PILLAR 3 DISCLOSURES

For the year ended 31 December 2021

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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 2021. The two banking entities within the Group are authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA (being OneSavings Bank plc (OSB), firm registration number 530504 and Charter Court Financial Services Limited (CCFSL), firm registration number 494549).

The Group's disclosures have been prepared in accordance with the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR) together known as CRD IV, which came into force on 1 January 2014 through the European Banking Authority (EBA).

In May 2019, the EU published legislation to implement, within the EU, some of the remaining Basel III prudential reforms agreed by the Basel committee on Banking Supervision (BCBS). This legislation, known as CRD V and CRR II amended CRD IV and CRR respectively.

European Union (EU) rules that existed on 31 December 2020 have continued to apply under United Kingdom (UK) law following the transitional period for the UK's withdrawal from the EU, being subject to the temporary transitional powers (TTP) granted to the PRA which extends to 31 March 2022.

The PRA has 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 will take effect 1 January 2022 (six months after the EU CRR2 has come into force) and will constitute the UK's prudential regulatory regime for UK banks and PRA designated investment firms. The Group has early adopted a number of disclosure templates from the latest regime and will embed the full suite of templates in the 2022 related disclosures.

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 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 Pillar 3 disclosures should be read in conjunction with the Annual Report and Accounts (ARA) for the year ending 31 December 2021. Both can be found in a single medium location, which can be found 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 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 is subject to external audit. Other information has been sourced from the Group's Strategic Risk Management Framework (SRMF) and other related internal policies, the Group's Human Resources (HR) function, Group Remuneration Committee reports and the Group's Common Reporting (COREP) and Financial Reporting (FINREP) returns.

1.3 Scope and application of disclosure

The Group's ARA have been prepared on a fully consolidated basis, with all subsidiary undertakings listed in Figure 1 being included in consolidation. The Group's Pillar 3 disclosures have been prepared on the same basis. There are no differences between statutory accounting and prudential consolidation, therefore template **LI3** has not been disclosed.

Pillar 3 disclosures will be prepared and published on an annual basis, or more frequently in line with guidelines, unless there is a material change to the previously disclosed data or information.

Where equivalent disclosures are available in other published financial statements, the Group will indicate where those disclosures can be found.

Table 1: LI1 Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

2021 **Assets**	**Carrying values as reported in published financial statements** **(a)** £m	**Carrying values under scope of regulatory consolidation** **(b)** £m	**Subject to credit risk framework** **(c)** £m	**Subject to the CCR framework** **(d)** £m	**Subject to the securitisation framework** **(e)** £m	**Not subject to capital requirements or subject to deduction from capital** **(g)** £m
Cash in hand	0.5	0.5	0.5			
Loans & advances to credit Institutions	2,843.6	2,843.6	2,743.7	99.9		
Investment securities	491.4	491.4	268.3		223.1	
Loans and advances to customer	21,080.3	21,080.3	21,080.3			
Fair value adjustment on hedged assets	(138.9)	(138.9)				(138.9)
Derivative assets	185.7	185.7		185.7		
Deferred taxation asset	5.6	5.6	5.1			0.5
Other assets	10.2	10.2	10.2			
Property, fixtures and equipment	35.1	35.1	35.1			
Intangible assets	18.4	18.4				18.4
Total Assets	**24,531.9**	**24,531.9**	**24,143.2**	**285.6**	**223.1**	**(120.0)**
Off balance sheet items	-	1,064.6	1,064.6			
Total Regulatory Exposures	**24,531.9**	**25,596.5**	**25,207.8**	**285.6**	**223.1**	**(120.0)**
Liabilities						
Amounts owed to credit institutions	4,319.6	4,319.6				
Amounts owed to retail depositors	17,526.4	17,526.4				
Amounts owed to other customers	92.6	92.6				
Fair value adjustment on hedged liabilities	(19.7)	(19.7)				
Debt securities in issue	460.3	460.3				
Derivative liabilities	19.7	19.7		19.7		
Lease liabilities	10.7	10.7				
Other liabilities	29.6	29.6				
Provisions	2.0	2.0				
Corporation taxation payable	1.0	1.0				
Deferred taxation liability	39.8	39.8				
Subordinated liabilities	10.3	10.3				
Perpetual subordinated liabilities	15.2	15.2				
Total Liabilities	**22,507.5**	**22,507.5**		**19.7**		
Shareholders' equity	2,024.4	2,024.4				
Non-Controlling Interest	-	-				
Total Equity and Liabilities	**24,531.9**	**24,531.9**		**19.7**		

2020 Assets	Carrying values as reported in published financial statements (a) £m	Carrying values under scope of regulatory consolidation (b) £m	Subject to credit risk framework (c) £m	Subject to the CCR framework (d) £m	Subject to the securitisation framework (e) £m	Not subject to capital requirements or subject to deduction from capital (g) £m
Cash in hand	0.5	0.5	0.5			
Loans & advances to credit Institutions	2,676.2	2,676.2	2,465.3	211.0		
Investment securities	471.2	471.2			471.2	
Loans and advances to customer	19,230.7	19,230.7	19,230.7			
Fair value adjustment on hedged assets	181.6	181.6	181.6			
Derivative assets	12.3	12.3		12.3		
Current taxation asset	8.4	8.4	8.4			
Deferred taxation asset	4.7	4.7	3.8			0.9
Other assets	9.1	9.1	9.1			
Property, fixtures and equipment	39.2	39.2	39.2			
Intangible assets	20.6	20.6				20.6
Total Assets	**22,654.5**	**22,654.5**	**21,938.6**	**223.3**	**471.2**	**21.5**
Off balance sheet items		985.7	985.7			
Total Regulatory Exposures	**22,654.5**	**23,640.2**	**22,924.2**	**223.3**	**471.2**	**21.5**
Liabilities						
Amounts owed to credit institutions	3,570.2	3,570.2				
Amounts owed to retail depositors	16,603.1	16,603.1				
Amounts owed to other customers	72.9	72.9				
Fair value adjustment on hedged liabilities	8.2	8.2				
Debt securities in issue	421.9	421.9				
Derivative liabilities	163.6	163.6		163.6		
Lease liabilities	11.7	11.7				
Other liabilities	27.8	27.8				
Provisions	1.8	1.8				
Corporation taxation payable						
Deferred taxation liability	48.3	48.3				
Subordinated liabilities	10.5	10.5				
Perpetual subordinated liabilities	37.6	37.6				
Total Liabilities	**20,977.6**	**20,977.6**		**163.6**		
Shareholders' equity	1,616.9	1,616.9				
Non-Controlling Interest	60.0	60.0				
Total Equity and Liabilities	**22,654.5**	**22,654.5**		**163.6**		

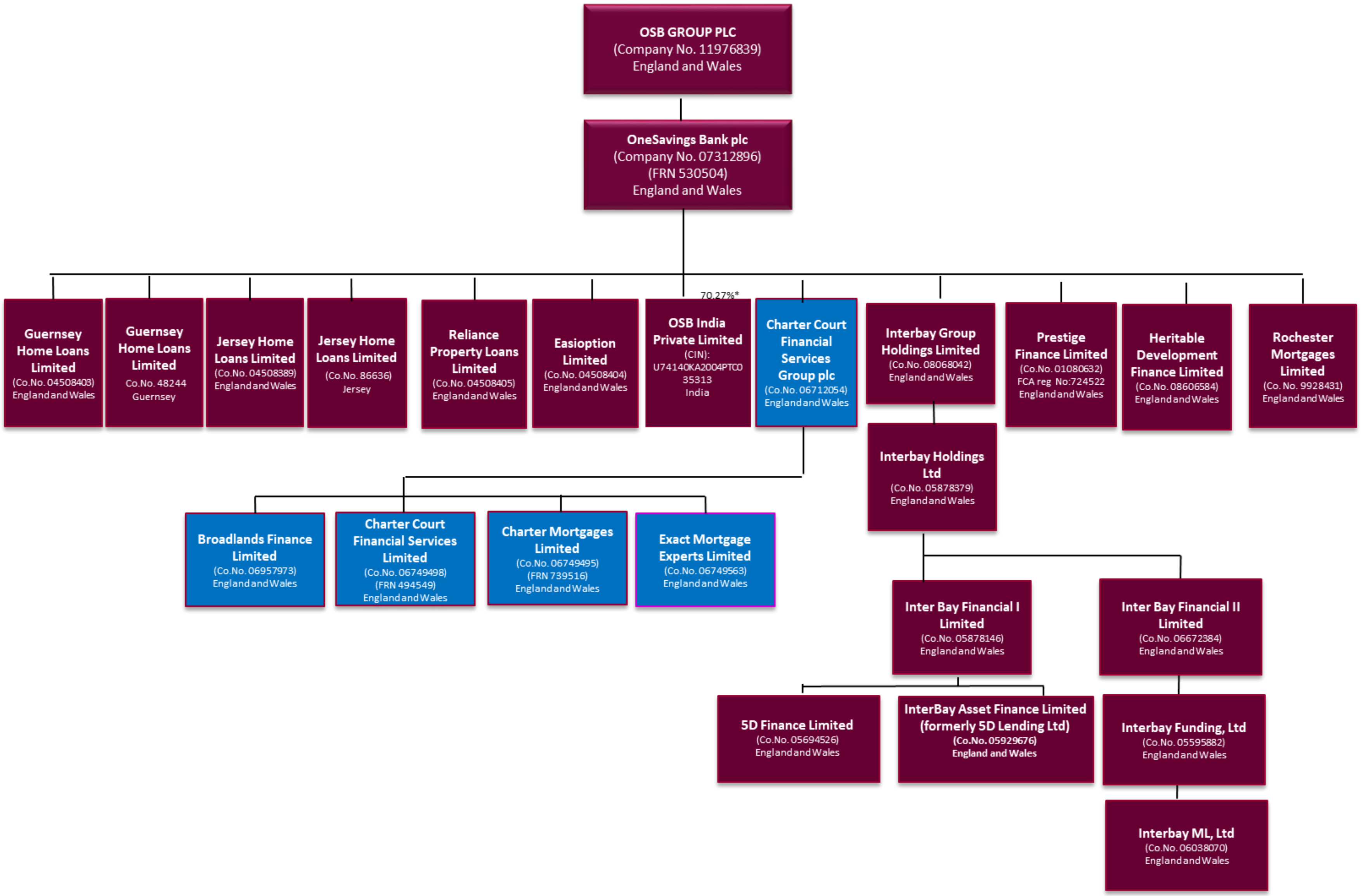
Table 2: LIA Explanations of differences between accounting and regulatory exposure amounts

Requirement	Qualitative information
Differences between columns (a) and (b) in template UK LI1	There are no differences in columns a and b in UK LI1

Table 3: LIB other qualitative information on the scope of application

Requirement	Qualitative information
Impediment to the prompt transfer of own funds or to the repayment of liabilities within the group	Not applicable to the Group
Subsidiaries not included in the consolidation with own funds less than required	Not applicable to the Group
Use of derogation referred to in Article 7 CRR or individual consolidation method laid down in Article 9 CRR	Not applicable to the Group
Aggregate amount by which the actual own funds are less than required in all subsidiaries that are not included in the consolidation	Not applicable to the Group

Figure 1: Group structure as at 31 December 2021



100% shareholding unless otherwise stated.

Additional shareholders: * Easioption Limited 29.72% /Reliance Property Loan Limited 0.01%

1.4 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.

1.5 Risk statement and Board sign-off

Risk management is a key capability and is fundamental to the Group's strategy. The Group is exposed to credit, liquidity and interest rate risk which arise through mortgage lending and banking activities. Risks are managed in strict accordance with Board-approved risk appetite and through credit policies and mortgage arrears management. The Group holds management capital buffers above the minimum regulatory capital requirements.

The Group has an established Board and independent risk management function and the Board has carried out a robust assessment of the risks facing the Group. The Group has adequate risk management systems in place with regard to its profile and strategy. The Group continues to advance and strengthen its risk management capabilities, evolving in line with best practice and industry standards.

Further information on the Group's risk management framework can be found in Section 2 along with supporting key metrics in Table 5.

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

The Regulatory Governance Committee (a sub-committee of the Group Executive Committee (ExCo)) and the Group Audit Committee are responsible for assessing and confirming the appropriateness of the Pillar 3 disclosures, including their verification and frequency.

The Pillar 3 disclosures have been endorsed by the Group Audit Committee and approved by the Board of Directors.

1.6 Key regulatory metrics

Key ratios and metrics in relation to the Group are detailed below.

Table 4: Key metrics

Key Metrics	2021 £m	2020 £m
Total risk weighted exposure amounts	9,101.6	8,565.7
Capital resources requirement - Pillar 1[1]	728.1	685.3
Capital Resource		
Common equity tier 1	1,781.7	1,566.0
Additional tier 1	150.0	0.0
Tier 2	-	-
Total capital	1,931.7	1,566.0
Key Ratios		
Common equity tier 1 capital ratio	19.6%	18.3%
Total tier 1 capital ratio	21.2%	18.3%
Total capital ratio	21.2%	18.3%
Total capital requirement[2]	863.2	805.8
CET 1 available to meet buffers[3]	11.5%	8.6%[4]
Asset encumbrance ratio[5]	26.8%	27.2%
Leverage ratio	7.9%	6.9%
Liquidity coverage ratio	195.5%	198.3%

The liquidity for both OSB and CCFSL remains strong. OSB has a Liquidity Coverage Ratio (LCR) of 240.1% (2020: 254.1%) and CCFSL 157.9% (2020: 146.0%).

The Group's capital position remained strong with fully-loaded Common Equity Tier 1 (CET1) capital and total capital ratios of 19.6% and 21.2% respectively as at 31 December 2021 (31 December 2020: CET1 18.3%, total capital 18.3%).

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[1] At 8% of Risk Weighted Exposure Amount (RWEA).

[2] Total capital requirement refers to the firm specific amount of capital that a firm must maintain, excluding regulatory capital buffers.

[3] 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).

[4] Restated December 2020 to correct the calculation method in line with the methodology per footnote 3. Previously calculated as available CET 1 after deduction of Pillar 1 capital requirement at 8%. Decrease from 10.3% to 8.6%.

[5] Asset encumbrance ratios are calculated using the median values in accordance with reporting standards issued by the EBA.

1.7 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 BoE has given the Group a deadline of 1 January 2023 to implement the Resolvability Assessment Framework Statement of Policy (RAF SoP), and to achieve the three resolvability outcomes;

- Having adequate financial resources to support a resolution
- Continuing to do business through resolution and restructuring
- Co-ordinating and communicating effectively internally and with the authorities and markets

The Group is establishing a comprehensive programme to ensure all aspects of the BoE's RAF are understood and integrated into the Group's policies and procedures for assessing the Group's on-going resolution capabilities. The Group's response to the three primary areas of the RAF (being: (i) Assessment & Disclosure; (ii) Resolvability Capabilities; and (iii) Assurance & Risk Management), will be developed in a proportionate and considered manner. In particular, the Group will leverage its existing risk and operational resilience capabilities to ensure effective compliance with the RAF.

Capital Reduction

On 11 January 2021, the parent company OSB GROUP PLC (the Company) published a Circular in relation to the Capital Reduction, which subject to shareholder approval as well as certain other conditions set out in the Circular, was undertaken to create the required distributable reserves to enable the Company to pay dividends and other distributions to shareholders in the future. The Circular stated that there would be no change to the total number of shares or the total capital in the Company, or in the Company and its subsidiaries' (the Group's) capital ratios as a result of the Capital Reduction. On 26 February 2021, the Capital Reduction became effective with the Group reducing the nominal value of 447,312,780 shares from three hundred and four (304) pence each to one (1) penny each. This generated £1.4bn of distributable reserves following interim accounts as at 28 February 2021 being prepared and delivered to Companies House, supporting the dividend distribution of £64.8m on 2 June 2021 by the Company.

Countercyclical Capital Buffer (CCyB)

The Financial Policy Committee (FPC) had cut the CCyB to 0% in March 2020 to support banks in continuing to lend during the pandemic. On 13 December 2021 the FPC announced they were increasing the UK CCyB rate to 1%, to be implemented by 13 December 2022. Provided the economy continues to recover, the FPC expects to increase the CCyB to 2% in Q2 2022, to take effect in Q2 2023. This decision reflects the fact that risks have returned to their pre-Covid level.

New disclosure requirements

The PRA has 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 will take effect 1 January 2022 (six months after the EU CRR2 has come into force) and will constitute the UK's prudential regulatory regime for UK banks and PRA designated investment firms. The Group has early adopted a number of disclosure templates from the latest regime and will embed the full suite of templates in the 2022 related disclosures.

The new Pillar 3 disclosures have been introduced which "optimise the Pillar 3 Policy framework for credit institutions by providing a single overarching package that brings together all previous pieces of regulation and incorporates all prudential disclosures, thus facilitating implementation by institutions and improving clarity for users of such information."

Internal Rating based (IRB)

The Group's Internal Ratings Based (IRB) Programme made tangible progress against plan during the year. The Group's end state IRB models are passing through the final stages of governance, whilst an extensive self-assessment against IRB requirements has been completed and the required application documents have been drafted and are going through our governance process. The IRB capabilities developed by the Group continue to be integrated into key risk and capital management processes, and are already informing strategic decision making and business planning activities. The anticipated delay in Basel 3.1 implementation and the 1 year extension to the Group's MREL deadlines provided the Group with the opportunity to enhance its level of end state compliance prior to submitting its module 1 application. The Group continue to engage with the PRA to agree a submission date.

