Systemically Important Institution. The Systemic Risk buffer applies to large building societies and ring-fenced bodies therefore is not in scope for the Group.

The CCoB ensures that banks build up capital buffers in order to absorb losses without breaching minimum capital requirements. The Group applies a CCoB of 2.5% on RWAs in its risk appetite capital requirements.

Institutions are required to comply with the requirements for a CCyB referred to in Title VII, Chapter 4 of the CRD. The Group's business is predominantly in the United Kingdom where the countercyclical capital buffer was 1% as of 31 December 2022. The FPC increased the CCyB from 0% to 1% on the 13 December 2022 with a further 1% increase to be implemented on 5 July 2023 taking it to 2%. In December 2022, the FPC confirmed that they are maintaining the CCyB rate at 2%, which is due to come into effect on 5 July 2023. The global and UK economic outlooks have deteriorated and financial conditions have tightened. However, the FPC judges that the UK banking system can absorb the impact of expected weakening in the economic situation while continuing to meet credit demand from creditworthy households and businesses.

6.1 UK CCyB1 Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer 2022

Breakdown by country	General credit exposure	Securitisation exposures	Total exposure value £m	Own Funds Requirements			Risk weighted exposure amounts	Own Funds Requirements Weights %	CCyB rate %
	Exposure Value under Standardised Approach £m	Exposure value (for non-trading book) £m		Relevant credit risk exposures – credit risk £m	Relevant credit exposures – Securitisation in the non-trading book £m	Total			
United Kingdom	23,272.7	263.1	23,535.8	756.8	2.6	759.4	9,493.1	99.6%	1%
Other	94.3		94.3	3.4		3.4	42.0	0.4%	0%
Total	**23,366.9**	**263.1**	**23,630.0**	**760.2**	**2.6**	**752.8**	**9,535.0**	**100%**	**1%**

6.2 UK CCyB2 Institution specific countercyclical capital buffer 2022

Institution Specific Countercyclical Buffer	2022 m
Total risk exposure amount (£m)	10,494.7
Institution specific countercyclical capital buffer rate (%)	1.0%
Institution specific countercyclical capital buffer requirement	104.5

7. Annex XI - Leverage ratio

7.1 UK LR1 LRSum: Summary reconciliation of assets and leverage ratio exposures 2022

	£m
Total Assets per published financial statements	27,566.7
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	
Adjustment for the exemption of exposures to central banks)	
Adjustments for derivative financial instruments	(711.8)
Adjustments for securities financing transactions (SFTs)	0.0

Adjustment for off-balance sheet items	224.7
Adjustment for prudent valuation adjustment and specific and general provisions which have reduced Tier 1 capital (leverage)	
(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)	
(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) of the CRR)	
Other Adjustments	452.5
Total exposure measure	27,532.0

7.2 UK LR2 LRCom: Leverage ratio common disclosures 2022

Leverage Ratio Common Disclosures	£m
On balance sheet exposures (excluding derivatives and SFTs)	
On balance sheet items (excluding derivatives, SFTs, but including collateral)	26,678.6
Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(242.0)
(Adjustment for securities received under securities financing transactions that are recognised as an asset)	
(General credit risk adjustments to on-balance sheet items)	28.0
(Assets amounts deducted in determining Tier 1 Capital)	(12.0)
Total on balance sheet exposures (excluding derivatives and SFTs)	**26,451.8**
Derivative exposures	
Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	53.0
Derogation for derivatives: replacement costs contribution under the simplified standardised approach	
Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	13.5
Derogation for derivatives: potential future exposure contribution under the simplified standardised approach	
Exposure determined under the original exposure method	
(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	
(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	
(Exempted CCP leg of client-cleared trade exposures) (original exposure method)	
Total derivative exposures	**66.5**
Securities financing transactions (SFT) exposures	
Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	
(Netted amounts of cash payables and cash receivables of gross SFT assets)	
Counterparty credit risk exposure for SFT assets	0.0
Derogation for SFTs: counterparty credit risk exposure in accordance with Articles 429e(5) and 222 of the CRR	
Total securities financing transaction exposures	**0.0**
Other off balance sheet exposures	
Off-balance sheet exposures at gross notional amount	757.1
(Adjustments for conversion to credit equivalent amounts)	(532.0)
(General provisions deducted in determining tier 1 capital (leverage) and specific provisions associated with off-balance sheet exposures)	(0.4)
Total off balance sheet exposures	**224.7**
Excluded exposures	
(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)	789.0
(Exposures exempted in accordance with point (j) of Article 429a(1) of the CRR (on- and off- balance sheet))	
Total exempted exposures	**789.0**
Capital and total exposure measure	
Tier 1 Capital (leverage)	**2,070.8**
Total exposure measure including claims on central banks	**27,532.0**
(-) Claims on central banks excluded	**(2,806.5)**
Total exposure measure excluding claims on central banks	**24,725.4**
Leverage ratio	
Leverage ratio excluding claims on central banks (%)	8.4%
Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**8.3%**
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 (%)	**8.4%**
Leverage ratio including claims on central banks (%)	**7.5%**
Regulatory minimum leverage ratio requirement (%)	

