PILLAR 3 DISCLOSURES

For the year ended 31 December 2020

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1. Introduction and Key Regulatory Metrics

Overview

This document sets out the consolidated Pillar 3 disclosures for OSB GROUP PLC (OSBG) and its subsidiaries (the Group), with some additional limited disclosures for the regulated banking entities within the Group, as at 31st December 2020. 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 (OneSavings Bank plc (OSB), firm registration number 530504 and Charter Court Financial Services Limited (CCFSL), firm registration number 494549).

On 4 October 2019, OSB combined with Charter Court Financial Services Group plc (CCFSG), bringing increased scale, diversification and product capabilities to the Group. The 2020 disclosures and the comparatives for 2019 presented within this report are on a consolidated Group basis including CCFSG data.

The 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.The Basel Committee on Banking Supervision 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 CRD was initially introduced on 1 January 2007, bringing in capital adequacy standards for banks and an associated European Union (EU)-wide supervisory framework based on the Basel II Accord. The EU implemented the Basel III proposals published in December 2010 through CRD IV, which is enforced in the UK by the PRA. Disclosure requirements under CRD IV as detailed in Part Eight of the CRR are designed to promote market discipline through the publication by banks of key information. These comprise risk exposures, risk management frameworks and risk management processes. CRD IV also made changes to rules on corporate governance, including remuneration, and introduced standardised regulatory reporting within the EU.

This document makes references to the Group's Annual Report and Accounts (ARA), which can be found on the company's website: www.osb.co.uk.

Pillar 3 Disclosure Policy

The Group has established a policy for 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 appropriateness of disclosures.

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

The Group's Pillar 3 disclosures set out its risk management objectives and policies covering:

- the strategies and processes to manage those risks;
- the structure and organisation of the relevant risk management function or other appropriate arrangements;
- the scope and nature of risk reporting and measurement systems; and
- the policies for hedging and mitigating risk and the strategies and processes for monitoring the continuing effectiveness of hedges.

This document should be read in conjunction with the ARA for the year ended 31 December 2020 available at www.osb.co.uk.