Basel 3.1

Uncertainty remains around the impact of Basel 3.1, with a wide range of possible outcomes dependent on how the rules are adopted in the United Kingdom. The Group's capital management framework has been enhanced during the year, whilst considerable time was spent on running a number of capital planning scenarios and sensitivities across a range of potential Basel 3.1 outcomes which the Group will continue to monitor.

2. Risk Management

2.1 Strategic Risk Management Framework (SRMF)

The Strategic Risk Management Framework (SRMF) 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.

Post Combination, the Group implemented a transitional Group risk management framework to drive a consistent approach to risk identification and assessment across both regulated banking entities. During 2021, sufficient progress was made in implementing a Group approach across all key principal risks, which resulted in the framework no longer being transitional in nature. Over time further enhancements will be made as required.

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

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

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

The key modules of the SRMF structure are as follows:

1. **Risk principles and culture** – the Group 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.
2. **Risk strategy and appetite** – the Group established a clear business vision and strategy which is supported by an articulated risk vision and underlying principles. The Board is accountable for ensuring that the Group's SRMF is structured against the strategic vision and is delivered within agreed risk appetite thresholds.
3. **Risk assessment and control** – the Group is committed to building a safe and secure banking operation via an integrated and effective enterprise strategic risk management framework.
4. **Risk definitions and categorisation** – the Group sets out its principal risks which represent the primary risks to which the Group is exposed.
5. **Risk analytics** – the Group uses quantitative analysis and statistical modelling to help improve its business decisions.
6. **Stress testing and scenario development** – stress testing is an important risk management tool which is used to evaluate the potential effects of a specific event and or movement in a set of variables to understand the impact on the Group's financial and operating performance. The Group has a dedicated stress testing framework which sets out the Group's approach to stress testing.
7. **Securitisation framework** – the Group developed a securitisation framework which articulates the key components of a securitisation issuance that are relevant to the Group. This sub-framework is now reflected within the wider SRMF. As enhancement areas are identified and implemented, the framework will be updated as required.
8. **Risk data and information technology** – the maintenance of high-quality risk information, along with the Group's data enrichment and aggregation capabilities, are central to the Risk function's objectives being achieved.
9. **Risk Management Framework's policies and procedures** – risk frameworks, policies and supporting documentation outline the process by which risk is effectively managed and governed within the Group.
10. **Risk management information and reporting** – the Group established a comprehensive suite of risk MI and reports covering all principal risk types.
11. **Risk governance and function organisation** – risk governance refers to the processes and structures established by the Board to ensure that risks are assumed and managed within the Board-approved risk appetite, with clear delineation between risk taking, oversight and assurance responsibilities. The Group's risk governance framework is structured to adhere to the 'three lines of defence' model.

The following diagrams outline the core components of the SRMF and the organisational arrangements to ensure that the Group operates in accordance with the requirements of the SRMF.

Figure 2: Strategic Risk Management Framework

Strategic Risk Management Framework (SRMF)				
Key elements	Risk principles and culture Risk strategy and appetite		Risk governance and function organisation Risk definitions and categorisation	
Principal risks	**Financial risks** Credit risk Market risk Liquidity and funding risk Solvency risk	**Non-financial risks** Strategic and business risk Reputational risk Compliance/regulatory risk	Operational risk Conduct risk Integration risk	
Capabilities	Risk framework and policies	Risk data and IT	Risk analytics	Risk management information
Risk regulatory submissions	ICAAP	ILAAP	Recovery plan/ Z-templates	

The following sections describe the key elements of the SRMF structure.

2.2 Risk principals and culture

The Group has established the following risk management and oversight principles which inform and guide all underlying risk management and assessment activities. These principles are informed by the Group Purpose, Vision and Values.

The Group's Vision is centred around becoming the UKs leading specialist bank and in accordance with this vision the Group seeks to ensure that appropriate policies, processes and procedures are established and adhered to enable the Group to identify, assess, manage and report the risks which may put this vision at risk. This responsibility is collectively owned at all levels of the organisation, framed in the context of the following overarching principles.

Key Risk principles:

- **Proportionate and scalable**: the approach to risk management needs to be commensurate with the complexity of the underlying risk profile and appropriately agile to respond to changing business and regulatory requirements.
- **Actively managed**: the risk profile needs to be actively managed within the Board-approved risk appetite and approved mandates.
- **Comprehensive coverage**: all risks and their underlying drivers impacting the Group's strategic, business, operational and regulatory objectives should be actively assessed, monitored and reported.
- **Segregation of duties**: risk taking, oversight and assurance responsibility to be organised in adherence to the 'three lines of defence' discipline.
- **Integration and usage**: risk assessment should be an integral feature of the decision-making process at all levels of the organisation.
- **Versatile and progressive**: the approach to managing risks should be subject to continuous review and challenge to keep pace with emerging good practice and regulatory standards.
- **Accountability and transference**: timely and accurate risk based information should be provided to all authorised stakeholders to ensure effective oversight and decision making.
- **Customer outcomes**: fair treatment and appropriate customer outcomes are at the core of all decision making.
- **Regulatory adherence**: maintenance of excellent relationships with the PRA, FCA, prompt management of issues, timely reporting and open communications.

2.3 Risk strategy and appetite

Risk strategy

The Group's risk strategy is to create value through informed risk-based decisions and leverage the Group's risk data and analytics in a timely and accurate manner to optimise the risk-reward profile.

The Group has established a clear business vision and strategy which is supported by an articulated risk vision and underlying principles. The Board is accountable for ensuring that the Group's SRMF is structured to deliver against its strategic vision which is outlined below.

Purpose: "Our purpose is to help our customers, colleagues and communities prosper."
Vision: "To be recognised as the UK's number one choice of specialist bank, through our commitment to exceptional service, strong relationships and competitive propositions."

Risk appetite

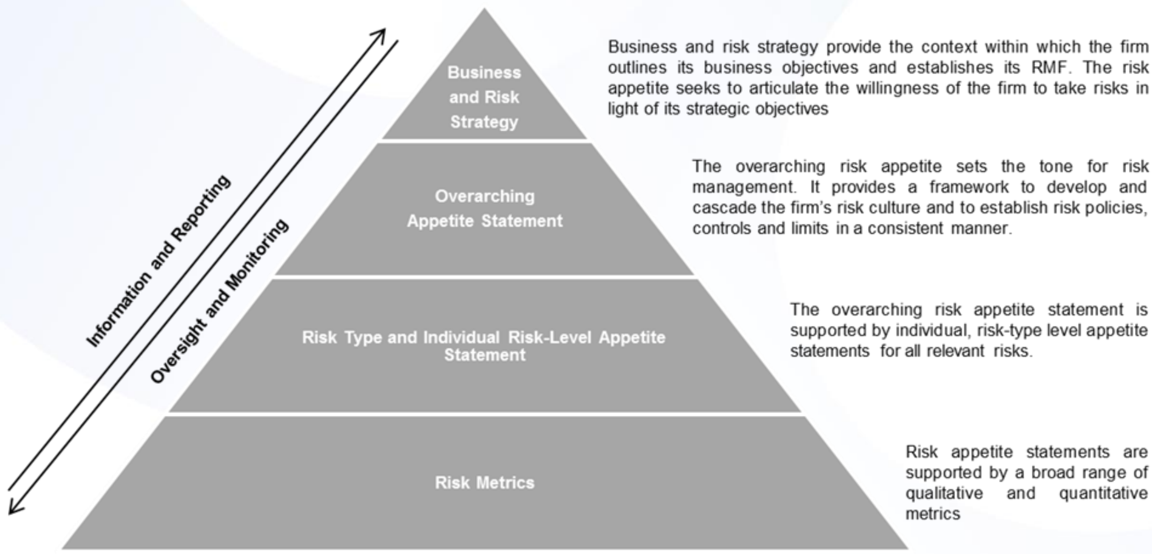
The Group aligns its strategic and business objectives with its risk appetite which defines the level of risk which the Group is willing to accept, enabling the Board and senior management to monitor the risk profile relative to its strategic and business performance objectives. Risk appetite is a critical 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 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.

Figure 3: Risk appetite



Overarching risk appetite statement

The Group has a prudent and proportionate approach to risk taking and management, which is reflective of its straightforward business model. The inherent resilience of the Group's business model is underpinned by the fact that the Group only lends on a secured basis, has established robust underwriting practices and relies on intermediary-based distribution. The Group supports its lending activities by being predominantly reliant on stable retail funding, supported by strong and high quality financial buffers. The highly efficient business operating model is an important source of competitive advantage. The Group also places significant importance on its strong conduct and compliance culture as an important driver of its overall success.

Risk reporting and management systems

The Group has developed a suite of detailed management information reports to support the business. The Group's management and Board Committees review risk appetite metrics and Key Risk Indicators (KRIs) across all principal risks which provide information around past and planned performance and the external environment in which Group operates. Where appropriate, there is an escalation process to ensure the relevant notification occurs outside of the regular meeting schedule. This governance structure provides frequent reviews of the Group's risk positions and financial resources including the review of the Group's current and forecast liquidity and capital position ensuring that they remain within the Board risk appetite.

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

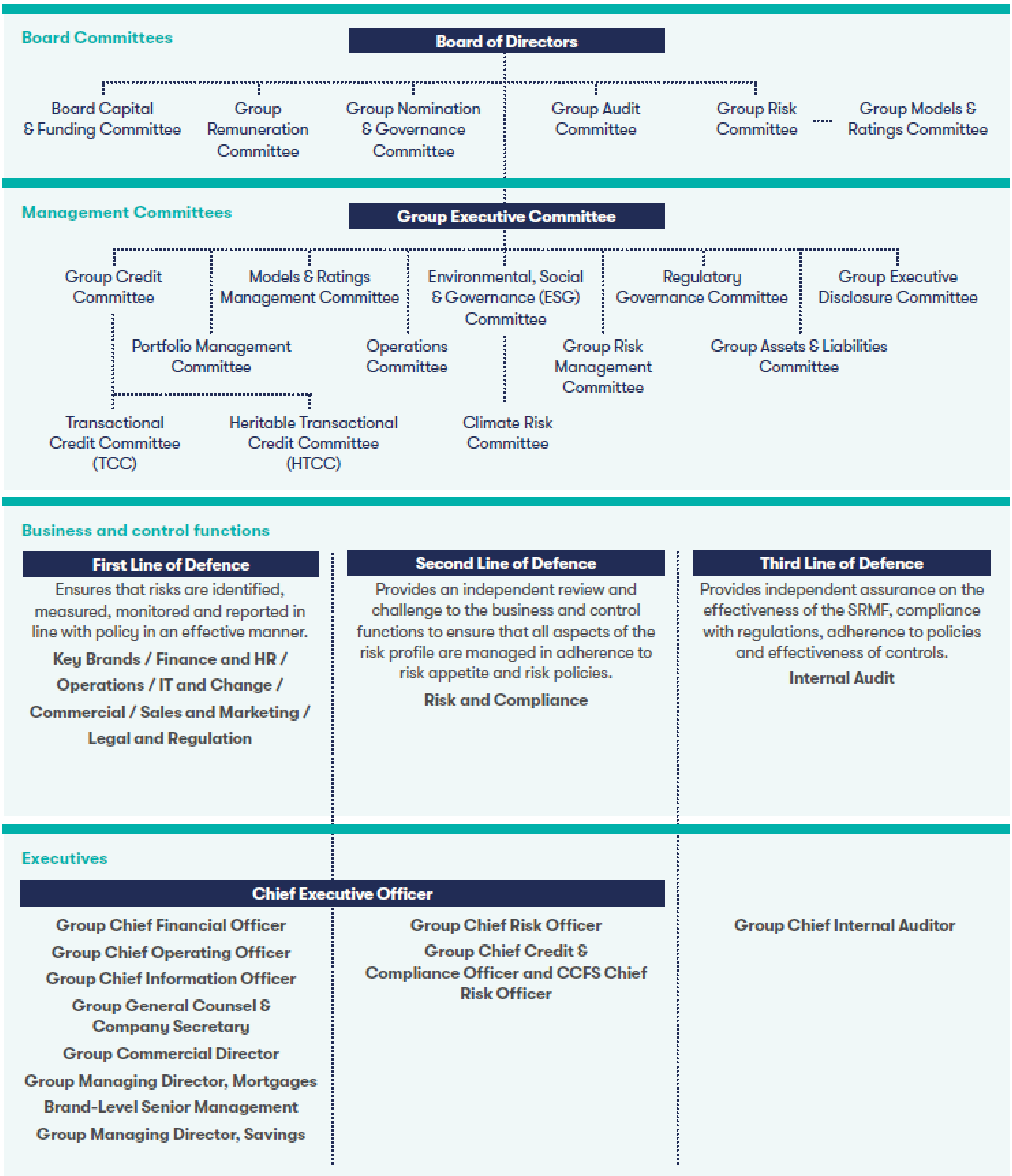
- Fully aligned to the Board-approved risk appetite
- Appropriate combination of qualitative and quantitative risk assessment
- Use of approved risk analytics and data obtained from approved sources
- Clearly highlight emerging trends and/or incidents
- Provides appropriate level of narrative to facilitate appropriate discussion
- Highlight regulatory and business developments
- Identify key development initiatives and progress against plan
- Obtain approval from appropriate officer or committee for introducing new MI and reports
- Updated sufficiently frequently to avoid extended gaps, notwithstanding operational constraints

2.4 Risk governance and Group organisational structure

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.



2.5 Risk definitions and categorisation

The Group's business activities, business model and external operating environment result in a unique risk profile. To ensure that the Group is actively monitoring and responding to the evolving nature of its risk profile, it has established a broad range of early warning indicators and maintains risk registers covering all principal risks. Outlined below are the various financial and non-financial risks which constitute the Group's risk profile.

The Board has carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that could threaten its strategic objectives, business operating model, future financial performance and regulatory compliance commitments. The principal risks and uncertainties are outlined in the tables below:

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.

Risk	Mitigation	Direction
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.	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 the Board and 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 2021 despite the continued impact of the pandemic. Future improvements in unemployment levels and house prices, are somewhat offset by the risks relating to rising inflation and future interest rate rises. Competition has increased across both the lending and savings markets, however the Group has strong operational capabilities and financial resources to continue to compete effectively.
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.	The Group's business model as a secured lender helps limit potential credit risk losses and supports performance through the economic cycle. The Group continues to utilise and enhance its stress testing capabilities to assess and minimise potential areas of macroeconomic vulnerability.	**Unchanged** Economic risks during 2021 related to pressure on economic growth due to the impact of pandemic restrictions resulting in rising unemployment and falling house prices. During the year these risks migrated to risks relating to rising inflation levels and interest rates, which are in part mitigated by low unemployment levels and stable house prices.
Competition risk The risk that new bank entrants and existing peer banks shift focus to the Group's market segments, which increases the level of competition.	The Group continues to develop products and services which meet the requirements of the markets in which it operates. The Group has a diversified suite of products and capabilities to utilise, along with significant financial resources to support a response to changes in competition.	**Increased** Competition risk progressively intensified across core lending sectors in 2021, as competitors' lending appetites increased with the improvement in the economic outlook.

Reputational risk

Definition	Risk appetite statement
The potential risk of adverse effects that can arise from the Group's reputation being affected due to factors such as unethical practices, adverse regulatory actions, customer 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 a credit risk or operational risk can lead to a reputational risk impact.	The Group does not knowingly conduct business or organise its operations to put its reputation and franchise value at risk.

Risk	Mitigation	Direction
Deterioration of reputation Potential loss of trust and confidence that our stakeholders place in us as a responsible and fair provider of financial services.	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.	**Decreased** The Group delivered strong performance across all core targets, despite the disruptions caused by the pandemic.

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.

Risk	Mitigation	Direction
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.	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. 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 lending is extended only after a deep investigation of the borrower's track record and stress testing the economics of the specific project.	**Unchanged** The drivers of borrower default risk have shifted from the risk around rising unemployment and declining house prices, to rising inflation and consequent increases in interest rates impacting affordability for accounts which revert onto higher interest rates and an increasing risk of borrower default.
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.	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.	**Unchanged** The economic outlook is uncertain although it improved in 2021, future risks remain related to further COVID-19 variants, rising inflation and resultant increases in interest rates driving higher levels of customer defaults, falling collateral values and rising impairment levels.
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.	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.

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.

Risk	Mitigation	Direction
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.	The Group's Treasury function actively hedges to match the timing of cash flows from assets and liabilities.	**Unchanged** The Group's simple asset and liability structure and ongoing careful management resulted in the level of interest rate risk remaining unchanged in 2021.
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 or administered rates or administered, other discretionary variable rates, or that received on call accounts with other banks.	Due to the Group balance sheet structure, no active management of basis risk was required by OSB Group in 2021.	**Unchanged** Product design and balance sheet structure enabled the Group to maintain the overall level of basis risk across both Banks throughout the year.