Choice of transitional arrangements for the definition of capital measure	

7.3 UK LR3 LRSpl: Split of on balance sheet exposures (excluding derivatives, SFT and exempted exposures) 2022

Split of On Balance Sheet Exposures	£m
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**26,687.7**
Banking book exposures, of which:	26,678.7
Exposures treated as sovereigns	3,026.4
Institutions	252.3
Secured by mortgages of immovable properties	22,155.2
Retail exposures	138.8
Corporates	36.2
Exposures in default	522.4
Other Exposures (e.g. equity, securitisation, and other non-credit obligation assets)	547.4

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 2022, the Group had a leverage ratio excluding claims on central banks of 8.4% (2021: 7.9%[12]). 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 8.9% at 31 December 2021 to 8.4% at 31 December 2022 on a like for like basis. The movement in the leverage ratio is driven by an increase in both the numerator and the denominator of the ratio with Tier 1 capital increasing by £139m along with an increase of £2,983.2m in the total leverage exposure measure excluding claims on central banks.

The increase in Tier 1 capital is driven by strong capital generation from profitability in the year, which has been offset by dividend payments and the impact of the £100m share repurchase programme completed in 2022. The increase in the leverage exposure measure excluding claims on central banks is predominantly driven by loan book growth.

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

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 submission 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.

(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. These include:

- **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 and combined 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.

(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 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 has a number of contingency funding options which are reviewed and updated annually as part of the Recovery Plan. The Group has three levels of funding options it can take depending on the severity of the liquidity stress, ranging from Index Long-Term Repo (ILTR)/Central Bank funding, Retail deposit raising activity, securitisation funding, reduction in lending growth and finally use of the Discount Window Facility (DWF).

(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;
- 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 on LCR

		Total unweighted value (average)				Total weighted value (average)			
UK1a	Quarter ending on (DD Month YYY)	31-Dec-22	30-Sep-22	30-Jun-22	31-Mar-22	31-Dec-22	30-Sep-22	30-Jun-22	31-Mar-22
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)**					2,907.1	2,849.4	2,678.5	2,532.5
	CASH - OUTFLOWS								
2	Retail deposits and deposits from small business customers, of which:	16,931.3	16,553.9	16,386.6	16,243.0	763.1	767.2	783.6	790.9
3	Stable deposits	4,762.4	4,856.1	4,987.5	5,137.7	238.1	242.8	249.4	256.9
4	Less stable deposits	3,611.4	3,575.5	3,717.1	3,798.2	460.5	456.9	472.1	483.3
5	Unsecured wholesale funding	484.4	472.4	521.6	550.4	193.6	188.6	208.1	219.5
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks								
7	Non-operational deposits (all counterparties)	484.4	472.4	521.3	549.9	193.6	188.5	207.8	219.0
8	Unsecured debt	-	0.1	0.3	0.5	-	0.1	0.3	0.5
9	Secured wholesale funding					19.7	19.9	8.6	8.6
10	Additional requirements	216.8	153.7	112.4	95.0	216.8	153.7	112.4	95.0
11	Outflows related to derivative exposures and other collateral requirements	216.8	153.7	112.4	95.0	216.8	153.7	112.4	95.0
12	Outflows related to loss of funding on debt products								
13	Credit and liquidity facilities								
14	Other contractual funding obligations	27.5	26.0	24.3	23.5				
15	Other contingent funding obligations	1,239.7	1,142.7	993.2	939.6	463.5	429.9	374.2	358.5
16	**TOTAL CASH OUTFLOWS**					**1,656.8**	**1,559.3**	**1,486.9**	**1,472.4**
	CASH - INFLOWS								
17	Secured lending (e.g. reverse repos)	41.8	41.8	41.8	25.1	20.9	20.9	20.9	20.9
18	Inflows from fully performing exposures	172.3	162.3	155.5	149.9	131.7	111.8	103.4	101.7
19	Other cash inflows	12.6	8.0	3.97	3.0	13	8.0	4.0	3.0