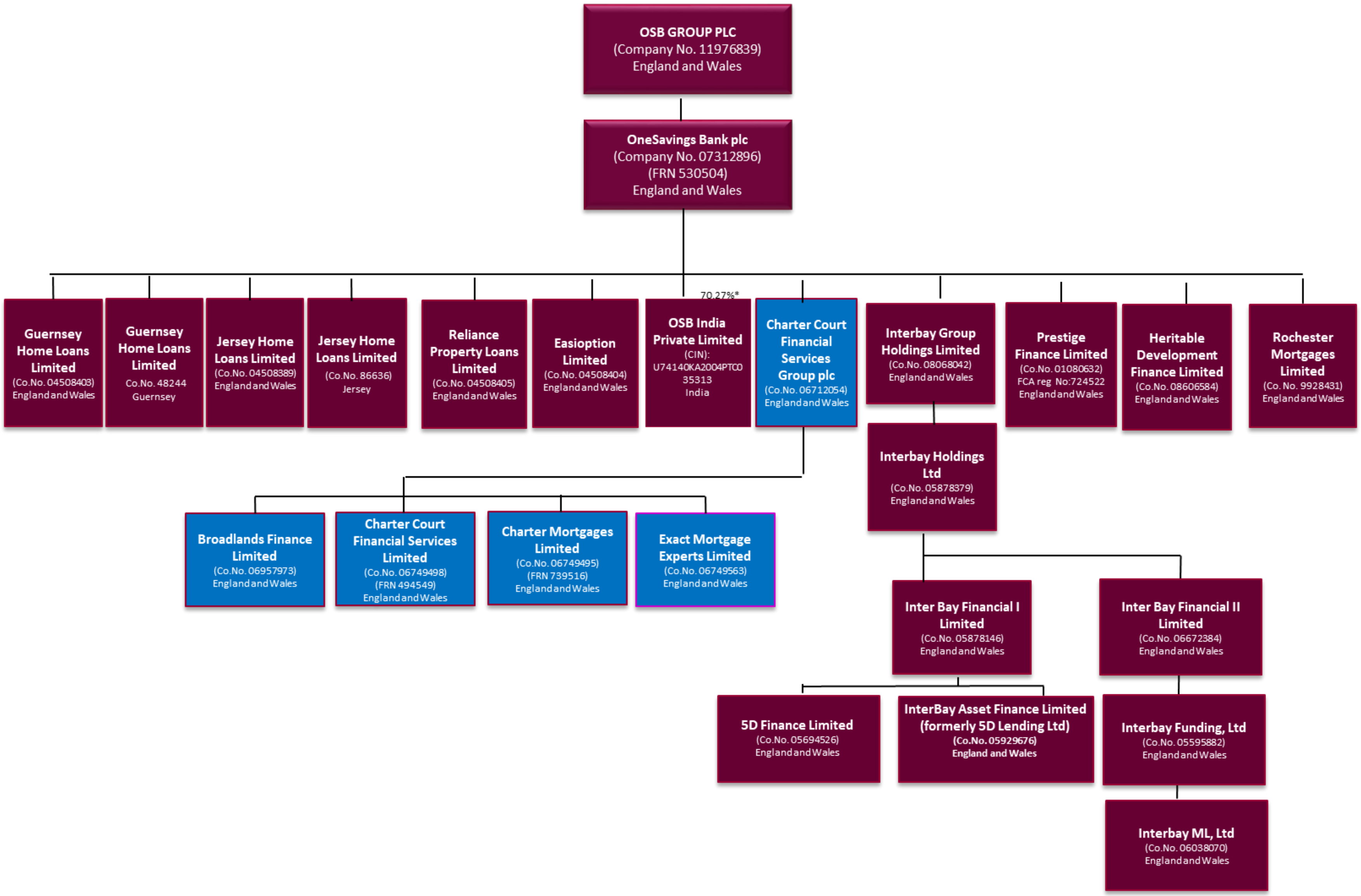
Scope and basis of disclosure

The ARA includes the results of the Group and its subsidiary undertakings. The Pillar 3 disclosure has been prepared on the same basis. There are no differences between accounting and prudential consolidation.

Pillar 3 disclosures will be prepared and published on an annual basis, or more frequently in line with the European Banking Authority (EBA) guidelines, or if there is a material change to the previously disclosed data or information. This document has been prepared in order to disclose the information laid down in Part Eight of the CRR. Disclosures include information on remuneration, risk management, objectives, policies, and the governance arrangements of the Group. Information is disclosed on the Group’s approach to calculate capital requirements, along with leverage ratio, asset encumbrance and liquidity coverage in accordance with CRD IV.

This disclosure does not constitute any form of forward-looking record or opinion of the Group. Figure 1 illustrates the Group's structure.

Figure 1: Group structure as at 31 December 2020



100% shareholding unless otherwise stated.

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

Materiality and confidentiality

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 or on the basis of 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.

Verification

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

These 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 Risk Management Framework, Residential Mortgage-Backed Securities (RMBS) Prospectus and Investor Reports, payroll files, Group Remuneration Committee reports and the Group's Common Reporting (COREP) returns.

Media and location of publication

The Group's Pillar 3 disclosures are published on its website **www.osb.co.uk**.

Management and Board sign-off

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. Key metrics can be found below. The Group has an established independent risk management function, which includes the liquidity risk oversight function. The Group has adequate risk management and liquidity management systems in place with regard to its profile and strategy. Further information on the Group's risk management framework is provided in Section 2. Further information on liquidity management can be found in Section 9.

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.

Key regulatory metrics

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

Table 1: Key metrics

Key Metrics	**2020 £m**	**2019 £m**
Total Risk Weighted Assets	8,565.7	8,383.0
Capital Resources Requirement - Pillar 1[1]	685.3	670.6
Capital Resource		
CET 1	1,566.0	1,339.6
Additional Tier 1	0.0	60.0
Tier 2	0.0	46.7
Total Capital	1,566.0	1,446.3
Key Ratios		
Common Equity Tier 1 Capital Ratio	18.3%	16.0%
Total Tier 1 Capital Ratio	18.3%	16.7%
Total Capital Ratio	18.3%	17.3%
Total Capital Requirement[2]	805.8	830.1
CET 1 Available To Meet Buffers	10.3%	7.4%
Asset Encumbrance Ratio Group[3]	27.2%	24.5%
Leverage Ratio	6.9%	6.5%
Liquidity Coverage Ratio Group	198.3%	123.6%

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

The Group's capital position remained exceptionally strong with fully-loaded CET1 capital and total capital ratios of 18.3% as at 31 December 2020 (31 December 2019: 16.0% and 17.3% respectively). The total capital ratio was the same as the CET1 ratio following the insertion of OSBG as the ultimate holding company, as AT1 securities, subordinated debt and perpetual subordinated bonds (PSBs) issued by OSB no longer qualify as regulatory capital at the Group level.