Liquidity and funding risk

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

Risk	Mitigation	Direction
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.	The Group's funding strategy is focused on a highly stable retail deposit franchise. The Group's large number of depositors provides diversification, where a high proportion of balances are covered by the FSCS protection scheme, largely mitigating the risk of a retail run. In addition, the Group performs in-depth liquidity stress testing and maintains a liquid asset portfolio sufficient to meet obligations under stress. The Group holds prudential liquidity buffers to manage funding requirements under normal and stressed conditions. The Group has further diversified its retail channels by 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	**Unchanged** The Group's funding levels and mix remained strong throughout the year. During the year, OSB and CCFSL were both able to attract significant flows of new deposits and depositors when required.

	Liabilities Committee. Finally, the Group has prepositioned mortgage collateral and securitised notes with the BoE which allows it to consider alternative funding sources to ensure it is not solely reliant on retail savings. The Group also has a mature RMBS programme.	
Wholesale funding stress A market-wide stress could close securitisation markets or make issuance costs unattractive for the Group.	The Group continuously monitors wholesale funding markets and is experienced in taking proactive management actions where required. The Group issued two securitisations in 2021 and the Group saw strong demand for secured funding issuance.	**Unchanged** The Group's range of wholesale funding options available, including repo or sale of retained notes, collateral upgrade trades remained broadly unchanged.
Refinancing of Term Funding Scheme (TFS) and TFSME In the year, the Group repaid its TFS drawings in full and drew a total of £4.2bn under the TFSME creating a refinancing concentration around the maturity of the scheme.	The Group has a TFSME allowance significantly above its wholesale funding requirements which allowed the TFS scheme to be fully refinanced by TFSME.	**Decreased** Drawings made across the TFSME scheme, repaying TFS borrowings during the year, extended the repayment profile of wholesale funding, this coupled with the fact that the Group has a well-established retail deposit franchises and established securitisation capability resulted in this risk decreasing in the year.

Solvency risk

Definition	Risk appetite statement
The potential inability of the Group to ensure that it maintains sufficient capital levels for its business strategy and risk profile under both the base and stress case financial forecasts.	The Group seeks to ensure that it is able to meet its Board-level capital buffer requirements under a severe but plausible stress scenario. The solvency risk appetite is informed by the Group's prudential requirements and strategic and financial objectives. We manage our capital resources in a manner which avoids excessive leverage and allows us flexibility in raising capital.

Risk	Mitigation	Direction
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.	Currently 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.	**Decreased** The Group's stable credit profile and ongoing profitability, coupled with capital structure optimisation during 2021 via the issuance of AT1 securities, means the Group's capital resources have improved. The Group has been provided with an extra year to meet its interim and end-state MREL requirements, which helps mitigate the risks around markets not being supportive of issue and the resulting cost Risks remain around adverse credit profile performance, resulting from further COVID-19 variants, rising inflation and interest rates. Uncertainty remains as to the impact of Basel 3.1, with the likely implementation date likely to be beyond the initially planned 1 Jan 2023 date moving out to potentially 2025.

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.

Risk	Mitigation	Direction
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.	The Group invested significantly in 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 well-established processes to allow it to operate effectively with the majority of employees working from home and 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. The Group's ongoing penetration testing continues to drive enhancements by identifying potential areas of risk.
Data quality and completeness The risks resulting from data being either inaccurate or incomplete.	The Group established a dedicated Data Strategy Programme, 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 2021 to embed Group-wide governance frameworks in part driven by the Group's IRB project. Further work is planned for 2022, to move closer to the Group's target end state.
Change management The risks resulting from unsuccessful change management implementations, including the failure to respond effectively to release-related incidents.	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, although core planned integration activity is largely complete. In 2021 this risk was monitored and managed well, however further change is planned in 2022, against the challenging operating environment resulting from the risk of new COVID-19 variants and ongoing macroeconomic uncertainty.
IT failure The risks resulting from a major IT application or infrastructure failure impacting access to the Group's IT systems.	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.	**Unchanged** Whilst progress was made in reducing both the likelihood and impact of an IT failure, the risks remain, in particular due to new hybrid working arrangement. Further work is planned during 2022.
Organisational change and integration The risks resulting from the Group's ongoing integration activities, including systems, people and infrastructure.	There is a low risk integration project plan (e.g. no large-scale integration-related IT project change planned). The Group has an experienced and capable project management office, with close oversight and direction provided by the Group Executive.	**Unchanged** To date, organisational change resulting from the integration project has been managed well and is largely complete. Further work is required to reach the target end state and carefully considered plans, strong risk identification, monitoring and management capabilities remain in place.

Conduct risk

Definition	Risk appetite statement
The risk that the Group's behaviours or actions result in customer detriment or negatively impact the integrity of the markets in which it operates.	The Group aims to operate and conduct its business to the highest standards which ensure integrity and trust with respect to how the Group operates and manages its relationships with key stakeholders. In this regard, the Group has no appetite to

	knowingly assume risks which may result in an unfair outcome for customers and/or cause disruptions in the market segments in which it operates. However, where the Group identifies potential conduct risks it will proactively intervene by managing, escalating and mitigating them promptly to ensure a fair outcome is achieved.

Risk	Mitigation	Direction
Product suitability Whilst the Group originates relatively simple products, there remains a risk that products (primarily legacy) may be deemed to be unfit for their original purpose in line with current regulatory definitions.	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.	**Unchanged** Whilst this risk remained low as a result of increased awareness and dedicated oversight, the Group remains aware of the changes to the regulatory environment and their possible impact on product suitability.
Data protection The risk that customer data is accessed inappropriately, either as a consequence of network/system intrusion or through operational errors in the management of the data.	In addition to a series of network/system controls, the Group performs extensive root cause analysis of any data leaks in order to ensure that the appropriate mitigating actions are taken. The Group has a dedicated project to drive compliance with GDPR regulation.	**Unchanged** Further controls were introduced during 2021, although network/system threats continue to evolve in both volume and sophistication. Good progress was made across key GDPR project workstreams.
Integration risk The risk that the integration programme directly or indirectly causes poor outcomes for customers and the market.	During the integration process, the Group is committed to adopting a low-risk approach with a view to taking reasonable steps to avoid causing poor outcomes for its customers and the market. The Group will conduct detailed analysis of potential customer harm associated with particular integration steps.	**Decreased** Integration activity is largely complete with no material issues being identified to date. Controls are in place to ensure that the integration programme does not result in poor customer outcomes.

Compliance/regulatory risk

Definition	Risk appetite statement
The risk that a change in legislation or regulation, or an interpretation that differs from the Group's, will adversely impact the Group.	The Group views ongoing conformity with regulatory rules and standards across all the jurisdictions in which it operates as a critical component of its risk culture. The Group does not knowingly accept compliance risk which could result in regulatory sanctions, financial loss or damage to its reputation. The Group will not tolerate any systemic failure to comply with applicable laws, regulations or codes of conduct relevant given its business operating model.

Risk	Mitigation	Direction
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 an IRB output floor, implementation of the European Standardised Information Sheet, extending the Senior Managers and Certification Regime to all FCA regulated firms and introduction of Strong Customer Authentication requirements.	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 continues to have a high level of interaction with UK regulators and continues to respond effectively to all regulatory changes.
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 Product design, underwriting, arrears and forbearance 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.	The Group has a programme of regulatory horizon scanning linking into a formal regulatory change management programme In addition, the focus on simple products and customer-oriented culture means that current practice may not have to change significantly to meet new conduct regulations. All Group entities utilise underwriting, arrears, repossession, forbearance and vulnerable customer policies which are designed to comply with regulatory rules and expectations. These policies articulate	**Increased** The level of regulatory change continues 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 interact with regulatory bodies to take part in thematic reviews as required. Identifying, monitoring and supporting vulnerable customers continues to be a key area of focus.

	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.	Ongoing reviews of long term arrears and forbearance customers continues to ensure that payment terms still remain appropriate. New consumer duty regulation will require dedicated resources to be deployed to ensure the Group continues to comply with emerging regulatory requirements.

Integration risk

Definition	Risk appetite statement
The risks resulting from the Group's ongoing integration activities, including business, operational and financial performance systems, people and infrastructure.	The Combination of OSB and CCFSL is intended to enhance scale bringing together resources and capabilities, and to explore further growth opportunities which deliver attractive long-term returns. The delivery against the integration strategy is framed within the Group's purpose, vision and values and the broader risk appetite. The integration is deemed to be inherently low risk owing to the retention of core operating brands, similarities of business models, no large-scale IT integration or substantial migration of customer accounts. Accordingly, the Board has a low risk appetite for adverse integration activity outcomes, which put the strategic rationale of the merger, the Group's purpose, vision and values or broader risk appetite at risk. In the event that integration workstreams are subject to delay or reprioritisation, the Board expects the rationale to be clearly understood and justified, with defined mitigating actions implemented, overseen by robust levels of governance.

Risk	Mitigation	Direction
A reduction in the oversight of business as usual operational performance, increased risk to operational resilience via the change process, unintended staff attrition or infrastructure failure, which in turn adversely impact operating and financial performance.	A dedicated Integration Management Office is in place to continue to drive the integration process forward. Independent assessment, monitoring and reporting is being undertaken by the Risk and Internal Audit functions.	**Decreased** This risk has decreased with key planned integration activity largely complete. To date the integration project has progressed as planned, and the governance, project management and control structures have operated effectively, with no material risks crystallising.

Emerging risks

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

Emerging risk	Description	Mitigating action
Political and macroeconomic uncertainty	The impact of new COVID-19 variants remains unknown. The Group's lending activity is predominantly focused in the United Kingdom (with a legacy back book of mortgages in the Channel Islands) and, as such, will be impacted by any risks emerging from changes in the macroeconomic environment. Rising inflation and interest rates pose risks to the Group's loan portfolio performance.	The Group has mature and robust monitoring processes and via various stress testing activity (i.e. ad hoc, risk appetite and ICAAP) understands how the Group performs over a variety of macroeconomic stress scenarios and has developed a suite of early warning indicators, which are closely monitored to identify changes in the economic environment. The Board and management review detailed portfolio reports to identify any changes in the Group's risk profile.
Climate change	As the worldwide focus on climate change intensifies, both the physical risks and the transitional risks associated with climate change continue to grow. Climate change risks include: - physical risks which relate to specific weather events, such as storms and flooding, or to longer-	During 2021 further progress was made in developing and embedding the Group's climate risk management approach within the Group's wider risk management arrangements. This included the development of a specific Climate Risk Management Framework, implementation of an ESG Committee

	term shifts in the climate, such as rising sea levels. These risks could include adverse movements in the value of certain properties that are in coastal and low lying areas, or located in areas prone to increased subsidence and heave. - transitional risks may arise from the adjustment towards a low-carbon economy, such as tightening energy efficiency standards for domestic and commercial buildings. These risks could include a potential adverse movement in the value of properties requiring substantial updates to meet future energy performance requirements. - reputational risk arising from a failure to meet changing societal, investor or regulatory demands.	and a dedicated Climate Risk Committee and ESG steering group. Updated financial impact analysis was conducted as part of the Group's ICAAP. The Group invested a significant amount of time developing its ESG and climate risk strategy and on development of its Task Force on Climate-related Financial Disclosures (TCFD). The Group's Chief Risk Officers have designated senior management responsibility for the management of climate change risk.
Model risk	The risk of financial loss, adverse regulatory outcomes, reputational damage or customer detriment resulting from deficiencies in the development, application or ongoing operation of models and ratings systems. The Group also notes changes in industry best practice with respect to model risk management.	The Group has well-established model risk governance arrangements in place, with Board and Executive Committees in place to ensure robust oversight of the Group's model risk profile. Dedicated resources are in place to ensure model governance arrangements continue to meet any changes in industry and regulatory expectations.
Regulatory change	The Group remains subject to high levels of regulatory oversight and an extensive and broad ranging regulatory change agenda, including meeting the requirements of the Resolvability Assessment Framework and Operational Continuity in Resolution. The Group is therefore required to respond to prudential and conduct related regulatory changes, taking part in thematic reviews as required. There is also uncertainty in relation to the regulatory landscape post the United Kingdom's exit from the European Union.	The Group has established horizon scanning capabilities, coupled with dedicated prudential and conduct regulatory experts in place to ensure the Group manages future regulatory changes effectively. The Group also has strong relationships with regulatory bodies and, via membership of UK Finance, it inputs into upcoming regulatory consultations.
Evolving working practices	The COVID-19 pandemic has resulted in new ways of working which are impacting employee collaboration, the embedding of the Group's purpose, vision and values and labour market dynamics, which are making it more challenging to recruit and retain talent across certain positions.	The Group operated effectively during the COVID-19 lockdown periods, with the majority of staff working from home. A hybrid working model has been established which continues to work well.

Further information on risk profile and performance can be found in the risk report in the ARA.

2.6 The Board of Directors

The role and structure of the Board

The Board of Directors (the Board) is responsible for the long term success of the Group and its subsidiaries. The Board focuses on setting strategy and monitoring performance and ensures that appropriate systems, controls and resources are in place to enable the Group to meet its objectives whilst safeguarding the interests of stakeholders and maintaining effective corporate governance.

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

The Board operates in accordance with OSBG's Articles of Association and its own written Terms of Reference. The Board has established a number of Committees as indicated in Table 7. 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 and policies and other matters, which must be approved by it under legislation or the Articles of Association. These powers are set out in the Board's written Terms of Reference and Matters Reserved for the Board, which are reviewed annually. A summary of the matters reserved for decision by the Board is set out below:

Strategy and management

- Overall strategy of the Group
- Approval of long term objectives
- Approval of annual operating and capital expenditure budgets
- Review of performance against strategy and objectives

Structure and capital

- Changes to the Group's capital or corporate structure
- Changes to the Group's management and control structure

Risk management

- Overall risk appetite of the Group
- Approval of Strategic Risk Management Framework (SRMF)

Financial reporting and controls

- Approval of financial statements
- Approval of dividend policy
- Approval of significant changes in accounting policies
- Ensuring maintenance of a sound system of internal control and risk management

Remuneration

- Determining the Remuneration Policy for the Directors, Company Secretary and other senior executives (including Material Risk Takers)
- Determining the remuneration of the Non-Executive Directors
- Introduction of new share incentive plans or major changes to existing plans

Corporate governance

- Review of the Group's overall governance structure
- Determining the independence of Directors

Board members

- Changes to the structure, size and composition of the Board
- Appointment or removal of the Chairman, Chief Executive Officer, Senior Independent Director and Company Secretary

Other

- The making of political donations
- Review of the overall levels of insurance for the Group

Table 5: OVB Disclosure on governance arrangements

<table>
<tr><th></th><th>Qualitative information</th></tr>
<tr><td>The number of directorships held by members of the management body.</td><td>
<table>
<tr><th>Name</th><th>Position</th><th>Number of Directorships Held</th></tr>
<tr><td>David Weymouth</td><td>Non-Executive</td><td>4</td></tr>
<tr><td>Noël Harwerth</td><td>Non-Executive</td><td>4</td></tr>
<tr><td>Graham Allatt</td><td>Non-Executive</td><td>0</td></tr>
<tr><td>Sarah Hedger</td><td>Non-Executive</td><td>2</td></tr>
<tr><td>Rajan Kapoor</td><td>Non-Executive</td><td>1</td></tr>
<tr><td>Mary McNamara</td><td>Non-Executive</td><td>1</td></tr>
<tr><td>Simon Walker</td><td>Non-Executive</td><td>1</td></tr>
<tr><td>Andy Golding</td><td>Executive</td><td>1</td></tr>
<tr><td>April Talintyre</td><td>Executive</td><td>0</td></tr>
</table>
</td></tr>
<tr><td>Information regarding the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise.</td><td>The Group Nomination and Governance Committee (the Committee) is responsible for making recommendations to the Board regarding the appointment of new Directors. Such recommendations take into account the structure and composition of the Board having regard to the balance of skills, Board diversity, knowledge and experience.

The Committee conducted a review of the composition of the Group Audit, Group Remuneration and Group Risk Committees and its own composition during 2021, carefully considering the skills of the existing members and looking at any skills gaps applicable to each Committee. Simon Walker became a Non-Executive Director on 4 January 2022, and was appointed to the Group Capital and Funding Committee, Group Audit Committee, Group Risk Committee and Group Models and Ratings Committee.

Further information on the Board of Directors in terms of their actual knowledge, skills and expertise can be found within the Group ARA.</td></tr>
</table>

Information on the diversity policy with regard of the members of the management body.	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. The Committee regularly reviews diversity initiatives including its annual review of the Diversity and Inclusion Policy. The Board remains committed 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 to 33% by the end of 2023. Currently, 18% of the Group Executive Committee and 44% of our Board are female. One of the nine Directors is from an ethnic minority. The Board recognises and embraces the benefits that diversity can bring; diversity and inclusion at Board level is an essential element in maintaining a competitive advantage. It is hoped that a diverse candidate list will be sourced as part of the search for a new NED.
Information whether or not the institution has set up a separate risk committee and the frequency of the meetings.	The Group has a separate Group Risk Committee which had met seven times in 2021.
Description on the information flow on risk to the management body.	The flow of information to the management body can be found in Section 2.4, along with more granular information disclosed in Table 7 and Table 8.