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**	**226.6**	**212.1**	**201.3**	**178.0**	**165.3**	**141**	**128.3**	**125.6**
UK20a	*Fully exempt inflows*								
UK20b	*Inflows subject to 90% cap*								
UK20c	*Inflows subject to 75% cap*	226.6	212.1	201.3	178.0	165.3	140.7	128.3	125.6
TOTAL ADJUSTED VALUE									
UK21	Liquidity buffer					**2,907.1**	**2,849.4**	**2,678.5**	**2,532.5**
22	Total net cash outflows					**1,491.5**	**1,418.6**	**1,358.5**	**1,346.9**
23	Liquidity coverage ratio (%)					**197.0%**	**202.0%**	**197.6%**	**188.6%**

Note: Figures quoted are the Group average of 12 month end reporting positions within the quarter.

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. These are relatively stable over time with changes in the levels of deposit balances impacting the size of outflows but also the Liquidity Buffer. In the year to December 2022, the Group LCR reduced by 11% to 185% primarily driven by increased derivative margin requirements as a result of swap market volatility in the year and an increased mortgage pipeline, offset with increased HQLA. At the individual bank level, the OSB LCR reduced by 11% to 229% due to increased derivative margin requirements and increased mortgage pipeline, while CCFSL LCR reduced by 10% to 148% due to increased derivative margin requirements.

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

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. Increased outflows are also seen where mortgage approvals increase, which increases the level of mortgage pipeline outflows included in the metric. In 2022 changes in LCR were also caused by increased derivative margin requirements as a result of swap market volatility driven by macroeconomic uncertainty.

(c) Explanations on the actual concentration of funding sources

In addition to the regulatory Additional Liquidity Monitoring Metric (ALMM) metrics, 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 and HQLA eligible government securities, and HQLA eligible 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 Group's policies. The policies also set out the limits around changes in valuations.

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 (LAB) Monetisation.

8.4 UK LIQ2 Net stable funding

In line with PS22/21 this template will be disclosed after 1 January 2023.

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 (3LoD) 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 (LoD) 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 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 1LoD and 2LoD 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 unlikeliness 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 or 3MIA 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 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 2022

	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
		Stage 1	Stage 2		Stage 2	Stage 3		Stage 1	Stage 2		Stage 2	Stage 3			
Cash balances at central banks and other demand deposits	**3,053.2**	**3,053.2**													
Loans and advances	**23,459.1**	**19,033.2**	**4,411.5**	**595.4**	**6.5**	**505.3**	**(58.4)**	**(7.2)**	**(50.7)**	**(71.6)**	**(0.2)**	**(67.7)**		**22,951.6**	**523.2**
Central banks	*62.8*	*62.8*													
Credit institutions	*242.0*	*242.0*													
Other financial corporations	*7.7*	*7.7*													
Non-financial corporations	*10,031.7*	*8,426.9*	*1,604.9*	*121.5*	*0.2*	*121.0*	*(25.5)*	*(4.5)*	*(21.0)*	*(43.6)*	*(0.0)*	*(43.5)*		*9,881.5*	*77.4*
Of which SMEs	*9,778.3*	*8,207.2*	*1,571.2*	*95.0*	*0.2*	*94.6*	*(24.3)*	*(4.5)*	*(19.8)*	*(16.8)*		*(16.8)*		*9,633.3*	*77.4*
Households	*13,115.0*	*10,294.0*	*2,806.6*	*473.9*	*6.3*	*384.3*	*(32.9)*	*(2.7)*	*(29.6)*	*(28.0)*	*(0.2)*	*(24.2)*		*13,070.1*	*445.8*
Debt securities	**412.9**	**412.9**					**(0.0)**	**(0.0)**							
General government	149.8	149.8													
Other financial corporations	*263.1*	*263.1*					*(0.0)*	*(0.0)*							
Off-balance-sheet exposures	***1,212.2***	***1,212.2***					***(0.0)***	***(0.0)***							
Non-financial corporations	713.7	713.7					***(0.0)***	***(0.0)***							
Households	498.6	498.6					***(0.0)***	***(0.0)***							
Total	**28,137.5**	**23,711.5**	**4,411.5**	**595.4**	**6.5**	**505.3**	**(58.4)**	**(7.2)**	**(50.7)**	**(71.6)**	**(0.2)**	**(67.7)**		**22,951.6**	**523.2**