Relevant changes and developments

Holding company

A new ultimate holding company, OSBG, was inserted in November 2020 as part of the Group's integration strategy following the combination with CCFSG. OSBG became the listed parent company of OSB and CCFSG.

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[1] At 8% of RWAs.

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

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

Upon insertion of OSBG, each OSB share was cancelled and replaced with one OSBG share with no change to voting rights or ranking.

The insertion of OSBG is treated as a business combination under common control. OSBG has adopted the predecessor value method, with an investment in subsidiary in OSBG being the book value of the balance sheet of OSB at the date of insertion and the financial statements prepared as if OSBG had been inserted as the new ultimate parent company on 1 January 2019.

Minimum requirements for own funds and eligible liabilities (MREL)

The new structure will allow the Group to fulfil its MREL requirements more efficiently through senior debt issuance via OSBG. The Bank of England has given the Group a transitional period of three years to 13 July 2023 to meet its new interim MREL requirement of 18% of risk weighted assets and five years to 13 July 2025 to meet its new end-state MREL requirement of two times Pillar 1 and Pillar 2A.

Countercyclical Capital Buffer (CCyB)

On 11 March 2020 the Financial Policy Committee (FPC) reduced the CCyB to 0% with immediate effect as a response to Coronavirus (COVID-19). The rate had been 1% and had been due to reach 2% by December 2020.

CRR 'Quick Fix'

The Group's capital position was supported by the impact of regulatory capital preservation rule changes as outlined within the PRA's 'Quick Fix' package, which included revisions to the IFRS 9 transitional arrangements for the capital impact of IFRS 9 expected credit losses and revisions to the small and medium-sized enterprises support factor.

New disclosure rules

On 24 June 2020, the EBA published its final draft comprehensive Implementing Technical Standards (ITS) on institutions' Pillar 3 disclosures 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." The new disclosure requirements take effect from June 2021.

2. Risk Management Review

Approach to risk management

The Group views its capabilities to effectively identify, assess and manage its risk profile as critical to its growth strategy. The Group's approach to risk management is outlined within the Risk Management Framework (RMF).

The RMF 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 RMF also enables informed risk-based decisions to be taken in a timely manner by allowing for the interests and expectations of key stakeholders.

The RMF provides a structured mechanism to align all critical components of an effective approach to risk management. The RMF links overarching risk principles to risk monitoring and management activities.

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

The key modules of the RMF structure are as follows:

1. Risk principles and culture - the Group has established a set of risk principles which inform and guide all underlying risk management activities and has a strong, proactive and transparent 'risk culture' where all employees across the Group are aware of their responsibilities in relation to risk management.

2. Risk strategy and appetite - the Group has a clear business purpose, vision and strategy which is supported by an articulated risk vision and underlying principles. The Group calibrates its risk appetite to

reflect the Group's strategic objectives and business operating plans, as well as external economic, business and regulatory constraints.

3. Risk assessment and control - the Group's business model and strategy exposes it to a defined risk profile and the risk governance structure is informed by this risk profile such that the Group can identify and manage its risks in an effective and efficient manner.

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 (including stress testing and scenario development) - the Group uses quantitative analysis and statistical modelling to help improve its business decisions.