Board Committees

The Board has delegated specific areas of oversight and control to the Committees set out below. Each Committee has Board-approved terms of reference, which are reviewed at least annually. The Board Committees and a summary of their terms of reference are listed below.

Table 6: Board Committees

Subcommittee	Objectives
Group Audit Committee	• Assist the Board in overseeing the system of internal control and external financial reporting across the Group • Ensure the external and internal audit arrangements are appropriate and effective • Ensure that fraud prevention and whistleblowing arrangements are established • Ensure that the annual report and accounts, related internal control disclosures and any other publicly available financial information are reviewed and scrutinised
Group Nomination and Governance Committee	• Lead the process for Board appointments • Ensure the Board and its Committees have an appropriate balance of skills, experience, availability, independence, and knowledge of the Group to enable them to discharge their respective responsibilities effectively • Oversight of corporate governance arrangements and sustainability
Group Remuneration Committee	• Advise the Board on developing policy on executive remuneration • Fix the remuneration packages of individual directors, members of ExCo and other Material Risk Takers
Group Risk Committee	• Oversight of the Group's risk appetite, risk monitoring, and capital and liquidity management • Ensure the compliance arrangements are appropriate and effective • Provide oversight and advice to the Board on current risk exposures and future risk strategy • 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 • Approve secured funding lines with a minimum drawn balance in accordance with policy • Approve portfolio acquisitions in accordance with policy
Board Capital and Funding Committee	• The primary objective of the Board Capital and Funding Committee is to approve capital, finding and equity activities of the Company and its subsidiaries consistent with Board approval. • The Committee provides oversight and is the primary decision-making body to sign off to execute any funding and capital activities of the Group.
Group Models and Ratings Committee	• The primary purpose of the Group Models and Ratings Committee is to act as the Designated Committee for the purposes of material aspects of the rating and estimation processes (as articulated in Article 189 of the EU Capital Requirements Regulation) and provide assurance of the Groups' models and rating systems and as such, the Committee has delegation from the Group Risk Committee to authorise implementation of and changes to material models.

Group Executive Committee (ExCo)

The Chief Executive Officer (CEO) chairs the ExCo, whose other members are the Chief Financial Officer**,** the Group Chief Operating Officer**,** Group Chief Risk Officer, Group General Counsel and Company Secretary, Group Commercial Director, Group Chief Information Officer, Group Chief Credit and Compliance Officer**,** Group Managing Director, Mortgages, Group Managing Director, Savings and Group Chief Internal Auditor. The ExCo is supported by a number of Management Committees.

The purpose of the ExCo is to assist the CEO in the performance of his duties, including:

- The development and implementation of the strategic plan as approved by the Board.
- The development, implementation and oversight of a strong operating model that supports the strategic plan.
- The development and implementation of systems and controls to support the strategic plan.
- To review and oversee operational and financial performance.
- To prioritise and allocate the Group's resources in accordance with the strategic plan.
- To oversee the development of a high performing senior management team.
- To oversee the customer proposition and experience consistent with the Group's obligation to treat customers fairly.
- To oversee the appropriate protection and control of private and confidential data.
- To review and oversee the key strategic and business risks.
- To oversee how the Purpose, Vision and Values are being embedded.
- To implement the integration of CCFSL, including overseeing the Risk and Compliance functions, with a view to ensuring the effective management of risks across the individual entities and on an aggregated basis.

The members of ExCo are also members of the Environmental, Social and Governance (ESG) Committee, which was established to provide oversight of the Group's management of ESG matters and compliance with relevant legal and regulatory requirements, including applicable rules and principles of corporate governance and industry standards.

Key areas of focus for ExCo during the year included:

- The impact of COVID-19
- Business review
- Capital and funding
- Human resources and succession planning
- Governance, control and risk environment – current and forward looking
- Integration
- Monitoring target operating model progress
- Culture - Purpose, Vision and Values
- ESG matters including climate change

Management Committees

The Management Committees and a summary of their terms of reference are listed below.

Table 7: Management Committees

Committee	Main objectives and responsibilities
Group Assets and Liabilities Committee (ALCO)	• Reports to ExCo • Ensures the Treasury Function is operating effectively and in accordance with the Interest Rate Risk in the Banking Book Policy • Assess the exposure of the Group to movements in interest rates and establish a strategy for managing and containing such risks • Review the limit report and highlight any departure or threat of departure from agreed limits • Monitor the net interest margin
Group Credit Committee	• Reports to ExCo and monitored by Group Risk Committee • Review, assess, and recommend to Group Risk Committee proposed changes to Lending Policy, Arrears Management, Repossession and Forbearance Policy • Approval of certain lending decisions as required by Lending Policy • Monitoring adherence to Lending Policy • Review of credit risk exposure in lending portfolio, including arrears • Review, assess, and approve recovery strategies

	• Review, assess, and recommend to the Group Audit Committee any changes to the Group Loan Impairment Provisioning Policy • Oversight of calculation of specific and collective provisions • Identifying and recommending improvements to systems and controls for the management of credit risk • Monitor conduct risk considerations in lending activity • Review staff loans annually
Operations Committee	• Oversee operational management of business • Provide operational inputs into larger projects • Structure and manage smaller operational projects • Oversee Indian Operations
Group Risk Management Committee (RMC)	• Review legal risk register to ensure risk remains within the Board stated risk appetite, agree mitigation plans and monitor progress against those plans • Propose and regularly review the implementation and effectiveness of the operational risk policy and statement of operational risk appetite • Propose and regularly review the implementation and effectiveness of the Group's conduct risk policy and statement of conduct risk appetite
Regulatory Governance Committee	• Revising approaches, treatments and management subjective decisions on regulatory reporting practice • Act as Project Change Governance Committee for changing reports, reporting processes and approval for spends
Group Executive Disclosure Committee	• Determine in accordance with the Disclosure Policy and Market Abuse Regulation whether specified information is inside information which requires disclosure to the market • Reviewing scheduled and ad hoc announcements to the market • Keeping accurate records of evaluations and decisions around inside information including any decision to delay disclosure • Monitoring business activity and incidents and reporting any matters deemed sufficiently material to the Board
Models and Ratings Management Committee	• The primary purpose of the Committee is to act as the technical review forum for the Groups' models and rating systems.
Environmental, Social and Governance (ESG) Committee	• Co-ordinate the various ESG activities across the Group and to facilitate stakeholder debate and support • Assist the Board in reviewing and overseeing the Group's strategy relating to ESG matters and to assist the Group Executive Committee in setting and monitoring relevant key performance indicators (KPIs) • Develop and regularly review the policies, programmes, practices, targets and initiatives of the Group relating to ESG matters ensuring they remain effective and up to date and consistent with good industry practice. • Provide oversight of the Group's management of ESG matters and compliance with relevant legal and regulatory requirements, including applicable rules, principles of corporate governance and industry standards • Report on these matters to the Group Executive Committee and, where appropriate, make recommendations to the Group Executive Committee • Report as required to the shareholders of the Company on the activities and remit of the Committee.

Risk and Compliance

Risk and Compliance are independent of the business by virtue of their reporting lines. These include a direct line to the Board and a direct line to the ExCo. Their role is to review, approve and test the risks and control systems designed by management.

Risk and Compliance work with the executives to ensure general risks and regulatory risks are identified, assessed, prioritised, owned, recorded, reported and mitigated by the business. They provide independent challenge to help identify gaps in risk and control systems. These are reported to the ExCo, the Group Risk Committee and the Board and recorded on tracking systems with timescales for action, nominated owners and regular reports on progress to the Group Risk and Group Audit Committees.

Risk and Compliance also provide regular Management Information (MI) on the risks being run by the business, including credit risk, liquidity risk, and operational risk. This MI is provided to the appropriate Management Committee, the Group Risk Committee and the Board. Risk and Compliance also use the insights gained in the collection and reporting of this information to advise the business on its management of risks.

The Chief Risk Officers (CROs) provide assurance to the Board through regular reports which assess strategic risks as well as business risks.

The CROs responsibilities include ensuring that all key business risks are appropriately considered, with allocated business owners responsible for taking remedial action to mitigate shortcomings. The CROs are also responsible for ensuring the PRA's requirements are met. The CROs co-ordinate the necessary risk-related business activities and provide regular reports to the ExCo and the Board. Assurance is provided that risks are controlled through the Group Risk and Group Audit Committees.

The CROs role ensures that FCA requirements are met and all relevant legislation is complied with. A compliance risk assessment is carried out annually and informs the prioritisation of compliance activities, resourcing and plans for the year, including compliance monitoring, review and assessment activity.

Internal Audit

Internal Audit operates as the third line within the Group's three lines of defence risk management framework. The purpose of the Internal Audit function is to provide independent, objective assurance and consulting services designed to add value and protect the Group's assets, reputation and sustainability. Internal Audit's mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

It assists the Group in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the governance, risk management and control processes.

The internal audit activity is established by the Board of Directors, which has delegated authority to the Group Audit Committee to oversee the activities of the internal audit function. The Group Chief Internal Auditor's primary reporting line is to the Chair of the Group Audit Committee with a secondary Executive reporting line to the Chief Executive Officer.

3. Capital Resource and Adequacy

3.1 Capital resource

On 11 January 2021, the parent company OSB GROUP PLC (the Company) published a Circular in relation to the Capital Reduction, which subject to shareholder approval as well as certain other conditions set out in the Circular, was undertaken to create the required distributable reserves to enable the Company to pay dividends and other distributions to shareholders in the future. The Circular stated that there would be no change to the total number of shares or the total capital in the Company, or in the Company and its subsidiaries' (the Group's) capital ratios as a result of the Capital Reduction. On 26 February 2021, the Capital reduction became effective with the Company reducing the nominal value of 447,312,780 shares from three hundred and four (304) pence each to one (1) penny each. This generated £1.4bn of distributable reserves following interim accounts as at 28 February 2021 being prepared and delivered to Companies House, supporting the dividend distribution of £64.8m on 2 June 2021 by the Company.

Accordingly, the Capital Reduction has now become effective. Details of the Capital Reduction were set out in the Circular to shareholders dated 11 January 2021 and the Capital Reduction was approved by shareholders at a general meeting of the Company on 28 January 2021. The Capital Reduction itself did not involve any distribution or repayment of capital by the Company and did not change the total number of shares issued by, or the total amount of capital in, the Company or the OSB Group's capital ratios.

The Group's Recovery Plan discusses options for raising capital in a stress situation, some of which (e.g. reduction in new business origination) are considered as management actions in the analysis of the capital planning buffer in the Group's ICAAP while others (e.g. sale of portions of the business) are reserved for more severe situations that are outside the scope of the ICAAP.

OSBG and the two banking entities within the Group (OSB and CCFSL) complied with all applicable externally imposed capital requirements throughout 2021.

Table 8: CC1 Composition of regulatory own funds

Ref	Capital Resource	(Unaudited) 2021	(Unaudited) 2020
		£m	£m
	Common Equity Tier 1 (CET1) capital: Instruments and reserves		
1	Called up share capital	4.5	1,359.8
	Share premium, capital contribution and share-based payment reserve	14.1	7.8
2	Retained earnings	3,120.4	1,543.7
3	Accumulated other comprehensive income (and other reserves)	(1,359.3)	(1,359.3)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,779.7**	**1,552.0**
	Common Equity Tier 1 (CET 1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	(1.0)	(0.4)
8	Intangible assets (negative amount)	(18.4)	(20.6)
10	Deferred tax asset that rely on future profitability (negative amount)	(0.5)	(0.9)
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	21.9	35.9
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**2.0**	**14.0**
29	**Common Equity Tier 1 Capital**	**1,781.7**	**1,566.0**
	Additional Tier 1 (AT1) capital: Instruments		
30	Capital instruments and related share premium accounts	150.0	**-**
44	**Additional Tier 1 (AT1) capital**	**150.0**	**-**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**1,931.7**	**1,566.0**
59	**Total capital (TC = T1 + T2)**	**1,931.7**	**1,566.0**
60	**Total Risk exposure amount**	**9,101.6**	**8,565.7**
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	**19.6%**	**18.3%**
62	Tier 1 (as a percentage of total risk exposure amount)	**21.2%**	**18.3%**
63	Total capital (as a percentage of total risk exposure amount)	**21.2%**	**18.3%**
64	Institution CET1 overall capital requirement[6]	**8.1%**	**8.1%**
65	*of which: capital conservation buffer requirement*	**2.5%**	**2.5%**
66	*of which: countercyclical buffer requirement*	**0%**	**0%**
67	*Of which: systemic buffer requirement*	**0%**	**0%**
67a	*Of which: G-SII or O-SII requirement*	**0%**	**0%**
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**[7]	**11.5%**	**8.6%**[8]

Table 9: Reconciliation of regulatory own funds to balance sheet in the audited financial statements

Reconciliation of regulatory capital to equity	2021	2020
	£m	£m
Regulatory total capital	1,931.7	1566.0
IFRS 9 transitional adjustment	(21.9)	(35.9)
Prudential value adjustment	1.0	0.4
Intangible fixed asset deduction	18.4	20.6
Deferred tax asset deduction	0.5	0.9
Foreseeable dividend	94.7	64.9
Total shareholders' funds	**2,024.4**	**1616.9**

[6] 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).

[7] 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).

[8] Restated December 2020 to correct the calculation method in line with the methodology per footnote 7. Previously calculated as available CET 1 after deduction of Pillar 1 capital requirement at 8%. Decrease from 10.3% to 8.6%.

Table 10: CCA Main features of regulatory own funds instruments and eligible liabilities 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	4.5m	£150m
9	Nominal amount of instrument	4.5m	£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	27 November 2020 - 447,304,196 Ordinary Shares issued (2 ordinary shares were already in issue) 3 December 2020 - 1,716 10 December 2020 - 572 17 December 2020 – 6,294 December 2021 - 1,315,075 Total shares December 2021 448,627,855	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

3.2 Capital requirements

Table 11: OVC ICAAP information

Requirement	Qualitative information
Approach to assessing the adequacy of the internal capital	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 TCR set by the PRA are 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 Pillar 2 capital requirement. This exercise is known as the ICAAP. Based on the results of the ICAAP the PRA determines the Group's required capital and supervisory buffers which include the Countercyclical Capital Buffer (CCyB), and the Capital Conservation Buffer (CCoB). 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 ALCO, the Group Risk Committee and the Board. The refreshed forecasts reflect the impact of actual performance to that time and any actual or anticipated changes in the business, capital requirements or other changes. Capital forecasts are produced in circumstances where a potential impact to capital may occur such as revised budget forecasts or in the course of evaluating a substantial acquisition. The annual business and capital plan is usually approved by the Board in February. Following the approval of the business plan, quarterly reforecasts are presented to the Board during the course of the year. The Group capital plan summarises the latest quarterly reforecast outlining key assumptions, resulting solvency metrics and outlines planned capital actions. Alongside the formal quarterly reforecasts financial and capital projections are updated on a monthly basis for actual performance and any significant changes to other assumptions, whilst remaining at all times consistent with the Board approved business plan. These updated capital projections are included as a standing item in ALCO, Risk Committee and Board Committee packs. Capital projections under normal and stressed conditions are also used as a key input to the Board's semi'-annual assessment of going concern in the half-year and year-end financial statements.
Upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process	Not applicable to the Group

Table 12: OV1 Overview of risk weighted exposure amounts

	Risk weighted exposure amount		Own funds requirement
	2021	2020	2021
	£m	£m	£m
Credit risk (excluding CCR)	**8,298.0**	**7,770.0**	**663.8**
of which the standardised approach	*8,298.0*	*7,770.0*	663.8
Counterparty credit risk – CCR	**44.7**	**23.7**	**3.6**
of which standardised approach	*36.1*	*20.5*	2.9
of which credit valuation adjustment - CVA	*8.6*	*3.2*	0.7
Securitisation exposures in the non-trading book	**31.2**	**67.3**	**2.5**
of which SEC-SA approach	*31.2*	*67.3*	*2.5*
Operational risk	**727.7**	**704.7**	**58.2**

of which standardised approach	*727.7*	*704.7*	*58.2*
Total risk weighted exposure	**9,101.6**	**8,565.7**	**728.1**

Table 13: Disclosure of own funds requirements and risk weighted exposure amounts

Standard Exposure Classes	Risk weighted exposure	Own fund requirement	Risk weighted exposure	Own fund requirement
	2021		2020	
	£m	£m	£m	£m
Central government and central banks	13.3	1.1	9.8	0.8
Institutions	25.7	2.1	56.6	4.5
Corporates	44.1	3.5	53.9	4.3
Retail	50.1	4.0	31.1	2.5
Secured by mortgages on immovable property	7,443.5	595.4	6,897.4	551.8
Exposures in default	502.4	40.2	467.4	37.4
Items associated with particularly high risk	182.7	14.6	210.2	16.8
Securitisation positions	31.2	2.5	67.3	5.4
Other items	36.2	2.9	43.6	3.5
Total Credit Risk	**8,329.2**	**666.3**	**7,837.3**	**627.0**
Counterparty credit risk	36.1	2.9	20.5	1.6
Operational risk	727.7	58.2	704.7	56.4
Credit valuation adjustment	8.6	0.7	3.2	0.3
Risk weighted exposure / Own funds requirement	**9,101.6**	**728.1**	**8,565.7**	**685.3**

Table 14: Capital metrics with and without IFRS 9 transitional arrangement

	2021	2020
	£m	£m
Capital		
Common equity tier 1 capital (CET1) with transitional arrangement	1,781.7	1,566.0
Common equity tier 1 capital (CET1) without transitional arrangement	1,759.8	1,530.1
Tier 1 capital with transitional arrangement	1,931.7	1,566.0
Tier 1 capital without transitional arrangement	1,909.8	1,530.1
Total capital with transitional arrangement	1,931.7	1,566.0
Total capital without transitional arrangement	1,909.8	1,530.1
Risk weighted assets		
Total risk weighted assets with transitional arrangement	9,101.6	8,565.7
Total risk weighted assets without transitional arrangement	9,092.4	8,550.8
Capital Ratios		
CET1 as % of RWAs with transitional arrangement	19.6%	18.3%
CET1 as % of RWAs without transitional arrangement	19.4%	17.9%
Tier 1 as % of RWAs with transitional arrangement	21.2%	18.3%
Tier 1 as % of RWAs without transitional arrangement	21.0%	17.9%
Total capital as % of RWAs with transitional arrangement	21.2%	18.3%
Total capital as % of RWAs without transitional arrangement	20.0%	17.9%
Leverage ratio		
Leverage ratio with transitional arrangement	7.9%	6.9%
Leverage ratio without transitional arrangement	7.8%	6.7%

3.3 Pillar 1 requirements

The Group's Pillar 1 capital requirement is calculated using the following approaches:

- Credit Risk - standardised approach
- Market risk - not applicable
- Credit valuation adjustment (CVA) risk - standardised method
- Operational risk - standardised approach

The Group is subject to the simplified approach for prudent valuation.