9.4 UK CR1-A Maturity of exposures 2022

	Net exposure value					
	On demand	**<= 1 year**	**> 1 year <= 5 years**	**> 5 years**	**No stated maturity**	**Total**
Loans and advances	2.3	645.6	1,341.6	21,623.2	312.4	**23,925.1**
Debt securities	0.5	166.9	245.5			**412.9**
Total	2.8	812.5	1,587.1	21,623.2	312.4	**24,338.0**

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 2022

	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**
			Of which defaulted	**Of which impaired**				
Loans and Advances	219.1	205.4	197.7	197.7	(2.8)	(9.2)	412.6	196.2
Non-financial Corporations	*33.9*	*9.2*	*9.1*	*9.1*	*(0.8)*	*(1.0)*	*41.3*	*8.3*
Households	*185.2*	*196.2*	*188.6*	*188.6*	*(2.0)*	*(8.2)*	*371.3*	*187.9*
Debt Securities								
Total	**219.1**	**205.4**	**197.7**	**197.7**	**(2.8)**	**(9.2)**	**412.6**	**196.2**

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 2022

	Gross carrying amount/nominal amount 2022											
	Performing exposures			**Non-performing exposures**								
2022		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
Cash balances at central bank and other demand deposits	**3,053.2**	**3,053.2**										
Loans and advances	**23,459.1**	**23,337.0**	**122.1**	**595.4**	**347.2**	**123.0**	**79.8**	**34.2**	**9.6**	**0.8**	**0.8**	**543.5**

Central banks	62.8	62.8										
Credit institutions	242.0	242.0										
Other financial corporations	7.7	7.7										
Non-financial corporations	10,031.7	10,007.8	23.9	121.5	95.3	11.7	10.1	3.6	0.8			121.0
Of which SMEs	9,778.3	9,754.4	23.9	95.0	68.8	11.7	10.1	3.6	0.8			94.6
Households	13,115.0	13,016.7	98.3	473.9	251.9	111.3	69.7	30.6	8.8	0.8	0.8	422.5
Debt Securities	**412.9**	**412.9**										
General governments	149.8	149.8										
Other financial corporations	263.1	263.1										
Off-balance-sheet exposures	**1,212.2**											
Non-financial corporations	713.7											
Households	498.6											
Total	**28,137.5**	**26,803.1**	**122.1**	**595.4**	**347.2**	**123.0**	**79.8**	**34.2**	**9.6**	**0.8**	**0.8**	**543.5**

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 2022

	Gross carrying amount				Accumulated impairment
		Of which non-performing		Of which loans and advances subject to impairment	
			Of which defaulted		
Agriculture, forestry and fishing					
Mining and quarrying					
Manufacturing	0.3			0.3	(0.0)
Electricity, gas, steam and air conditioning supply					
Water supply					
Construction	27.1	5.4	5.4	27.1	(3.0)
Wholesale and retail trade	3.5	0.6	0.6	3.5	(0.1)
Transport and storage					
Accommodation and food service activities	2.0	0.5	0.5	2.0	(0.0)
Information and communication	0.9			0.9	(0.0)
Financial and insurance activities	3.7	2.0	2.0	3.7	(0.3)
Real estate activities	9,888.7	82.1	81.9	9,888.7	(32.9)
Professional, scientific and technical activities	5.6	0.1	0.1	5.6	(0.2)
Administrative and support service activities	3.9	0.4	0.4	3.9	(0.0)
Public administration and defence, compulsory social security					
Education	0.1			0.1	(0.0)
Human health services and social work activities	1.4			1.4	(0.0)
Arts, entertainment and recreation					
Other services	216.1	30.4	30.4	216.1	(32.6)
Total	**10,153.3**	**121.5**	**121.3**	**10,153.3**	**(69.1)**

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.