6. Risk data and IT - 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.

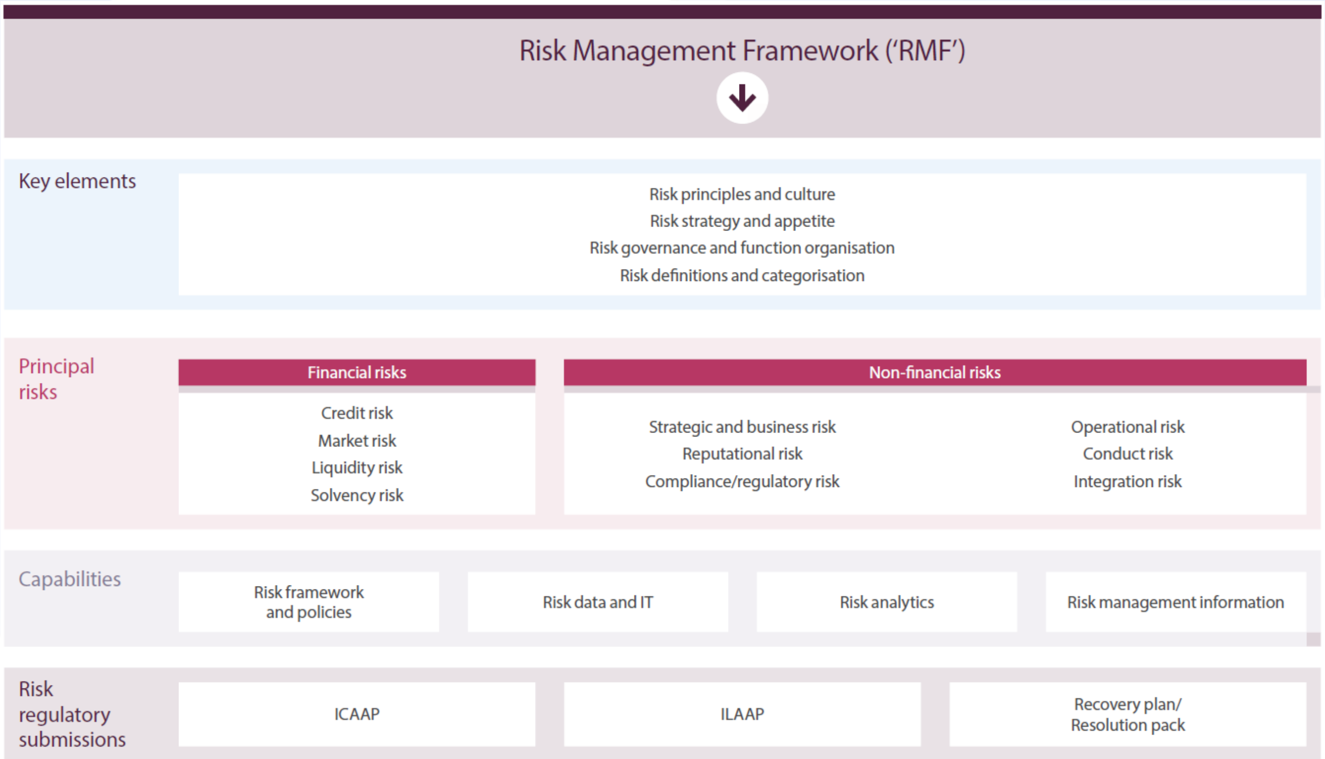
7. Risk frameworks, policies and procedures - risk frameworks, policies and supporting documentation outline the process by which risk is effectively managed and governed within the Group.

8. Risk Management Information (MI) and reporting - the Group has established a comprehensive suite of risk MI and reports covering all principal risk types.

9. 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 RMF and the organisational arrangements to ensure that the Group operates in accordance with the requirements of the RMF.

Figure 2: Risk Management Framework



The following sections describe the key modules of the RMF structure

Key modular component 1: risk principles and culture

The Board adopted a principles-based approach to articulating its expectations and guidance relating to how the Group should frame its risk management approach. The risk management principles are designed to set a clear ‘tone from the top’ with respect to the Group’s risk culture and values. The risk principles also provide the background context in which to articulate the Group’s risk management objectives, strategy and appetite.

The Risk Principles are:

- Customer Outcomes: Fair treatment and good customer outcomes are core business values which cannot be put at risk.
- 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 needs.
- Actively Managed: The risk profile needs to be actively managed within the Board-approved risk appetite.
- 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’ principle.
- Integration and Usage: Risk assessment should be a critical feature of decision making processes 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.

In adherence to the risk management principles, the Board and senior management have cultivated a risk culture which encourages a proactive, transparent and analytical approach to risk management. Risks are assumed in a balanced and considered manner, taking into account stakeholder expectations, good customer outcomes, risk management capabilities and controls.

Key modular component 2: 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. Risks are only to be assumed which can be effectively identified, assessed, measured and controlled across all phases of the risk life cycle.