Table 15: PV1 Prudent valuation adjustments (PVA)

2021	Total category level post-diversification £m
Total Additional Valuation Adjustments (AVAs)	(1.0)

2020	Total category level post-diversification £m
Total Additional Valuation Adjustments (AVAs)	(0.4)

Table 16: ORA Qualitative information on operational risk

	Qualitative information
Disclosure of the risk management objectives and policies	Operational risk is the risk of loss or negative impact to 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 continual 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. The Group understands that Operational Risk is inherent within all the activities of the Group. Examples of the key types of Operational Risk the Group is exposed to include risks arising from: • IT/Cyber security threats. • Use of inaccurate, incomplete or legacy data. • Failure of third parties / vendors /outsourced serviced providers to deliver on their SLAs. • Failure in processes or disruption to systems or services (operational resilience). • Failure of the Group to deliver appropriate customer outcomes (conduct risk). • Delays, inaccuracies or inconsistencies in financial accounting and reporting. • Failure to comply with regulatory requirements or expectations. • Failure to deliver an effective change management agenda. The Group monitors its Operational Risk profile and quantum of Operational Risk events on an on-going basis, reviewing trends to support a culture of on-going learning. Whilst the number of risk events that are recorded naturally varies as a result of a range of operating factors there is a positive culture of identification and escalation of events reported by all business functions and operating locations across the Group.
Disclosure of the approaches for the assessment of minimum own funds requirements	The operational risk capital requirement is calculated under the Standardised Approach 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 of 15% of the three-year average of the Group's annual gross income relating to its commercial business.

3.4 Pillar 2 requirements

Additional capital is held under Pillar 2 for risks either not captured or not fully captured under Pillar 1.

At least annually the Group undertakes a detailed, forward-looking assessment of capital adequacy in order to assess the Pillar 2 capital requirement. This exercise is known as the ICAAP. Based on the results of the ICAAP the PRA determines the Group's required capital and supervisory buffers which include the Countercyclical Capital Buffer (CCyB), and the Capital Conservation Buffer (CCoB). It is the Group's policy to hold capital resources in excess of its capital requirements as set by the PRA.

3.5 Capital buffer requirements

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 capital conservation buffer 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 0% as of 31 December 2021. The FPC had cut the CCyB to 0% in March 2020 to support banks in continuing to lend during the pandemic. On 13 December 2021 the Financial Policy Committee (FPC) announced they were increasing the UK CCyB rate to 1%, to be implemented by 13 December 2022. Provided the economy continues to recover, the FPC expects to increase the CCyB to 2% in Q2 2022, to take effect in Q2 2023. This decision reflects the fact that risks have returned to their pre-COVID-19 level.

Table 17: CCyB1 Geographical distribution of credit exposures

Breakdown by country 2021	General credit exposure	Securitisation exposures	Total exposure value £m	Own Funds Requirements			Risk weighted exposure amounts	Own Funds Requirements Weights %	CCy Buffer 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	22,029.4	239.3	22,268.7	654.7	2.5	657.3	8,216.4	99.1%	0.0%
Channel Islands	125.7		125.7	5.9		5.9	73.8	0.9%	0.0%
Total	**22,155.1**	**239.3**	**22,394.4**	**660.6**	**2.5**	**663.2**	**8,290.2**	**100%**	**0.0%**

Breakdown by country 2020	General credit exposure	Securitisation exposures	Total exposure value £m	Own Funds Requirements			Risk weighted exposure amounts	Own Funds Requirements Weights %	CCy Buffer 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	19,449.6	455.9	19,905.5	609.0	5.4	614.4	7,680	98.8%	0.0%
Channel Islands	154.9		154.9	7.3		7.3	91.0	1.2%	0.0%
Total	**19,604.4**	**455.9**	**20,060.3**	**616.3**	**5.4**	**621.7**	**7,771.0**	**100.0%**	**0.0%**

Table 18: CCyB2 Institution specific countercyclical capital buffer

Institution Specific Countercyclical Buffer	2021	2020
Total risk exposure amount (£m)	9,101.6	8,565.7[9]
Institution specific countercyclical capital buffer rate (%)	0%	0%
Institution specific countercyclical capital buffer requirement	-	-

[9] Restated to match total RWA for 2020 following guidance from the supervisory mapping tool. This template previously reported the total 'relevant' risk weighted exposure amount per CRD 140.4 which excludes exposure classes a -f of Art 112 CRR.

4. Counterparty Credit Risk

Counterparty Credit Risk is the risk of failure of a counterparty to fulfil its contractual obligations by failing to pay. The Group's credit exposure to wholesale markets only arises as a result of the activities it undertakes to manage its cash, liquidity, and interest rate positions.

4.1 Counterparty credit risk qualitative disclosure

Table 19: CCRA Qualitative disclosure related to CCR

	Definition
Description of the methodology used to assign internal capital and credit limits for counterparty credit exposures, including the methods to assign those limits to exposures to central counterparties	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 Group Master Repurchase Agreement (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 M&LR policy which sets out the maximum allowable exposures to a single counterparty. Counterparty limits are set by the counterparty credit 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 OTC derivative contracts are now subject to central clearing. There are no limits in place for exposures to central counterparties.
Description of policies related to guarantees and other credit risk mitigants, such as the policies for securing collateral and establishing credit reserves	Market Risk arising from the origination of fixed rate retail assets and liabilities is managed through interest rate derivative contracts. The Group trades in Over the Counter (OTC) derivative contracts under the terms of International Swaps and Derivatives Association (ISDAs). Under the terms of the 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.
Description of policies with respect to Wrong-Way risk as defined in Article 291 of the CRR	Wrong way risk is defined as the risk that occurs when an exposure to a counterparty is adversely correlated with the credit quality to that counterparty. The Group primarily enters into interest rate derivative contracts which have minimal exposure to wrong way risk. The Group has deemed wrong way risk as immaterial.
Any other risk management objectives and relevant policies related to CCR	Counterparty credit risk exposures will be 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 will also have external exposures to commercial bank counterparties for operational accounts and derivatives. Special Purpose Vehicles (SPVs) Though each SPV is structured as a bankruptcy remote entity, in most cases the Group retains an interest in each SPV. In such cases the SPVs have given Power of Attorney to the Group, through the servicing agreement (and in practice delegated to the Treasury) to manage excess liquidity on their behalf. 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 Group Special Purpose Vehicle (SPVs) with third party swap providers that are not currently subject to margining but have rating triggers that require the swap counterparties to post collateral and/or be replaced in the event of multiple notch rating downgrades.
The amount of collateral the institution would have to provide if its credit rating was downgraded	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.

4.2 Counterparty credit risk quantitative disclosure

Table 20: Analysis of CCR exposure by approach

2021	£m Replacement cost	£m Potential future exposure	£m Exposure value post CRM	£m RWAs
Mark to Market	144.9	12.5	157.4	27.3
Financial collateral comprehensive method (for SFTs)			17.6	8.8

2020	£m Replacement cost	£m Potential future exposure	£m Exposure value post CRM	£m RWAs
Mark to Market	70.4	35.6	106.0	9.4
Financial collateral comprehensive method (for SFTs)			22.1	11.1

Table 21: Transactions subject to own funds requirements for CVA risk

	2021 £m		2020 £m	
	Exposure value	RWAs	Exposure value	RWAs
Transactions subject to the standardised method	16.6	8.6	9.0	3.2

5. Credit Risk

5.1 Credit risk qualitative disclosure

Credit risk is the 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 periods. The portfolio is actively managed to operate within set criteria and limits based on profit volatility, focusing on key sectors, recoverable values, 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

Table 22: CRB Additional disclosure related to the credit quality of assets

<table>
<tr><th></th><th>Qualitative information</th></tr>
<tr><td>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 as specified by the EBA Guidelines on the application of the definition of default in accordance with Article 178 CRR.</td><td>
<table>
<tr><th></th><th>Definition</th></tr>
<tr><td>Past Due</td><td>A loan is defined as past due when the borrower fails to make a payment under the contractual terms of the loan agreement.</td></tr>
<tr><td>Impaired</td><td>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.</td></tr>
<tr><td>Default or Non-Performing</td><td>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.</td></tr>
<tr><td>Performing</td><td>A loan is defined as Performing when it does not meet the criteria of a Non-Performing loan.</td></tr>
</table>
</td></tr>
<tr><td>The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.</td><td>The Group does not have any past due exposures more than 90 days that are not considered to be impaired.</td></tr>
<tr><td>Description of methods used for determining general and specific credit risk adjustments.</td><td> Loans and advances to customers The Group uses the IFRS 9 three stage Expected Credit Loss (ECL) approach for measuring impairment. The three impairment stages under IFRS 9 are as follows:
<table>
<tr><th></th><th>Definition</th></tr>
<tr><td>Stage 1</td><td>Entities are required to recognise a 12 month ECL allowance where there is no significant increase in credit risk (SICR) since initial recognition.</td></tr>
<tr><td>Stage 2</td><td>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.</td></tr>
<tr><td>Stage 3</td><td>Requires objective evidence that an asset is credit impaired, at which point a lifetime ECL allowance is required.</td></tr>
</table>
The Group measures impairment through the use of individual and modelled assessments. Individual assessment The Group's provisioning process requires individual assessment for loans over £0.5m which are more than three months in arrears, have Law of Property Act (LPA) receivers appointed, the property is taken into possession or there are any other events that suggest a high probability of </td></tr>
</table>

credit loss. Loans are considered at a connection level, i.e. including all loans belonging to and connected to the customer.

The Group estimates cash flows from these loans, including expected interest and principal payments, rental or sale proceeds, selling and other costs. The Group obtains up to date independent valuations for properties put up for sale.

For all individually assessed loans with a confirmed sale should the present value of estimated future cash flows discounted at the original EIR be less than the carrying value of the loan, a provision is recognised for the difference with such loans being classified as impaired. However, should the present value of the estimated future cash flows exceed the carrying value, no provision is recognised. For all remaining individually assessed loans should a full loss be expected the provision is set to the carrying value, with all other individually assessed loans applying the greater of either the modelled or individual assessment.

The Group applies a modelled assessment to all loans with no individually-assessed provision.

IFRS 9 modelled impairment

Measurement of ECL

The assessment of credit risk and the estimation of ECL are unbiased and probability weighted. ECL is measured on either a 12 month (stage 1) or lifetime basis depending on whether a SICR has occurred since initial recognition (stage 2) or where an account meets the Group's definition of default (stage 3).

The ECL calculation is a product of an individual loan's probability of default (PD), exposure at default (EAD) and loss given default (LGD) discounted at the EIR. The ECL drivers of PD, EAD and LGD are modelled at an account level. The assessment of whether a significant increase in credit risk has occurred is based on quantitative relative PD thresholds and a suite of qualitative triggers.

Significant increase in credit risk (movement to stage 2)

The Group's transfer criteria determine what constitutes a SICR, which results in an exposure being moved from stage 1 to stage 2.

At the point of recognition, a loan is assigned a PD estimate. For each monthly reporting date thereafter, an updated PD estimate is computed. The Group's transfer criteria analyses relative changes in PD versus the PD assigned at the point of origination, together with qualitative triggers using both internal and external credit bureau information.

IFRS 9 includes a rebuttable presumption that if an account is more than 30 days past due it has experienced a SICR. The Group considers more than 30 days past due to be an appropriate back stop measure and therefore has not rebutted this presumption.

The Group's Risk function constantly monitors the ongoing appropriateness of the transfer criteria, where any proposed amendments are reviewed and approved by the Group's Management Committees and the Group Risk and Audit Committees at least annually or more frequently if required. The Group's SICR framework includes a quantitative PD threshold approach supplemented by a set of qualitative rules, with bespoke thresholds implemented to reflect the individual portfolio characteristics of the Group's two segments, OSB and CCFS L.

A borrower will move back into stage 1 where the SICR definition is no longer satisfied.

Definition of default (movement to stage 3)

The Group uses a number of quantitative and qualitative criteria to determine whether an account meets the definition of default and therefore moves to stage 3. The criteria currently include:

- The rebuttable presumption that more than 90 days past due is an indicator of default. The Group has not rebutted this presumption and therefore deems more than 90 days past due as an indicator of default.
- The Group has also deemed it appropriate to classify accounts that have moved into an 'unlikeliness to pay' position, which includes forbearance, repossession and interest-only term expiry.

A borrower will move out of stage 3 when their credit risk improves such that they no longer meet the 90 days past due and unlikeliness to pay criteria and, following this, has completed an internally approved probation period. The borrower will move to stage 1 or stage 2 dependent on whether the SICR applies.

Forward-looking macroeconomic scenarios

IFRS 9 requires firms to consider the risk of default and expected credit loss taking into consideration expectations of economic changes that are deemed to be reasonably possible.

The Group conducts analysis to determine the most significant factors which may influence the likelihood of an exposure defaulting in the future. The macroeconomic factors relate to the House Price Index (HPI), unemployment rate (UR), Gross domestic product (GDP), Commercial Real Estate Index (CRE) and BoE Base Rate (BBR).

The Group has derived an approach for factoring probability-weighted macroeconomic forecasts into ECL calculations, adjusting PD and LGD estimates. The macroeconomic scenarios feed

	directly into the ECL calculation, as the adjusted PD, lifetime PD and LGD estimates are used within the individual account ECL allowance calculations. The Group currently does not have an in-house economics function and therefore sources economic forecasts from an appropriately qualified third party. The Group will consider a minimum of four probability-weighted scenarios, including base, upside, downside and severe downside scenarios. The base case is also utilised within the Group's impairment forecasting process which in turn feeds the wider business planning processes. This ECL models are also used to set the Group's credit risk appetite thresholds and limits. **Period over which ECL is measured** Expected credit loss is measured from the initial recognition of the asset which is the date at which the loan is originated or the date a loan is purchased and at each balance sheet date thereafter. The maximum period considered when measured ECL (either 12-month of lifetime ECL) is the maximum contractual period over which the Group is exposed to the credit risk of the asset. For modelling purposes the Group considers the contractual maturity of the loan product and then considers the behavioural trends of the asset. **Purchased or originated credit impaired (POCI)** Acquired loans that meet OSB's definition of default (90 days past due or an unlikeliness to pay position) at acquisition are treated as a Purchased or Originated Credit Impaired (POCI) asset. These assets will attract a lifetime ECL allowance over the full term of the loan, even when the loan no longer meets the definition of default post acquisition. The Group does not originate credit impaired loans. **Intercompany loans** Intercompany receivables in the parent company financial statements are assessed for ECL based on an assessment of the PD and LGD, discounted to a net present value. **Other financial assets** Other financial assets comprise cash balances with the BoE and other credit institutions and high grade investment securities. The Group deems the likelihood of default across these counterparties as low and hence does not recognise a provision against the carrying balances.
The institution's own definition of a restructured exposure used for the implementation of point (d) of Article 178(3) CRR specified by the 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 consider the forbearance measure in conjunction to the impact on cash flow expectations for the purpose of regulatory and statutory default.