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 based in the UK and the Channel Islands.

(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 COVID 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 45 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 2022

	Unsecured carrying amount	Secured carrying amount			
			Of which secured by collateral	Of which secured by financial guarantees	Of which secured by credit derivatives
Loans and advances	3,505.4	23,473.0	23,442.3	30.7	
Debt securities	412.9				
Total	3,918.3	23,473.0	23,442.3	30.7	
Of which non-performing exposures	*0.7*	*523.2*	*523.2*		
Of which defaulted	*0.7*	*523.2*			

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 Banks and government exposures
- Exposures to 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 2022

Exposure Class	£m		£m		£m	
	Exposures before CF		Exposures after CF		RWA and RWA Density	
	On-Balance Sheet	Off-Balance Sheet	On-Balance Sheet	Off-Balance Sheet	RWAs	RWA Density %
Central governments or central banks	3,026.4		3,026.4		14.0	0.5%
Institutions	252.3		252.3		60.8	24.1%
Corporates	36.2		36.2		36.2	100%
Retail	158.4	14.3	138.8		84.9	61.2%
Secured by mortgages on immovable property	22,730.2	1,029.4	22,730.2	205.9	8,448.0	36.8%
Exposures in default	522.4		522.4		522.5	100%

Items associated with particularly high risk	193.1	168.1	193.1	1.2	272.9	140.5%
Equity Exposures	3.2		3.2		3.2	100%
Other Items	88.0		88.0		54.2	61.6%
Credit Risk-Standardised Approach	**27,010.2**	**1,211.8**	**26,990.6**	**207.1**	**9,496.7**	**34.9%**

11.3 UK CR5 Standardised approach 2022

Exposure class	Risk weight								
	0%	**20%**	**35%**	**75%**	**100%**	**150%**	**250%**	**Total**	**Of which unrated**
Central governments or central banks	3,020.8						5.6	3,026.4	
Institutions		239.4			12.9			252.3	
Corporates					36.2			36.2	36.2
Retail exposures				109.4	29.4			138.8	138.8
Exposures secured by mortgages on immovable property			21,957.3	33.4	943.1	2.3		22,936.1	22,936.1
Exposures in default					522.0	0.3		522.4	522.4
Exposures associated with particularly high risk					37.0	157.3		194.3	194.3
Equity exposures					3.2			3.2	3.2
Other items	34.1				53.9			88.0	88.0
Total exposure value	**3,054.9**	**239.4**	**21,957.3**	**142.9**	**1,637.7**	**159.9**	**5.6**	**27,197.6**	**23,919.0**

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 exposures therefore the following templates have not been disclosed.

- UK CRE – Qualitative disclosure requirements related to IRB approach
- UK CR6 – IRB approach – Credit risk exposures by exposure class and PD range
- UK CR6-A – Scope of the use of IRB and SA approaches
- UK CR7 – IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques
- UK CR7-A – IRB approach – Disclosure of the extent of the use of CRM techniques
- UK CR8 – RWEA flow statements of credit risk exposures under the IRB approach
- UK CR9 – IRB approach – Back-testing of PD per exposure class (fixed PD scale)
- 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)
- 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 (OTC) 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 M&LR 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

2022	£m Replacement cost (RC)	£m Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	£m Exposure value pre CRM	£m Exposure value post CRM	£m Exposure value	£m RWEA
Original Exposure Method (for derivatives)				1.4				
Simplified SA-CCR (for derivatives)				1.4				
SA-CCR (for derivatives)	4.5	4.2		1.4	303.3	12.2	12.2	4.2
Financial collateral simple method (for SFTs)					0.0	0.0	0.0	0.0
Financial collateral comprehensive method (for SFTs)								
VaR for SFTs								
Total					303.3	12.2	12.2	4.2

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

2022	Exposure value £m	RWAs £m
Transactions subject to the standardised method		
Transactions subject to the Alternative approach (Based on the Original Exposure Method)	0.0	0.0
Total transactions subject to own funds requirements for CVA risk	0.0	0.0

13.4 UK CCR3 Standardised approach – CCR exposures by regulatory exposure class and risk weights 2022

Exposure class 2022	Risk weight 0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Total exposure value
Central governments or central banks											
Regional government or local authorities											
Public sector entities											
Multilateral development banks											
International organisations											
Institutions		54.3			6.4	5.8					66.5
Corporates											
Retail											
Institutions and corporates with a short-term credit assessment											
Other items											