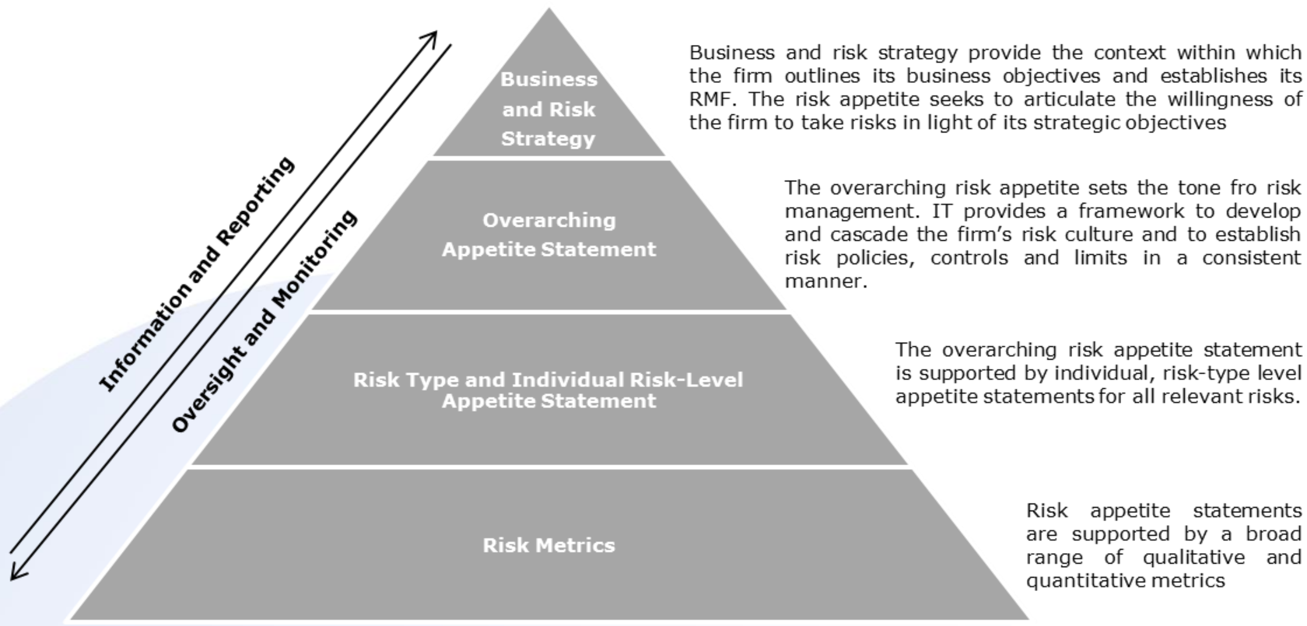
Risk appetite

The Group effectively aligns its strategic and business objectives with its risk appetite, ensuring that the Board and senior management are able to monitor the underlying risk profile relative to the overarching risk principles, risk strategy and financial performance objectives of the Group. The 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 and business objectives and maintains sufficient financial resource buffers to withstand plausible but extreme stresses. The primary objective of the risk appetite is to ensure that the Group’s strategy and business operating model is sufficiently resilient.

The risk appetite is calibrated using statistical analysis and stress testing to inform the process by which the Board set 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 the approved thresholds. The Board and senior management actively monitor actual performance against Board-approved management triggers and limits to respond in a timely manner to adverse trends and breaches. The following figure sets out a high level structure of the risk appetite framework:

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 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.

Key modular component 3: 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. All risk taking, oversight and assurance functions are allocated to accountable Executives.

The Board has ultimate responsibility for the oversight of the Group's risk profile and management framework and where it deems it appropriate, it delegates its authority to its 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.