Forbearance

	Qualitative information
Forbearance	Where a borrower experiences financial difficulty, which impacts their ability to service their financial commitments under the loan agreement, forbearance may be used to achieve an outcome which is mutually beneficial to both the borrower and the Group. By identifying borrowers who are experiencing financial difficulties pre-arrears or in arrears, a consultative process is initiated to ascertain the underlying reasons and to establish the best course of action to enable the borrower to develop credible repayment plans to see them through the period of financial stress. The specific tools available to assist customers vary by product and the customers' circumstances. The various options considered for customers are as follows: • Temporary switch to interest only: a temporary account change to assist customers through periods of financial difficulty where arrears do not accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained. • Interest rate reduction: the Group may, in certain circumstances, where the borrower meets the required eligibility criteria, transfer the mortgage to a lower contractual rate. Where this is a formal contractual change, the borrower will be requested to obtain independent financial advice as part of the process. • Loan term extension: a permanent account change for customers in financial distress where the overall term of the mortgage is extended, resulting in a lower contractual monthly payment. • Payment holiday: a temporary account change to assist customers through periods of financial difficulty where arrears accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained. • Voluntary-assisted sale: a period of time is given to allow borrowers to sell the property

	and arrears accrue based on the contractual payment. • Reduced monthly payments: a temporary arrangement for customers in financial distress. For example, a short-term arrangement to pay less than the contractual payment. Arrears continue to accrue based on the contractual payment. • Capitalisation of interest: arrears are added to the loan balance and are repaid over the remaining term of the facility or at maturity for interest only products. A new payment is calculated, which will be higher than the previous payment. • Full or partial debt forgiveness: where considered appropriate, the Group will consider writing off part of the debt. This may occur where the borrower has an agreed sale and there will be a shortfall in the amount required to redeem the Group's charge, in which case repayment of the shortfall may be agreed over a period of time, subject to an affordability assessment or where possession has been taken by the Group, and on the subsequent sale where there has been a shortfall loss. • Arrangement to pay: where an arrangement is made with the borrower to repay an amount above the contractual monthly instalment, which will repay arrears over a period of time. • Promise to pay: where an arrangement is made with the borrower to defer payment or pay a lump sum at a later date. • Bridging loans which are more than 30 days past their maturity date. Repayment is rescheduled to receive a balloon or bullet payment at the end of the term extension where the institution can duly demonstrate future cash flow availability. The Group aims to proactively identify and manage forborne accounts, utilising external credit reference bureau information to analyse probability of default and customer indebtedness trends over time, feeding pre-arrears watch list reports. Watch list cases are in turn carefully monitored and managed as appropriate. Further information regarding forbearance can be found in the Group ARA.

5.2 Credit risk quantitative disclosure

Definition of exposure values

The Group uses the Standardised Approach to determine regulatory capital requirements for credit risk exposures.

	Definition
Gross Exposure	For on-balance sheet items the gross exposure is the gross carrying value (accounting value) before credit risk adjustments. For off-balance sheet items, the gross exposure is the gross carrying value. (Nominal value) gross of any Conversion Factor (CF) applicable in accordance with CRR Article 111.
Net Exposure	For on-balance sheet items the net exposure value is the gross carrying value (accounting value) less credit risk adjustments. For off-balance sheet items, the net exposure value is the gross carrying value (Nominal value) less specific credit risk adjustments and gross of any CF applicable in accordance with CRR Article 111.

Tables 23 – 26 have been prepared under the EBA FINREP definitions.

Table 23: CQ1 Credit quality of forborne exposures

	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
2021			Of which defaulted	Of which impaired				
Loans and Advances	249.0	163.7	158.9	158.9	(2.0)	(4.8)	311.3	158.9
Non-financial Corporations	*23.2*	*6.8*	*6.8*	*6.8*	*(0.2)*	*(0.6)*	*27.0*	*6.2*
Households	*225.8*	*156.9*	*152.1*	*152.1*	*(1.8)*	*(4.2)*	*284.3*	*152.7*
Debt Securities								
Total	**249.0**	**163.7**	**158.9**	**158.9**	**(2.0)**	**(4.8)**	**311.3**	**158.9**

2020	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	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
Loans and Advances	266.8	110.3	103.2	103.2	(2.2)	(4.4)	68.5	20.7
Non-financial Corporations	*20.9*	*3.4*	*3.1*	*3.1*	*(0.3)*	*(0.4)*	*12.0*	*0.9*
Households	*245.9*	*106.9*	*100.2*	*100.2*	*(1.9)*	*(4.0)*	*56.5*	*19.8*
Debt Securities								
Total	**266.8**	**110.3**	**103.2**	**103.2**	**(2.2)**	**(4.4)**	**68.5**	**20.7**

Table 24: CQ3 Credit quality of performing and non-performing exposures by past due days

	Gross carrying amount/nominal amount 2021											
	Performing exposures			Non-performing exposures								
		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
Loans and advances	**23,359.3**	**23,284.0**	**75.3**	**564.6**	**348.0**	**100.6**	**67.6**	**35.8**	**10.8**	**0.7**	**1.2**	**559.7**
Central banks	2,555.9	2,555.9										
Credit institutions	276.3	276.3										
Other financial corporations	11.4	11.4										
Non-financial corporations	8,230.2	8,215.8	14.3	119.6	90.0	17.4	5.6	6.2	0.4	0.0	0.0	119.6
Of which SMEs	8,007.1	7,992.8	14.3	92.1	62.5	17.4	5.6	6.2	0.4	0.0	0.0	92.1
Households	12,285.5	12,224.6	60.9	445.0	258.0	83.1	62.0	29.6	10.4	0.7	1.2	440.1
Debt Securities	**491.4**	**491.4**										
General governments	252.1	252.1										
Other financial corporations	239.3	239.3										
Off-balance-sheet exposures	**1,064.6**											
Non-financial corporations	582.5											
Households	482.1											
Total	**24,915.3**	**23,775.4**	**75.3**	**564.6**	**348.0**	**100.6**	**67.6**	**35.8**	**10.8**	**0.7**	**1.2**	**559.7**

	Gross carrying amount/nominal amount 2020											
	Performing exposures			Non-performing exposures								
		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
Loans and advances	**21,664.3**	**21,590.8**	**73.5**	**519.0**	**351.0**	**75.0**	**54.7**	**24.3**	**12.2**	**0.8**	**1.0**	**512.4**
Central banks	2,308.8	2,308.8										
Credit institutions	256.6	256.6										
Other financial corporations	15.9	15.9										
Non-financial corporations	6,327.8	6,319.9	7.9	110.2	89.8	9.2	7.6	0.2	3.4			109.9
Of which SMEs	6,043.3	6,035.4	7.9	110.2	89.8	9.2	7.6	0.2	3.4			109.9
Households	12,755.2	12,689.6	65.6	408.7	261.2	65.8	47.1	24.2	8.8	0.8	1.0	402.5
Debt Securities	**471.2**	**471.2**										
General governments												
Other financial corporations	471.2	471.2										
Off-balance-sheet exposures	**985.7**											
Non-financial corporations	527.4											
Households	458.3											
Total	**23,121.2**	**22,062.0**	**73.5**	**519.0**	**351.0**	**75.0**	**54.7**	**24.3**	**12.2**	**0.8**	**1.0**	**512.4**

Table 25: CR1 Performing and non-performing exposures and related provisions.

2021	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			
Loans and advances	**23,359.3**	**20,950.7**	**2,408.6**	**564.6**	**4.9**	**559.7**	**(39.7)**	**(11.9)**	**(27.8)**	**(61.8)**	**-**	**(61.8)**		**20,502.1**	**500.7**
Central banks	*2,555.9*	*2,555.9*													
Credit institutions	*276.3*	*276.3*													
Other financial corporations	*11.4*	*11.4*													
Non-financial corporations	*8,230.2*	*7,488.9*	*741.3*	*119.6*	*0.0*	*119.6*	*(14.3)*	*(6.0)*	*(8.3)*	*(39.1)*		*(39.1)*		*8,153.6*	*78.5*
Of which SMEs	*8,007.1*	*7,265.8*	*741.3*	*92.1*	*0.0*	*92.1*	*(14.3)*	*(6.0)*	*(8.3)*	*(39.1)*		*(39.1)*		*7,933.6*	*75.5*
Households	*12,285.5*	*10,618.2*	*1,667.3*	*445.0*	*4.9*	*440.1*	*(25.4)*	*(5.9)*	*(19.5)*	*(22.7)*		*(22.7)*		*12,348.5*	*422.2*
Debt securities	**491.4**	**491.4**													
Central government	252.1	252.1													
Other financial corporations	*239.3*	*239.3*													
Off-balance-sheet exposures	***1,064.6***	***1,064.6***													
Non-financial corporations	582.5	582.5													
Households	482.1	482.1													
Total	**24,915.3**	**22,506.7**	**2,408.6**	**564.6**	**4.9**	**559.7**	**(39.7)**	**(11.9)**	**(27.8)**	**(61.8)**	**-**	**(61.8)**		**20,502.1**	**500.7**

2020	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 impairment,				On performing exposures	On non-performing exposures
		Stage 1	Stage 2		Stage 2	Stage 3		Stage 1	Stage 2		Stage 2	Stage 3			
Loans and advances	**21,664.3**	**18,979.4**	**2,684.9**	**519.0**	**6.0**	**512.4**	**(80.3)**	**(32.7)**	**(47.6)**	**(83.8)**	**(0.1)**	**(83.7)**		**21,454.2**	**681.3**
Central banks	*2,308.8*	*2,308.8*													
Credit institutions	*256.6*	*256.6*													
Other financial corporations	*15.9*	*15.9*													
Non-financial corporations	*6,327.8*	*5,671.2*	*656.6*	*110.2*	*0.3*	*109.9*	*(31.9)*	*(16.3)*	*(15.6)*	*(41.8)*	*(0.0)*	*(41.7)*		*9,195.2*	*134.4*
Of which SMEs	*6,043.3*	*5,386.7*	*656.6*	*110.2*	*0.3*	*109.9*	*(31.9)*	*(16.3)*	*(15.6)*	*(41.8)*	*(0.0)*	*(41.7)*		*8,626.3*	*134.4*
Households	*12,755.2*	*10,726.9*	*2,028.3*	*408.7*	*5.8*	*402.5*	*(48.4)*	*(16.4)*	*(32.0)*	*(42.0)*	*(0.0)*	*(42.0)*		*12,259.0*	*546.9*
Debt securities	**471.2**	**471.2**					**(0.0)**	**(0.0)**							
Central government															
Other financial corporations	*471.2*	*471.2*					*(0.0)*	*(0.0)*							
Off-balance-sheet exposures	***985.7***	***985.7***													
Non-financial corporations	527.4	527.4													
Households	458.3	458.3													
Total	**23,121.2**	**20,436.3**	**2,684.9**	**519.0**	**6.0**	**512.4**	**(80.3)**	**(32.7)**	**(47.6)**	**(83.8)**	**(0.1)**	**(83.7)**		**21,454.2**	**681.3**

Credit exposures by counterparty type and associated ECL

The following tables show the Group's credit risk exposure split by counterparty type.

Table 26: Credit quality of exposures by counterparty type gross of conversion factors

2021	£m					
	Gross Carrying Values of		Stage 1 Credit Risk Adjustment	Stage 2 Credit Risk Adjustment	Stage 3 Credit Risk Adjustment	Net Value
Counterparty Type	Defaulted Exposures	Non-Defaulted Exposures				
Central banks		2,661.0				2,661.0
Central government		152.1				152.1
Credit institutions		46.5				46.5
Financial corporations		15.5				15.5
Non-financial corporations	119.6	9,327.1	6.0	8.3	39.1	9,393.3
Households	439.8	12,365.3	5.9	16.5	25.7	12,757.0
Other items		43.2				43.2
Credit Risk - Standardised Approach	**559.4**	**24,610.7**	**11.9**	**24.8**	**64.8**	**25,068.6**

2020	£m					
	Gross Carrying Values of		Stage 1 Credit Risk Adjustment	Stage 2 Credit Risk Adjustment	Stage 3 Credit Risk Adjustment	Net Value
Counterparty Type	Defaulted Exposures	Non-Defaulted Exposures				
Central banks		2,308.8				2,308.8
Central government		3.9				3.9
Credit institutions		128.3				128.3
Financial corporations		28.0				28.0
Non-financial corporations	110.4	7,364.1	3.9	4.0	30.0	7,436.6
Households	402.2	12,411.3	5.0	9.0	20.1	12,779.4
Other items		239.1				239.1
Credit Risk - Standardised Approach	**512.6**	**22,483.6**	**8.9**	**13.0**	**50.1**	**22,924.2**

Credit exposures by geographical location and associated ECL

The following tables show the Group's credit risk exposure split by geographical location.

Table 27: Credit exposures by geographical location

2021	£m	£m	£m	£m	£m	£m
	Gross Carrying Values of		Stage 1 Credit Risk Adjustment	Stage 2 Credit Risk Adjustment	Stage 3 Credit Risk Adjustment	Net Value
Geographical Area	Defaulted Exposures	Non-Defaulted Exposures				
United Kingdom	543.5	24,478.4	11.9	24.8	63.7	24,921.5
Ireland		21.5				21.5
Channel Islands	15.9	110.9			1.1	125.7
Total	**559.4**	**24,610.7**	**11.9**	**24.8**	**64.8**	**25,068.6**

2020	£m	£m	£m	£m	£m	£m
	Gross Carrying Values of		Stage 1 Credit Risk Adjustment	Stage 2 Credit Risk Adjustment	Stage 3 Credit Risk Adjustment	Net Value
Geographical Area	Defaulted Exposures	Non-Defaulted Exposures				
United Kingdom	487.5	22,309.2	8.8	12.9	46.4	22,728.6
Ireland		40.7				40.7
Channel Islands	25.1	133.7	0.1	0.1	3.7	154.9
Total	**512.6**	**22,483.6**	**8.9**	**13.0**	**50.1**	**22,924.2**

Credit exposures by exposure class and associated ECL

The following tables show the Group's credit risk exposure split by exposure class.

Table 28: Credit exposures by exposure class

2021	£m	£m	£m	£m	£m	£m
	Gross Carrying Values of					
Exposure class	Defaulted Exposures	Non-Defaulted Exposures	Stage 1 Credit Risk Adjustment	Stage 2 Credit Risk Adjustment	Stage 3 Credit Risk Adjustment	Net Value
Central Government or Central Banks		2,813.1				2,813.1
Institutions		62.0				62.0
Corporates		46.2				46.2
Retail		95.4				95.4
Secured by mortgages on immovable property		21,237.5	11.9	24.8	7.2	21,193.6
Of which: SME		8,023.7	4.5	9.4	2.7	8,007.1
Exposures in default	559.4				57.6	501.8
Items associated with particularly high risk		313.3				313.3
Other items		43.2				43.2
Total Credit Risk Standardised Approach	**559.4**	**24,610.7**	**11.9**	**24.8**	**64.8**	**25,068.6**

2020	£m	£m	£m	£m	£m	£m
	Gross Carrying Values of					
Exposure class	Defaulted Exposures	Non-Defaulted Exposures	Stage 1 Credit Risk Adjustment	Stage 2 Credit Risk Adjustment	Stage 3 Credit Risk Adjustment	Net Value
Central government or central bank		2,312.7				2312.7
Institutions		156.3				156.3
Corporate		56.2				56.2
Retail		62.7	0.3	0.1		62.3
Secured by mortgages on immovable property		19,364.1	8.5	12.9		19,342.7
Of which SME		6,656.7	3.5	3.9		6,649.2
Exposures in default	512.0				50.0	462.0
Items associated with particularly high risk	0.6	292.4	0.1		0.1	292.9
Other items		239.1				239.1
Total Credit Risk Standardised Approach	**512.6**	**22,483.6**	**8.9**	**13.0**	**50.1**	**22,924.2**

Reconciliation of changes in expected credit loss

A reconciliation of the changes in expected credit loss for the Group as at 31 December was as follows:

Further information on the change in ECL can be found in Note 24 of the financial statements in the Group's ARA.

Table 29: Reconciliation of changes in provisions

2021 Impairment provisions	£m
Opening Balance	111.0
Originations	5.7
Acquisitions	0.2
Repayment and write-offs	(14.6)
Re-measurement of loss allowance	(11.9)
Changes in assumptions and model parameters	11.1
Closing Balance	**101.5**

2020 Impairment provisions	£m
Opening Balance	42.9
Originations	6.3
Acquisitions	0.1
Disposal	(0.4)
Repayment and write-offs	(6.2)
Re-measurement of loss allowance	42.8
Changes in assumptions and model parameters	25.5
Closing Balance	**111.0**

Credit risk exposure class breakdown by counterparty type

The following tables show the Group's credit risk exposure split between standardised exposure classes.

Table 30: Exposures by counterparty type and exposure classes

	£m	£m	£m	£m	£m	£m	£m	£m
Exposure Class 2021	**Central Banks**	**Central Government**	**Credit Institutions**	**Financial Corporations**	**Non-Financial Corporations**	**Households**	**Other**	**Total**
Central banks and central governments	2,661.0	152.1						2,813.1
Institutions			46.5	15.5				62.0
Retail					83.9	11.5		95.4
Corporates					46.2			46.2
Secured by mortgages on immovable property					8,848.7	12,344.9		21,193.6
Exposures in default					107.4	394.4		501.8
Items associated with particularly high risk					307.1	6.2		313.3
Other Items							43.2	43.2
Credit Risk-Standardised Approach	**2,661.0**	**152.1**	**46.5**	**15.5**	**9,393.3**	**12,757.0**	**43.2**	**25,068.6**

	£m	£m	£m	£m	£m	£m	£m	£m
Exposure Class 2020	**Central Banks**	**Central Government**	**Credit Institutions**	**Financial Corporations**	**Non-Financial Corporations**	**Households**	**Other**	**Total**
Central banks	2,308.8	3.9						2,312.7
Institutions			128.3	28.0				156.3
Retail					60.4	1.9		62.3
Corporates					56.2			56.2
Secured by mortgages on immovable property					6,948.5	12,394.1		19,342.7
Exposures in default					79.6	382.5		462.0
Items associated with particularly high risk					291.9	1.0		292.9
Other Items							239.1	239.1
Credit Risk-Standardised Approach	**2,308.8**	**3.9**	**128.3**	**28.0**	**7,436.6**	**12,779.4**	**239.1**	**22,924.2**

Credit risk exposure class breakdown by average amount of exposures over the year

The following tables show the Group's credit risk exposure by average exposures over the year. Average exposures are calculated using four quarter end exposure values.