Total exposure value		**54.3**			**6.4**	**5.8**					**66.5**

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 2022

	Exposure value	RWAs
	£m	£m
Exposures to QCCPs (total)		1.1
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	54.3	1.1
(i) OTC derivatives	54.3	1.1
(ii) Exchange-traded derivatives		
(iii) SFTs	0.0	0.0
(iv) Netting sets where cross-product netting has been approved		
Segregated initial margin	127.8	
Non-segregated initial margin		
Prefunded default fund contributions		
Unfunded default fund contributions		

14. 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 one Simple, Transparent and Standardised (STS) securitisation, CMF 2020-1, and the following Securitisations have achieved SRT:

- Canterbury Finance No.1 plc
- Rochester Financing No.3
- Charter Mortgage Funding 2018-1 plc
- Precise Mortgage Funding 2018-2B plc
- Precise Mortgage Funding 2019-1B plc
- Precise Mortgage Funding 2020-1B plc

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 2022 year end are BoE Type B or Type C eligible collateral and are pre-placed with the BoE. As a result of this, the Group receives an implied mark on each such 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. CCFSL has a small senior holding in Canterbury Finance No.3 (a Group transaction) which is accounted for on a 'Held to collect and sell' basis.

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 central bank repo purposes; a proxy for which is provided by the BoE.

(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 Art. 254 of the CRR and has adopted SEC-SA to determine risk weights for positions held, taking into account items such as simple, transparent and standardised designations (STS).

(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.1 plc

Canterbury Finance No.2 plc

Canterbury Finance No.3 plc

Canterbury Finance No.4 plc

Canterbury Finance No.5 plc

Charter Mortgage Finding 2018-1 plc

CMF 2020-1 plc

Precise Mortgage Funding 2018-2B plc

Precise Mortgage Funding 2019-1B plc

Precise Mortgage Funding 2020-1B plc

Rochester Financing No.3

(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

(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

(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 2022, the Group had securitisation positions held at amortised cost, Fair Value Through Other Comprehensive Income (FVTOCI) and Fair Value Through Profit and Loss (FVTPL). Further detail can be found in Note 19 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. The Group uses SEC-SA.

14.2 UK SEC1 Securitisation exposures in the non-trading book 2022

	Institution acts as originator				Institution acts as sponsor			Institution acts as investor		
	Traditional				Traditional			Traditional		
Total exposures	STS £m	Non-STS £m	*Of which SRT £m*	Sub-total £m	STS £m	Non-STS £m	Sub-total £m	STS £m	Non-STS £m	Sub-total £m
Total exposures		**3,530.0**	**100.9**	**3,530.0**		**11.3**	**11.3**	**138.0**	**12.9**	**150.9**
Retail (total)		3,530.0	100.9	3,530.0		11.3	11.3	138.0	12.9	150.9
residential mortgage		3,530.0	100.9	3,530.0		11.3	11.3	138.0	12.9	150.9

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 2022

	Exposure values (by RW bands/deductions)				Exposure values by regulatory approach				RWEA by regulatory approach				Capital charge after cap			
	£m															
Total exposures	≤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
Total exposures	**112.1**						**112.1**				**17.1**				**1.4**	
Traditional transactions	112.1						112.1				17.1				1.4	
Securitisation	112.1						112.1				17.1				1.4	
Retail underlying	112.1						112.1				17.1				1.4	

14.5 UK SEC4 Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor 2022

	Exposure values (by RW bands/deductions)				Exposure values by regulatory approach				RWEA by regulatory approach				Capital charge after cap			
	£m															
Total exposures	**≤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**
Total exposures	**150.9**						**150.9**				**15.7**				**1.3**	
Traditional transactions	150.9						150.9				15.7				1.3	
Securitisation	150.9						150.9				15.7				1.3	
Retail underlying	150.9						150.9				15.7				1.3	
Of which STS	*138.0*						*138.0*				*13.8*				*1.1*	

14.6 UK SEC5 Exposures securitised by the institution - Exposures in default and specific credit risk adjustments 2022

Total exposures	Exposures securitised by the institution - Institution acts as originator or as sponsor		
	Total outstanding nominal amount **£m**	*Of which exposures in default* *£m*	**Total amount of specific credit risk adjustments made during the period** **£m**
Total exposures	**4,802.6**	**41.3**	**(0.0)**
Retail (total)	4,802.6	41.3	(0.0)
residential mortgage	4,802.6	41.3	(0.0)

15. Annex XXIX – Standardised approach and internal model for market risk

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.
- 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 timing or index rates).
- Use of derivative financial instruments - Fixed-Floating (or Floating-Fixed, or Floating-Floating) interest rate swaps.
- 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.