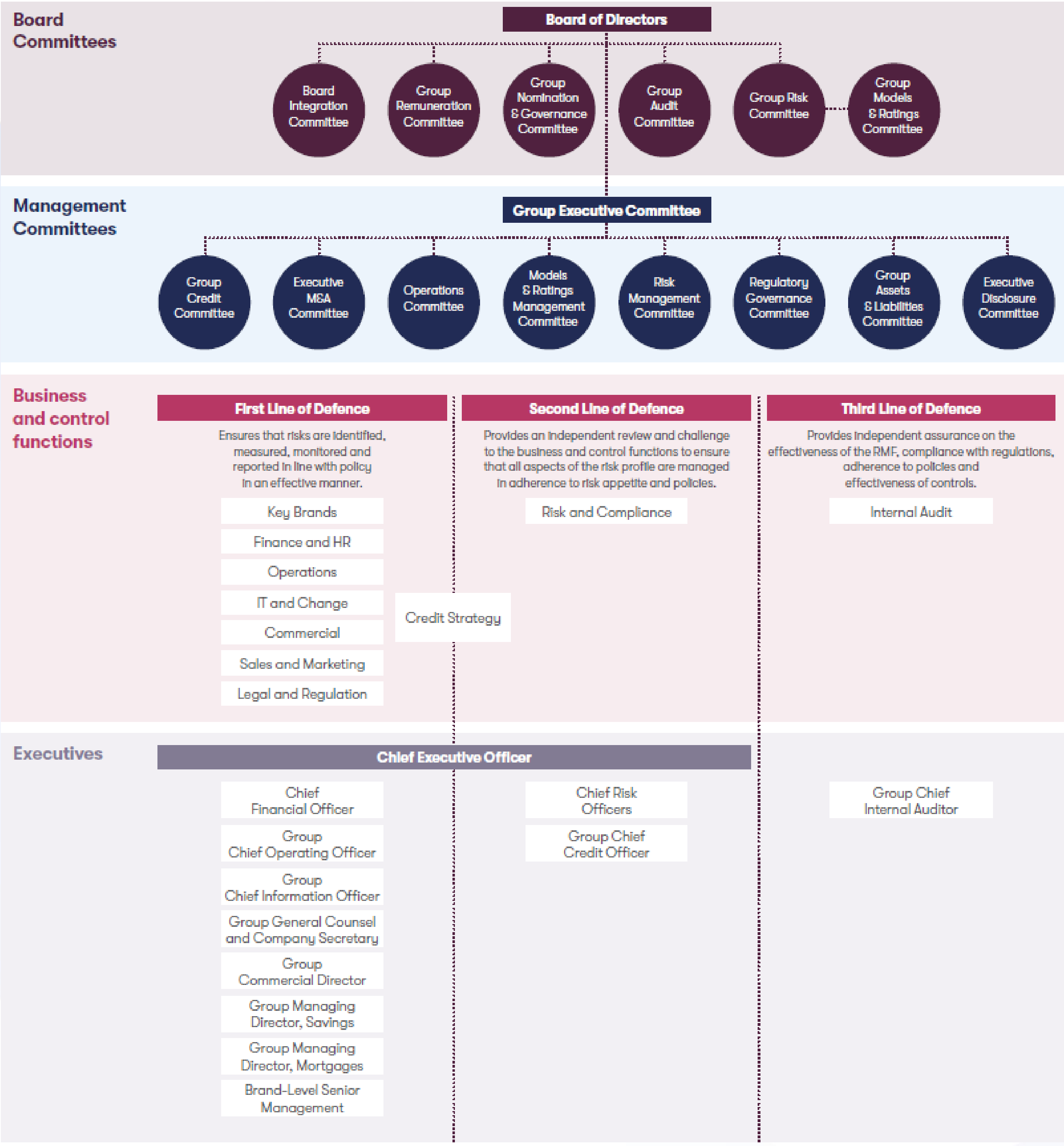
The ExCo has day-to-day responsibility for managing the Group's risk profile within the parameters of the Board-approved risk appetite. The ExCo discharges its risk control and oversight responsibilities through a number of management level risk committees covering all principal risks. The Chief Risk Officers (CROs) are accountable for establishing an effective risk management framework supported by appropriately organised Risk and

Compliance functions. In discharging their duties, the CROs have dual reporting lines into the Group Chief Executive Officer (CEO) and the Chair of the Group Risk Committee. The CROs ensure that the risk function is appropriately resourced and capable of identifying, assessing and reporting all principal risks to which the Group is exposed.

The various management level risk committees (see table below) have been established to ensure a more focused approach to monitoring and managing the specific risks. Additional sub-committees and working groups have also been established to focus on specific risk initiatives or projects.

The Group risk organisational structure is detailed below:

Figure 4: Risk governance and organisational structure



Key modular component 4: 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 - The risk to the Group's earnings and profitability arising from its strategic decisions, change in the business conditions, improper implementation of decisions or lack of responsiveness to industry changes.

Risk Appetite Statement	Risk	Mitigation and controls	Direction
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 a strong and dependable saving franchise. 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.	**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 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 COVID-19 pandemic has adversely impacted the Group meeting its strategic and business targets. Opportunities remain including the Group realising integration benefits as planned, which will support the Group in any future macroeconomic stress, whilst managing challenges posed by increasing levels of competition in our key market segments.
	Economic environment The economic environment 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 portfolio and may influence future business strategy as the Group's new business proposition becomes less attractive due to lower returns.	The Group continued to utilise and enhance its stress testing capabilities to assess and minimise potential areas of macroeconomic vulnerabilities.	**Increased** Economic risks remain elevated due to the ongoing COVID-19 pandemic and risks surrounding the removal of government support measures. The risk relating to a no trade deal Brexit has subsided following a deal agreement being reached; however the implications of the deal arrangements being operationalised are yet to be fully observed.
	Regulatory requirements The potential for emerging regulatory requirements to increase the demands on the Group's operational capacity and increase the cost of compliance.	The Group continues to invest in its IT and data management capabilities to increase the ability to respond to regulatory change. A structured approach to change management and fully leveraging internal and external expertise allows	**Increased** Increased levels of regulatory scrutiny and increased regulatory expectations are driven by the increased size of the Group post-Combination.

		the Group to respond effectively to regulatory change.	
	Competition risk The risk that new bank entrants and existing peer banks shift focus to the Group's core markets, which increases the level of competition	The Group continues to develop products and services which meet the requirements of the markets in which the firm operates. Post the Combination the solo OSB and CCFS banking entities Group has an enlarged suite of products and capabilities to leverage, along with increased scale and financial resources to support a response to changes in competition	**Unchanged** The Group responded well to all competition and market changes throughout 2020 and is well positioned to respond to changes in competition in 2021.