Table 31: Year end and average exposure by exposure class

Standardised Exposure Classes	Exposure at 31/12/2021[10] £m	Average exposure during 2021 £m	Exposure at 31/12/2020 £m	Average Exposure during 2020 £m
Central government and central banks	2,813.1	2,326.3	2,312.7	2,354.0
Institutions	62.0	164.2	156.3	283.4
Corporates	46.2	46.0	56.2	93.0
Retail	95.4	75.0	62.3	107.3
Secured by mortgages on immovable property	21,193.6	20,143.6	19,342.7	18,829.5
Exposures in default	501.8	476.6	462.0	434.0
Items associated with particularly high risk	313.3	198.8	292.9	278.4
Other items	43.2	117.9	239.1	172.5
Total	**25,068.6**	**23,548.4**	**22,924.2**	**22,552.2**

Material credit risk exposure class breakdown by geographical area

The following tables show the Group's material credit risk exposure by geographical location

Table 32: Exposures by geographic area and material exposure classes

Standardised Exposure Classes 2021	UK £m	Channel Islands £m	Other Rest of the World £m	Total £m
Central banks	2,813.1			2,813.1
Institutions	40.5		21.5	62.0
Corporates	46.2			46.2
Retail	95.4			95.4
Secured by mortgages on immovable property	21,083.8	109.8		21,193.6
Exposures in default	485.9	15.9		501.8
Items associated with particularly high risk	313.3			313.3
Other Items	43.2			43.2
Total	**24,921.4**	**125.7**	**21.5**	**25,068.6**

Standardised Exposure Classes 2020	UK £m	Channel Islands £m	Other Rest of the World £m	Total £m
Central banks	2,312.7			2,312.7
Institutions	115.6		40.7	156.3
Corporates	56.2			56.2
Retail	62.3			62.3
Secured by mortgages on immovable property	19,209.3	133.5		19,342.7
Exposures in default	440.6	21.4		462.0
Items associated with particularly high risk	292.9			292.9
Other Items	239.1			239.1
Total	**22,728.7**	**154.9**	**40.7**	**22,924.2**

[10] Average exposure is a simple average of quarterly figures.

Credit risk exposure by residual maturity

The following tables show the Group's credit risk exposure by residual maturity

Table 33: Exposures by residual maturity breakdown

Standardised Exposure Classes 2021	<3 months £m	3 months to 1 year £m	1 to 5 years £m	>5 years	No stated maturity £m	Total £m
Central banks	2,744.0				69.1	2,813.1
Institutions	62.0					62.0
Corporates	2.3	1.8	42.1			46.2
Retail	14.1	1.9	69.9	9.5		95.4
Secured by mortgages on immovable property	491.0	120.1	864.7	19,444.3	273.4	21,193.6
Exposures in default	30.4	4.7	40.9	425.8		501.8
Items associated with particularly high risk	7.9	62.8	242.6			313.3
Other Items					43.2	43.2
Total	**3,351.7**	**191.3**	**1,260.2**	**19,879.6**	**385.7**	**25,068.6**

Standardised Exposure Classes 2020	<3 months £m	3 months to 1 year £m	1 to 5 years £m	>5 years	No stated maturity £m	Total £m
Central banks	2,256.5				56.2	2,312.7
Institutions	156.3					156.3
Corporates	45.0	6.6	4.6			56.2
Retail	11.4	1.0	49.7	0.2		62.3
Secured by mortgages on immovable property	947.4	112.4	629.1	17,653.8		19,342.7
Exposures in default	36.5	4.5	51.1	369.9		462.0
Items associated with particularly high risk	52.3	72.0	168.6			292.9
Other Items					239.1	239.1
Total	**3,505.4**	**196.5**	**903.1**	**18,023.9**	**295.3**	**22,924.2**

5.3 Use of the standardised approach

Exposures calculated under Part Three, Title III Chapter 2 shall be reported under credit risk. This would include cash balances with institutions. Exposure calculated under Part Three, Title III Chapter 6 shall be reported under counterparty credit risk. This would include derivative exposures to institutions.

Table 34: CRD Qualitative disclosure requirements related to standardised model

	Qualitative Information
Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) nominated by the institution, and the reasons for any changes over the disclosure period;	For institutional exposures under the Standardised Approach where the use of external ratings are used to calculate risk weightings, the Group uses ECAIs published by Fitch, Standard and Poor's and Moody's. Where credit rating agencies report different ratings which are not equivalent, as per Article 138(f) CRR, where more than two credit assessments are available, the two assessments generating the two lowest risk weights shall be referred to. If the two lowest risk weights are different, the higher risk weight shall be assigned. If the two lowest risk weights are the same, that risk weight shall be assigned.
The exposure classes for which each ECAI or ECA is used;	The ECAIs are used for the following exposure classes: a) Central Banks b) Exposures to Institutions c) Derivatives
A description of the process used to transfer the issuer and issue credit ratings onto comparable assets items not included in the trading book;	Not applicable to the Group
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 as set out in Chapter 2 of Title II of Part Three CRR (except where the institution complies with the standard association published by the EBA).	Not applicable to the Group

Credit risk exposure before and after conversion factor and credit risk mitigation

The following tables show the Group's credit risk exposure split by exposure class gross and net of conversion factor and credit risk mitigation.

Table 35: CR4 standardised approach – Credit risk exposure and CRM effects

2021	**£m**		**£m**		**£m**	
Exposure Class	**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	2,813.1		2,813.1		13.3	0.5%
Institutions	62.0		62.0		25.7	41.5%
Retail	81.1	14.3	81.1		50.1	61.8%
Corporates	43.6	2.6	43.6	0.5	44.1	100%
Secured by mortgages on immovable property	20,332.3	861.3	20,332.3	172.3	7,443.5	36.3%
Exposures in default	501.8		501.8		502.4	100.1%
Items associated with particularly high risk	126.9	186.4	126.9	0.2	182.7	143.7%
Other Items	43.2		43.2		36.2	83.8%
Credit Risk-Standardised Approach	**24,004.0**	**1,064.6**	**24,004.0**	**173.0**	**8,298.0**	**34.3%**

2020	£m		£m		£m	
	Exposures before CF		Exposures after CF		RWA and RWA Density	
Exposure Class	On-Balance Sheet	Off-Balance Sheet	On-Balance Sheet	Off-Balance Sheet	RWAs	RWA Density %
Central governments or central banks	2,312.7	-	2,312.7	-	9.8	0.4%
Institutions	156.3	-	156.3	-	56.6	36.2%
Retail	51.6	4.6	51.6	2.3	53.9	100.0%
Corporates	50.8	11.5	50.8	-	31.1	61.2%
Secured by mortgages on immovable property	18,519.2	823.6	18,519.2	163.4	6,897.4	36.9%
Exposures in default	462.0	-	462.0	-	467.4	101.2%
Items associated with particularly high risk	146.9	146.0	146.9	0.2	210.2	142.9%
Other Items	239.1	-	239.1	-	43.6	18.2%
Credit Risk-Standardised Approach	**21,938.6**	**985.7**	**21,938.6**	**165.9**	**7,770.0**	**35.1%**

Credit risk exposure by credit quality step

The tables below map the ECAI's credit assessment ratings to credit quality steps in order to establish the appropriate risk weightings for the rated credit exposures.

Table 36: Exposures by credit quality step

Credit Quality Step	Fitch	Moody	S&P	Risk Weight	Exposure 2021 £m	Exposure 2020 £m
1	AAA to AA-	AAA to AA-	Aaa to Aa3	20%	166.6	798.5
2	A+ to A-	A+ to A-	A1 to A3	50%	178.7	42.1
3	BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	100%		
Total					**345.3**	**840.6**

6. Interest Rate Risk in the Banking Book (IRRBB)

Table 37: IRRBBA - IRRBB risk management objectives and policies

Requirement	Qualitative information
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 have 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 to both Economic Value (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.
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. Limits are documented within the Market and Liquidity Risk policy which is reviewed annually and requires approval from ALCO and the Board. In addition to this, risk appetites are reviewed every six months which also require ALCO and Board approval. CCFSL also operates within Gap bucket early warning indicators (EWI's) which require dispensation from second line for any forecast breaches, with these in development for OSB. During COVID-19 the Group also monitored mortgage pipeline and prepayment assumptions closely 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.
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. Capital at Risk assesses EV sensitivity by estimating the change in the net present value of the bank'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 CET1 capital to ensure the sensitivity remains within limit. The Group measures earnings sensitivity through Earnings at Risk and Basis risk metrics. Both of these metrics assess the impact that specific interest rate shocks and scenarios have on net-interest income over a 12 month period, with the most adverse result compared against the projected NII for that year to ensure sensitivity remains within limit.
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 a 1 in 20 year interest rate scenario to the SONIA yield curve, with the shapes following the same pattern as the supervisory outlier tests. Earnings sensitivity is measured by applying a 50bps 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 BBR accompanied by dislocations between BBR, LIBOR and SONIA. The scenarios also include an amount of margin compression on administered asset and liability rates within the calculations.
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	EVE sensitivity is calculated incorporating 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 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. For CCFSL non-maturing deposits reprice either overnight for Easy Access products or based upon notice periods for notice accounts. At 31 December 2021 non-maturing deposits were assumed to reprice overnight for OSB as the only non-maturing products provided are either Easy Access savings products or Notice accounts, the vast majority of which allowed instant (with penalty) access. OSB Notice product T&Cs 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 and this change will be reflected in the repricing assumptions within the interest rate risk modelling.
A description of significant modelling assumptions used in the institution's internal measurement systems (IMS) for purposes other than disclosure that differ from the modelling assumptions prescribed for the disclosure in Template UK IRRBB1, including their directional implications and the rationale for those differences.	The only significant assumption differences are those that are prescribed within the Supervisory outlier tests, with equity included when calculating internal EV metrics.
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. 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 applies macro fair value hedge accounting to the hedging instruments, in line with the provisions of IFRS 9, which reference the parameters of IAS39. The fair value movement of the hedging instruments is matched against appropriate hedged items fair value. The movement in each accounting period is of the fair values of both hedging instruments and hedged items are offset in the statement of comprehensive income.
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.	Not applicable to the Group
Requirement	**Quantitative information**
Average repricing maturity assigned to non-maturing deposits (NMDs).	OSB – Overnight CCFSL – 34 Days
Longest repricing maturity assigned to NMDs.	OSB – Overnight CCFSL – 91 Days

Table 38: IRRBB1 - Quantitative information on IRRBB

CCFSL	∆EVE m	Tier 1 capital m
	2021	
Parallel shockup	(20.0)	
Parallel shockdown	16.5	
Steepener shock	(1.9)	
Flattener shock	(1.7)	
Short rates shock up	(8.3)	
Short rates shock down	9.3	
Maximum	(20.0)	
Tier 1 Capital		**713.0**

OSB	∆EVE m	Tier 1 capital m
	2021	
Parallel shock up	(36.7)	
Parallel shock down	15.4	
Steepener shock	(3.4)	
Flattener shock	(3.8)	
Short rates shock up	(15.9)	
Short rates shock down	16.7	
Maximum	(36.7)	
Tier 1 Capital		**1,045.0**

Note: NII SOT has not been calculated as the Group is working through development. Development is anticipated to be completed in 2022.

7. Asset Encumbrance

7.1 Asset encumbrance qualitative disclosure

Table 39: AE4 Accompanying narrative information

Requirement	Qualitative information
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.
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, indexed long term repo 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, deferred tax asset, property, plant and equipment, derivative assets and sundry debtors. OSB and CCFSL have similar levels of encumbrance and from time to time the Charter Mortgages Limited and Broadlands Finance Limited may encumber 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.

7.2 Asset Encumbrance quantitative disclosure

Table 40: AE1 Encumbered and unencumbered assets

2021		£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**	**6,191.0**	**5,526.1**	**110.2**		**17,115.6**	**2,735.5**		
030	Equity instruments								
040	Debt securities	111.3		110.2		124.5	87.7	110.9	87.4
060	of which: asset-backed securities	111.3		110.2		124.5	87.7	110.9	87.4
070	of which: issue by general governments								
080	of which: issue by financial corporations	111.3		110.2		124.5	87.7	110.9	87.4
120	Other assets	24.0				145.4			

2020		£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**	**6,079.5**	**5,179.3**			**16,574.6**	**2,554.0**		
030	Equity instruments								
040	Debt securities	153.6		124.6		601.2	486.6	471.6	404.8
060	of which: asset-backed securities	153.6		124.6		441.1	316.1	396.6	329.8
070	of which: issue by general governments					120.4	75.0	75.0	75.0
080	of which: issue by financial corporations								
120	Other assets	5,896.7	5,179.3			15,973.4	2,188.7		

Table 41: AE3 Sources of encumbrance

2021	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	4,134.1	6,198.5

2020	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	3,874.8	5,909.2

8. Leverage

8.1 Leverage quantitative disclosure

The Group calculates its Leverage Ratio as its Tier 1 Capital divided by the sum of its total exposures and expresses the result as a percentage in accordance with Article 429 of the CRR.

Table 42: LR1 Summary reconciliation of assets and leverage ratio exposures

Reconciliation of Accounting Assets and Leverage Ratio Exposures	2021 £m	2020 £m
Tier 1 Capital	**1,931.7**	**1,566.0**
Total Assets per published financial statements	24,531.9	22,654.5
Adjustments for derivative financial instruments	(157.4)	(117.1)
Adjustments for securities financing transactions (SFTs)	17.6	22.1
Adjustment for off-balance sheet items	193.5	181.2
Adjustment for exposures excluded from the leverage ratio exposure measure	(19.0)	(21.9)
Other Adjustments	(11.1)	(21.4)
Total exposure measure	**24,555.5**	**22,697.5**

Table 43: LR2 Leverage ratio common disclosures

Leverage Ratio Common Disclosures	2021 £m	2020 £m
On balance sheet items (excluding derivatives, SFTs, but including collateral)	24,206.0	22,409.9
(Assets amounts deducted in determining Tier 1 Capital)	(19.0)	(21.9)
Total on balance sheet exposures (excluding derivatives and SFTs)	**24,187.0**	**22,388.0**
Replacement cost associated with all derivatives transactions	115.6	70.4
Add on Amounts potential future exposure	12.5	12.4
Exposure determined under original exposure method	29.3	23.3
Total derivative exposures	**157.4**	**106.0**
Counterparty credit risk exposure for SFT assets	17.6	22.1
Total securities financing transaction exposures	**17.6**	**22.1**
Off balance sheet exposures at gross notional amount	1,047.2	961.5
(Adjustments for conversion to credit equivalent amounts)	(853.7)	-780.3
Total off balance sheet exposures	**193.5**	**181.2**
Tier 1 Capital	**1,931.7**	**1,566.0**
Total leverage ratio exposures	**24,555.5**	**22,697.5**
Leverage ratio	**7.9%**	**6.9%**
Choice of transitional arrangements for the definition of capital measure	**Fully**	**Fully**

Table 44: LR3 Split of on balance sheet exposures (excluding derivatives, SFT and exempted exposures)

Split of On Balance Sheet Exposures	2021 £m	2020 £m
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**24,206.0**	**22,409.9**
Exposures treated as sovereigns	2,814.1	2,312.7
Institutions	62.0	156.3
Secured by mortgages of immovable properties	20,316.4	18,519.2
Retail exposures	81.0	50.8
Corporates	42.8	51.6
Exposures in default	501.8	462.0
Other Exposures (e.g. equity, securitisation, and other non-credit obligation assets)	387.9	857.2

8.2 Leverage qualitative disclosure

Table 45: LRA Description of LR qualitative information

Requirement	Qualitative information
Description of the processes used to manage the risk of excessive leverage	As a supplementary measure to the risk-based capital requirements, the Basel III framework introduced a simple, non-risk based leverage ratio. The Basel Committee on Banking Supervision (Basel) advised that it was implementing a minimum leverage measure of 3% based on a Tier 1 definition of capital with planned effect from 1 January 2018. The PRA has however established its own minimum requirement of 3.25% but only for firms with more than £50bn of deposits. In 2021, the PRA issued a new policy statement 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 that leverage is important for firms below the PRA threshold and at 31 December 2021 the Group had a leverage ratio of 7.9% (2020: 6.9%). The Group 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, 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 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 SRMF sets out the governance framework for the management and procedures for establishing and changing the limits, targets, notification points, decisions and actions plans for leverage ratio set out in the Capital Plan and Risk Appetite Statements. 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.
Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	The Group's leverage ratio increased from 6.9% at 31 December 2020 to 7.9% at 31 December 2021 driven by a number of factors: • Increase in Tier 1 capital - Issuance of £150m AT1 • strong profitability • total asset growth

9. Liquidity

9.1 Liquidity & funding risk management

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 2021, both Banks actively managed their liquidity and funding profiles within the confines of their risk appetites as set out in each Bank's ILAAP. Both OSB and CCFSL remain well above risk appetite and regulatory minimums with LCR at 240.1% and 157.9% respectively as at 31 December 2021.