(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).
- 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 capability owned and used across the business;
- Provide the frameworks, policies and standards 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 be transacted and risk taken without exposing the Group to unacceptable potential 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 control requirements rests with the business units where the risk arises. Operational risk issues are considered through the second line of defence review meetings. Depending on their nature, 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 Framework and for overseeing the portfolio of operational risk across the Group. The Operational Risk 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 function alerts management when risk levels exceed acceptable tolerance in order to drive timely decision making and actions by the first line of defence.

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

Risk and Control Self-Assessments: Risk and control self-assessments (RCSAs) are the way in which the Group identifies and assesses the risks which are inherent in the material processes operated by the Group. Managers in the business use the RCSA approach to evaluate the controls in place to mitigate those risks and assess the residual risk exposure for the Group. The businesses / functions are then able to make decisions on what action, if any, is required to reduce the level of residual risk. These risk assessments are monitored on a regular basis to ensure that each business / function understands the risks it faces.

Risk Events: An operational risk event is any circumstance where, through the lack or failure of a control, the Group has actually, or could have, made a loss. The definition includes situations in which the Group could have made a loss, but in fact made a gain, as well as incidents 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 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 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 Framework. Reports and MI are used by the Operational Risk function 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 under TSA which 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 2022

	Relevant indicator			Own funds requirement	Risk weighted exposure amount
Banking activities	Year 3	Year 2	Last year		
Banking activities subject to basic indicator approach (BIA)					
Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	502.6	623.0	769.1	76.8	959.6
Subject to TSA:	*502.6*	*623.0*	*769.1*		
Subject to ASA:					
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; Mary McNamara (Chair), Noël Harwerth, Sarah Hedger, Rajan Kapoor and David Weymouth.

The Committee met seven times during the 2022 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. 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 also 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 in 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's remuneration policies apply to Executive Directors and 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.

The Committee has implemented a Remuneration Policy, which was 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 has been 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)
- 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
- 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 2022, 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 from three years and from 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%). Under this scheme, 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.

The majority of other Code Staff receive 50% of their bonus award in shares with a holding period of one year.

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 2022 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 2022 are set out in the table below.

Performance criteria for PSP awards

Performance level	EPS element (35% of total award)	TSR element (35% of total award)	Return on Equity (15% of total award)	Non-Financial/ Risk Scorecard (15% of total award)	% of that part of the award vesting
Below 'threshold'	Less than 3% CAGR	Below median	Below 17%	Commercially sensitive	0%
'Threshold'	3% CAGR	Median	17%		25%
'Stretch'	10% CAGR	Upper quartile	23%		100%
Pro-rata vesting in between the Threshold and Stretch performance levels					

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.

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, reputational, financial or operational 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 2022.

(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, 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 legal costs 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 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 Balanced Business 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.

The Group does not qualify as a large institution (Level 1 firm). Quantitative disclosures applicable to the Group can be found in REM1 – REM5 below.

17.2 UK REM1 Remuneration awarded for the financial year

2022	MB Supervisory function[13]	MB Management function[14]	Other senior management	Other identified staff
	£m	£m	£m	£m
Number of identified staff.	8	2	11	24
Total fixed remuneration	1.2	1.5	3.1	4.3
Number of identified staff.	8	2	11	24
Total Variable remuneration		2.8	5.3	4.5
Total remuneration	**1.2**	**4.3**	**8.4**	**8.8**

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

Not applicable to the Group. The Group does not qualify as a level 1 firm.

17.4 UK REM3 - Deferred remuneration

Not applicable to the Group. The Group does not qualify as a level 1 firm.

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

Not applicable to the Group. The Group does not qualify as a level 1 firm.