Reputational risk

Definition - The potential risk of adverse effects that can arise from the Group's reputation being sullied 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.

Risk Appetite Statement	Risk	Mitigation and controls	Direction
The Group does not knowingly conduct business or organise its operations to put its reputation and franchise value at risk.	**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 to proactively identify and manage potential sources of reputational risk.	**Unchanged** Expectations are high to deliver the integration in a timely and effective manner while achieving strategic objectives. Expectations raised across all stakeholders including employees, customers, regulators and shareholders.

Credit risk

Definition - 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.

Risk Appetite Statement	Risk	Mitigation and controls	Direction
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.	**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 fail to maintain the value of the security.	Across both OSB and CCFS, a robust underwriting assessment is undertaken to ensure that customer has the ability and propensity to repay and sufficient security is available to support the new loan requested. At CCFS, an automated scorecard approach is taken, whilst OSB utilises a bespoke manual underwriting approach. Should there be problems with a loan, the Collections and Recoveries team work with customers 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 more based on security and is scrutinised by the Group's independent Real Estate team as well as by valuers. Development lending is extended only after a deep investigation of the borrower's track record and stress testing the economies of the specific project.	**Increased** The impact of the government support measures subsiding remains unknown and the knock on impact into borrower defaults thereafter.

	Macroeconomic downturn A broad deterioration in the economy would adversely impact both the ability of borrowers to repay loans and the value of the Group's security. Credit losses would have an impact across the lending portfolio, even if individual impacts were to be small, the aggregate impact on the Group could be significant.	The Group works within portfolio limits on loan to value (LTV), affordability, name, sector and geographic concentration that are approved by the Group Risk Committee and the Board. These are reviewed semi-annually. In addition, stress testing is performed to ensure the Group maintains sufficient capital to absorb losses in an economic downturn and continue to meet its regulatory requirements.	**Increased** The economic outlook is uncertain driven by the potential range of outcomes resulting from COVID-19 and the end of government support measures.
	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 bank and swap counterparties.

Market risk

Definition - Potential loss due to changes in market prices or values.

Risk Appetite Statement	Risk	Mitigation and controls	Direction
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 rates and it limits its mismatched and basis risk exposures.	**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 continues to assess interest on a regular basis ensuring that interest rate risk exposure is limited.
	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 rates (e.g. Bank base rate, Sterling Overnight Index Average (SONIA), or the London	Due to the balance sheet structure no active management of basis risk has been required by OSB in 2020. CCFS has actively replaced all back book LIBOR asset swaps maturing post 31 December 2021 with SONIA swaps.	**Unchanged** Product design, balance sheet structure and replacing LIBOR swaps with SONIA swaps has enabled the Group to maintain the overall level of basis risk across both Banks through the year. The basis risk position will reduce over 2021 as CCFS

	Interbank Offered Rate (LIBOR)), or administered (e.g. the Standard Variable Rate (SVR), other discretionary variable rates, or that received on call accounts with other banks).		and OSB fully transition away from LIBOR.

Liquidity and funding risk

Definition - The risk that the Group will be unable to meet its financial obligations as they fall due.

Risk Appetite Statement	Risk	Mitigation and controls	Direction
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 Internal Liquidity Adequacy Assessment Process (ILAAP) stress scenarios.	**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.	The Group's funding strategy is focused on a highly stable retail deposit franchise. The large number of depositors provides diversification and a high proportion of balances are covered by the Financial Services Compensation Scheme and so there is no material risk of a retail run. In addition, the Group performs in-depth liquidity stress testing and maintains a liquid asset portfolio sufficient to meet obligations under stress. The Group holds prudential liquidity buffers to manage funding requirements under normal and stressed conditions. The Group has further diversified its retail channels by expanding the range of pooled deposit providers used. The Group proactively manages its savings proposition through both the Liquidity Working Group and the Group Assets and Liabilities Committee (ALCO). The Group also has prepositioned mortgage collateral and securitised notes with the Bank of England, 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 and access to warehouse facilities.	**Unchanged** The Group's funding mix remained strong throughout the year. During the year, OSB and CCFS were both able to attract significant flows of new deposits and depositors when required.
	Wholesale funding stress A market-wide stress could close securitisation markets or make issuance	The Group continuously monitors wholesale funding markets for securitisation opportunities and will execute funding transactions	**Unchanged** The Group's range of wholesale funding options available