Table 46: LIQA on liquidity risk management

Requirement	Qualitative information
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 Strategic Risk Management Framework (SRMF). Liquidity and funding risk are both principal risks included with the SRMF. The SRMF ensures that internal and external expectations (including the Prudential Regulation Authority Rulebook and Basel Committee on Banking Supervision Principles for Sound Liquidity Risk Management and Supervision) are met and liquidity usage is optimised. This includes the reporting of metrics including the LCR 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 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.
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 SRMF. 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.
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.
Scope and nature of liquidity risk reporting and measurement systems.	In order to understand the risk which the Group is exposed to, and to provide information to the Board, Senior Management and external parties that the Group is operating within its market and liquidity risk limits, regular and accurate liquidity risk management information, reporting, and analytics are produced. 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 model 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 team 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.
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 the liquidity risk in times of stress. Positions are monitored daily and must remain within Board-approved risk appetite.
An outline of the bank`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 Discount Window Facility (DWF)
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 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.
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 approves the liquidity risk appetite and the ILAAP document on an at least annual basis.
A concise liquidity risk statement approved by the management body succinctly describing the institution's overall liquidity risk profile associated with the business strategy. This statement shall include key ratios and figures (other than those already covered in the UK LIQ1 template under this ITS) providing external stakeholders with a comprehensive view of the institution's management of liquidity risk, including how the liquidity risk profile of the institution interacts with the risk tolerance set by the management body. These ratios may include: - Concentration limits on collateral pools and sources of funding (both products and counterparties) - Customised measurement tools or metrics that assess the structure of the bank's balance sheet or that project cash flows and future liquidity positions, taking into account off-balance sheet risks which are specific to that bank - Liquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, taking into account legal, regulatory and operational limitations on the transferability of liquidity - Balance sheet and off-balance sheet items broken down into maturity buckets and the resultant liquidity gaps	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.

9.2 Liquidity Coverage Ratio

Table 47: LIQ1 Quantitative information of LCR

		Total adjusted value £m			
		Q1 2021	Q2 2021	Q3 2021	Q4 2021
21	Liquidity buffer	2,438.7	2,249.7	2,422.2	2,660.1
22	Total net cash outflows	1,284.5	1,337.6	1,337.6	1,366.9
23	Liquidity coverage ratio (%)	189.9%	168.2%	172.8%	194.6%

		Total adjusted value £m			
		Q1 2020	Q2 2020	Q3 2020	Q4 2020
21	Liquidity buffer	1,756.7	2,685.4	2,233.1	2,440.3
22	Total net cash outflows	1,241.6	1,087.7	1,054.6	1,189.5
23	Liquidity coverage ratio (%)	142.1%	247.2%	211.6%	198.3%

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

Table 48: LIQB on qualitative information on LCR, which complements template UK LIQ1.

Requirement	Qualitative information
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 funded by retail savings products. Consequently the main drivers of LCR results are retail deposit outflows and mortgage pipeline outflows, offset with 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 2021, the Group LCR reduced by 3% to 195.5% primarily driven by increased deposit outflows and pipeline lending, offset with increased HQLA. At the individual bank level, the OSB LCR reduced by 14% to 240.1% due to increased pipeline lending while CCFSL LCR increased by 12% to 157.9% due to increased retail deposits and reduced pipeline lending.
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.
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.
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 high quality HQLA eligible government securities. In addition to HQLA eligible instruments, each entity holds RMBS securities (internally issued or third party) which it can be used in a stress to generate liquidity and to which an element of value is given as part of their ILAAP assessments.
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.
Currency mismatch in the LCR	Due to the simple nature of the Group's balance sheet, currency mismatch does not pose a material risk.
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 LAB Monetisation.

10. Securitisations

10.1 Objectives and role in relation to securitisation activity

The Group actively utilises securitisation 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 Bank of England (BoE) Sterling Monetary Framework including drawings under the Term Funding Scheme with additional incentives for SMEs; 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).

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. 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).

10.2 Risk weighting and accounting policies

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.

Exposures calculated under Part Three, Title III, Chapter 5 shall be reported under Securitisation Positions. This would include RMBS Securitised Exposures. The Group follows Art. 254 of the CRR using SEC-SA to determine risk weights for positions held, taking into account items such as simple, transparent and standardised designations (STS).

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. The Group has several transactions where the majority of notes are retained for funding and collateral purposes, these being Canterbury Finance 2, Canterbury Finance 3 and Canterbury Finance 4.

Note 2 to the financial statements within the ARA details the Group's accounting policies in relation to securitisation activity. Relevant information can be found under Consolidation, classification, derecognition of financial assets and cash and cash equivalent.

To date, at a Group consolidated level, mortgage assets held prior to securitisation are held in the non-trading book. The Group has no exposure to synthetic securitisations or to synthetic securitisation positions. The Group does not provide hedging, contingent liquidity or other contingent financial support to its securitised assets and therefore, does not have any such liabilities to recognise.

10.3 Risks associated with securitised assets

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 and typically only utilises the capital markets opportunistically when they are relatively strong. 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. 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.

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.

The Group has not engaged in any re-securitisation activity and has no intention of doing so.

10.4 Risk management

Positions in third party RMBS bonds are routinely monitored to ensure performance of underlying assets remains acceptable. They are annually stress tested through the ICAAP to determine Pillar 2a and 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 2021 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. It does not have any re-securitisation exposures.

10.5Securitisation activity

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. There is a general ban of such practices under the Securitisation Regulation (which has been on-shored as part of Brexit transition processes).

You can find further information relating to securitisation activity in the Group ARA.

10.6 Securitisation quantitative disclosures

The Group utilises market standard bankruptcy remote special purpose vehicles for its securitisation transactions. The RMBS issuing Securitisation Special Purpose Entities to which the Group was the seller or originator are listed below:

Table 49: Public securitisations

SSPE	Deal Type	Close Date	1st Call Date	Legal Final Maturity	Original Securitised Amount	Outstanding Loan Notes – 31 December 2021 £m				% Held/Retained				Risk Transfer Status	Exposure Values £m	Group RWAs £m
						Senior	Mezza-zine	Junior	Uncollater-alised	Senior	Mezza-zine	Junior	Uncollater-alised			
Precise Mortgage Funding 2017-1B Plc	RMBS	28/04/2017	12/03/2022	12/03/2054	300.0	118.6	43.2	4.8	-	17.7%	0%	0%	0%	Yes	21.0	3.2
Precise Mortgage Funding 2018-2B Plc	RMBS	20/03/2018	20/03/2023	12/03/2055	374.5	146.7	35.6	-	-	0%	0%	0%	0%	Yes	-	-
Charter Mortgage Funding 2018-1 Plc	RMBS	08/06/2018	12/03/2023	12/06/2055	286.0	81.2	24.3	-	-	0%	0%	0%	0%	Yes	-	-
Precise Mortgage Funding 2019-1B Plc	RMBS	31/05/2019	16/06/2024	13/12/2055	733.7	393.6	95.4	-	-	0%	0%	0%	0%	Yes	-	-
Precise Mortgage Funding 2020-1B Plc	RMBS	24/01/2020	16/12/2024	16/10/2056	375.5	236.3	48.9	-	2.5	42.6%	0%	0%	0%	Yes	100.8	15.1
CMF 2020-1 Plc	RMBS	26/02/2020	18/03/2024	16/01/2057	329.8	172.4	28.0	-	-	0%	0%	0%	100%	No	198.3	70.5
Canterbury Finance No.1 plc	RMBS	26/02/2020	18/03/2024	16/01/2057	500.1	197.0	77.5	-	2.0	0%	0%	0%	0%	Yes	22.1	8.2
Canterbury Finance No.2 plc	RMBS	27/03/2020	17/03/2025	18/12/2056	1,036.6	566.5	176.2	-	9.4	92.3%	100%	0%	100%	Yes	715.1	257.6
Canterbury Finance No.3 plc	RMBS	04/09/2020	18/08/2025	16/05/2057	1,049.1	576.5	188.9	-	7.2	86.5%	100%	0%	100%	No	757.6	268.6
Rochester Financing No.3	RMBS	15/06/2021	18/06/2026	19/12/2044	214.4	161.8	47.2	-	9.0	9.0%	0%	0%	0%	Yes	14.5	2.9
Canterbury Finance No.4 plc	RMBS	06/07/2021	18/05/2026	16/05/2058	1,707.4	1,344.1	277.4	-	48.2	86.5%	100%	0%	100%	No	1,608.7	566.9

Capital requirements

An overview of net exposure values, RWAs and Pillar 1 requirements for the Group associated with securitised assets and securitised positions as at 31 December are as follows:

Table 50: Overview of RWAs

Exposure Class	RWAs £m		Minimum Capital Requirements 2021
	2021	2020	
Credit Risk – Standardised Approach	**1,171.8**	**780.0**	**93.7**
Secured by mortgages on immovable property - securitised	1,147.0	773.8	**91.8**
Exposures in default - securitised	24.9	6.1	**2.0**
Securitisation exposures in the banking book - SA	**31.2**	**67.3**	**2.5**
Total	**1,203.0**	**847.3**	**96.2**

Credit quality of exposures

Table 51: Credit quality of exposures by exposure class

2021 Exposure Class	Gross Carrying Values of		Stage 1 Credit Risk Adjustment £m	Stage 2 Credit Risk Adjustment £m	Stage 3 Credit Risk Adjustment £m	Net Values £m
	Defaulted Exposures £m	Non-Defaulted Exposures £m				
Secured By mortgages on immovable property – securitised		3,274.9	1.1	1.7	-	3,272.1
Of which SME - securitised		*1,578.3*	*0.6*	*0.7*		*1,577.0*
Exposures in default - securitised	27.2		-	-	2.3	24.9
Securitisation positions		222.8	0.0			222.8
Total	**27.2**	**3,497.7**	**1.1**	**1.7**	**2.3**	**3,519.8**

2020 Exposure Class	Gross Carrying Values of		Stage 1 Credit Risk Adjustment £m	Stage 2 Credit Risk Adjustment £m	Stage 3 Credit Risk Adjustment £m	Net Values £m
	Defaulted Exposures £m	Non-Defaulted Exposures £m				
Secured By mortgages on immovable property – securitised		2,203.0	1.1	1.3	-	2,200.6
Of which SME - securitised		*983.2*	*0.6*	*0.5*	-	*982.1*
Exposures in default - securitised	6.8		-	-	0.7	6.1
Securitisation positions		455.9	0.0			455.9
Total	**6.8**	**2,658.8**	**1.1**	**1.3**	**0.7**	**2,662.6**

11. Remuneration

Remuneration Policy disclosures in accordance with Article 450 of the CRR (Regulation of the European Parliament and the Council on prudential requirements for credit institutions and investment firms (Regulation (EU) No 575/2013).

11.1 Decision-making process

The Group Remuneration 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 2021 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.

The Committee obtains independent external advice from Korn Ferry, a consultancy specialising in executive remuneration. 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.

11.2 The link between pay and performance

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

- striking an appropriate balance between risk taking and reward;
- encouraging and supporting a strong culture of service and delivery;
- aligning employees' interests with those of shareholders and customers;
- rewarding the achievement of the overall business objectives of the Group; and
- guarding against inappropriate risk taking.

The Group's pay and incentive structures reflect these principles. In addition, to enhance the link between pay and performance, a significant proportion of remuneration for members of ExCo and other Material Risk Takers is delivered in shares and deferred, with the final value dependent on the price of the underlying shares at the time of vesting. Executive Directors and senior management are also subject to share ownership guidelines and are required to build up their ownership of shares in the Group.

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.

11.3 Remuneration structures and their purpose

This section sets out the key elements of pay for Material Risk Takers in 2021, their purpose, and detail on the quantum of variable pay awards and an explanation of the performance conditions which are used.

Fixed pay

In order to attract and retain individuals of a suitable calibre, Material Risk Takers 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 so as 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 Material Risk Takers 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 CRO or Group Chief Internal Auditor (GCIA), 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 2021, the performance conditions for Executive Directors in the EBS which comprised 90% of the award were:

- 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% Staff (diversity and employee engagement)

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

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

Executive Directors and members of the ExCo receive 50% of any bonus as shares with a holding period. The holding period for Executive Directors is three years and one year for other members of ExCo.

Annual bonus

Below ExCo, other Material Risk Takers participate in the formulaic discretionary bonus scheme applicable to the broader employee base. Under this 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 1-5 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 2021 awards were based on Earnings per Share (EPS) (35% weighting), Total Shareholder Return (TSR) (35% weighting), return on equity (ROE) (15% weighting) and a non-financial risk-based measure (15% weighting). The performance criteria for PSP awards granted in 2021 are set out in the table below.

Table 52: 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 7% CAGR	Below median	Below 17%	Commercially sensitive	0%
'Threshold'	7% CAGR	Median	17%		25%
'Stretch'	16% CAGR	Upper quartile	23%		100%
Pro-rata vesting in between the above points					

The awards vest over an extended time-horizon with the awards to Executive Directors and the most senior employees vesting in tranches between the third and seventh anniversary of grant. Awards to other individuals vest over five 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.

Share ownership requirements

Members of ExCo are also 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.

Malus and clawback

Malus and clawback provisions apply to incentive plans including the Executive Bonus Plan (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.

Ratios between fixed and variable remuneration

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

Additional information on Directors' remuneration

Additional information on Directors' remuneration is available in the 2021 Annual Report and Accounts.

11.4 Aggregate quantitative information on remuneration

The tables below provide aggregate quantitative information set out in accordance with CRR Article 450 which are applicable to the Group.

Table 53: Code staff aggregate remuneration

2021 Remuneration		Executive Directors	Non-Executive Directors	Retail Banking	Independent Control Functions	Corporate Functions
Senior management	Total Remuneration	4,188,687	955,000	3,770,338	2,853,330	1,417,744
	Fixed Pay	1,465,596	-	1,440,546	1,018,,951	544,309
	Variable Pay	2,723,091	-	2,329,792	1,834,379	873,435
	Number of Staff	2	7	5	4	2
Other Code Staff	Total Remuneration			2,815,362	1,523,142	2,505,222
	Fixed Pay			1,671,984	892,761	1,468,673
	Variable Pay			1,143,378	630,381	1,036,549
	Number of Staff			10	5	8

2020 Remuneration		Executive Directors	Non-Executive Directors	Retail Banking	Independent Control Functions	Corporate Functions
Senior management	Total Remuneration	£3,009,740	£1,123,132	£3,566,717	£2,074,516	£1,566,992
	Fixed Pay	£1,371,320	£1,123,132	£1,759,078	£989,783	£739,217
	Variable Pay	£1,638,420	£0	£1,807,639	£1,084,734	£827,775
	Number of Staff	2	12	6	3	3
Other Code Staff	Total Remuneration			£2,410,359	£1,588,460	£2,209,626
	Fixed Pay			£1,434,075	£811,463	£1,197,147
	Variable Pay			£976,284	£776,997	£1,012,479
	Number of Staff			8	5	7

12. 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
BBS	Balanced Business Scorecard
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
CF	Conversion Factor
CFO	Chief Financial Officer
CRR	Capital Requirements Regulation
COREP	Common Reporting
COVID-19	Coronavirus
CRD	Capital Requirements Directive also known as CRD IV or CRD V
CRE	Commercial Real Estate
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
EAD	Exposure at Default
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
EPS	Earnings Per Share
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority
EU	European Union
EWI	Early Warning Indicator
EV	Economic Value
ExCo	Group Executive Committee
FCA	Financial Conduct Authority
FINREP	Financial Reporting
FPC	Financial Policy Committee
FSCS	Financial Services Compensation Scheme
GDP	Gross Domestic Product
GMRA	Group Master Repurchase Agreement
HPI	House Price Index
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

ITS	Implementing Technical Standard
KRI	Key Risk Indicator
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LPA	Law of Property Act
LR	Leverage Ratio
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
OTC	Over The Counter
OSB	OneSavings Bank plc
OSBG	OSB Group plc
PBT	Profit before Tax
PD	Probability of Default
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
POCI	Purchased or originated credit impaired
PRA	Prudential Regulation Authority
PSP	Performance Share Plan
PVA	Prudent Value Adjustment
RAF	Resolvability Assessment Framework
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
SICR	Significant Increase in Credit Risk
SLA	Service Level Agreement
SONIA	Sterling Overnight Index Average
SPV	Special Purpose Vehicle
SRMF	Strategic Risk Management Framework
TCR	Total Capital Requirement
TFSME	Term Funding Scheme with additional incentives for SMEs
TSR	Total Shareholder Return
TTP	Temporary Transitional Power
UK	United Kingdom
UR	Unemployment Rate