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

	Management body remuneration			Business areas				
2022	MB Supervisory function	MB Management function	Total MB	Investment Banking	Retail Banking	Corporate function	Independent internal control	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Total number of identified staff	**8**	**2**	**10**		**13**	**13**	**9**	**35**

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13 MB supervisory body includes Rod Duke (CCFSL Chairman)

14 Remuneration is presented to include LTIP awards that were granted during the performance year 2022

of which: members of the MB	8	2	10					
of which: other senior management					4	4	3	11
of which: other identified staff					9	9	6	24
Total remuneration of identified staff	**1.2**	**4.3**	**5.5**		**7.0**	**5.5**	**4.7**	**17.2**
of which: variable remuneration		2.8	2.8		4.0	3.1	2.7	9.8
of which: fixed remuneration	1.2	1.5	2.7		3.0	2.4	2.0	7.4

18. Annex XXXV - Encumbered and unencumbered assets

18.1 UK AE1 Encumbered and unencumbered assets

2022		£m		£m		£m		£m	
		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			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	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	**7,206.0**	**102.1**			**18,721.4**	**2,960.3**		
030	Equity instruments								
040	Debt securities	108.7	41.0	108.4	44.5	275.0	199.8	274.6	199.9
050	Covered bonds								
060	of which: securitisations	74.6	12.4	74.3	12.4	146.5	71.3	146.3	71.5
070	of which: issued by general governments	5.0	5.0	5.0	5.0	123.3	123.3	123.3	123.3
080	of which: issued by financial corporations								
120	Other assets	7,126.4	61.2			18,543.1	2,754.7		

18.2 UK AE2 Collateral received and own debt securities issued

2022		£m		£m	
		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	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA
		010	030	040	050
130	**Collateral received by the reporting institution**	**21.2**	**21.2**	**75.4**	**75.4**
140	Loans on demand				
150	Equity instruments				
160	Debt securities	21.2	21.2	75.4	75.4
180	of which: securitisations				
190	of which: issued by general governments	21.2	21.2	75.4	75.4
200	of which: issued by 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				
250	TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	7,254.2			

18.3 UK AE3 Sources of encumbrance

2022	Matching liabilities, contingent liabilities or securities lent £m	Assets, collateral received and own debt securities Issued other than covered bonds and securitisations encumbered £m
Carrying amount of selected financial Liabilities	4,691.4	7,105.2

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 measures IRRBB by assessing the sensitivity of both EV and Earnings to changes in the interest rate.

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 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 and also require 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.
- 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 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 the both the rate rise and rate fall scenario, 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.

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 do not fall below 0bps. This assumption has a significant impact on NII sensitivity, 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. 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 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 customer rate of 0bps was applied to administered retail savings, to reflect the assumptions used within the internal calculation, this would result in greater NII sensitivity. For OSB the loss in NII would be £41.3m and for CCFSL the loss would be £36.3m.

Requirement	Quantitative information
Average repricing maturity assigned to non-maturing deposits (NMDs)	OSB – 21 days CCFSL – 39 days
Longest repricing maturity assigned to NMDs	OSB – 60 days CCFSL – 120 days

19.2 UK IRRBB1 Quantitative information on IRRBB

CCFSL	∆EVE m	∆EVE m	∆NII	∆NII	Tier 1 capital m	Tier 1 capital m
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31Dec 2022	31 Dec 2021
Parallel shock up	(20.9)	(20.0)	15.2			
Parallel shock down	23.7	16.5	(18.4)			
Steepener shock	(1.6)	(1.9)				
Flattener shock	(2.3)	(1.7)				
Short rates shock up	(9.2)	(8.3)				
Short rates shock down	9.7	9.3				
Maximum	(20.9)	(20.0)	(18.4)			
Tier 1 Capital					**776.4**	**713.0**

OSB	∆EVE m	∆EVE m	∆NII	∆NII	Tier 1 capital m	Tier 1 capital m
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Parallel shock up	(46.5)	(36.7)	18.8			
Parallel shock down	53.2	15.4	(18.9)			
Steepener shock	(4.3)	(3.4)				
Flattener shock	(4.5)	(3.8)				
Short rates shock up	(19.9)	(15.9)				
Short rates shock down	20.9	16.7				
Maximum	(46.5)	(36.7)	(18.9)			
Tier 1 Capital					**1131.7**	**1,045.0**

Note: NII SOT has not been calculated in 2021. The Group developed this in 2022.

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
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
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