	costs unattractive for the Group.	or sell additional residual positions in our securitisations when market conditions are advantageous. The Group has issued a number of securitisations during 2020 from CCFS and OSB demonstrating very strong market demand for Group secured wholesale issuance.	including repo or sale of retained notes, collateral upgrade trades and warehouse facilities remains broadly unchanged
	Refinancing of Term Funding Scheme (TFS) and TFSME The Group has drawn a total £2.6bn of funding under the TFS and £1.0bn under the TFSME creating a refinancing concentration around the maturity of this scheme.	The Group has fully factored in repayment of TFS into the funding plans of both Banks, with planned repayment prior to the contractual date to minimize timing and concentration risk. The combined Group has a wider range of funding options to manage this process. The Group has a TFSME allowance significantly above its wholesale funding requirements which allows the TFS scheme to be fully refinanced by TFSME.	**Decreased** The TFSME scheme will allow the Group to significantly extend the maturities of its Bank of England based funding.

Solvency risk

Definition - 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.

Risk Appetite Statement	Risk	Mitigation and controls	Direction
OSB seeks to ensure that it is able to meet its Board level capital buffer requirements under a severe but plausible stress scenario. The Group's solvency risk appetite is informed by the Group's prudential requirements and strategic and financial objectives.	**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 provide feedback through the consultation process.	**Unchanged** Proactive management of the Group's balance sheet and support measures provided by the PRA via the CRR "Quick Fix", resulted in the Group's capital ratios strengthening. Risks remain around adverse credit profile performance, resulting from the ongoing COVID-19 pandemic and the removal of government support measures.

Operational risk

Definition - The risk of loss or negative impact to the Group resulting from inadequate or failed internal processes, people, or systems or from external events.

Risk Appetite Statement	Risk	Mitigation and controls	Direction
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.	**Data Quality and Completeness** The risks resulting from data being either inaccurate or incomplete.	The Group has 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** Further progress was made during 2020 in embedding Group-wide governance frameworks, standards and controls. Further work is planned in 2021, to move closer to the Group's target end state.

	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 has 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.	**Increased** Due to the COVID-19 pandemic and the resulting high number of employees working and accessing systems from home, the risk of a cyber-attack has heightened. Whilst IT Security risks continue to evolve the level of maturity of the Group's controls and defences have significantly increased, supported by dedicated IT security experts. The Group's ongoing penetration testing continues to drive enhancements by identifying potential areas of risk.
	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 continues to adopt an ambitious change agenda, driven by the integration programme. During 2020 this risk was monitored and managed well, however further change is planned in 2021, against the backdrop of the ongoing COVID-19 pandemic and likely prolonged periods of employees working from home.
	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 continually 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 the new operating environment. Further work is planned during 2021.
	Organisational Change and Integration The risks resulting from the Group's ongoing integration activities, including systems, people and infrastructure.	Low risk integration project plan (e.g. no large scale integration related IT project change planned). Experienced and capable project management office, with close oversight and direction provided by the ExCo and the Board Integration Committee.	**Unchanged** To date, organisational change resulting from the integration project has been managed well, with no material risks emerging during 2020. Further work is required to reach the target end state; however, carefully considered plans remain in place, along with

			strong risk identification, monitoring and management capabilities.

Conduct risk

Definition - The risk that the Group's behaviours or actions result in customer detriment or negative impact on the integrity of the markets in which it operates.

Risk Appetite Statement	Risk	Mitigation and controls	Direction
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 respect, 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.	**Product suitability** Whilst the Group originates relatively simple products, there remains a risk that (primarily legacy) products 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 has been established to oversee both the origination of new products and to revisit the ongoing suitability of the existing product suite.	**Unchanged** Whilst this risk has 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.	**Unchanged** Despite a number of additional controls being introduced in 2020, the network/system threats continue to increase in both volume and sophistication.
	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 our customers and the market. The Group will conduct detailed analysis of potential customer harm associated with particular integration steps.	**Unchanged** No material issues have been identified to date and controls are in place to ensure that the integration programme does not result in poor customer outcomes.

Compliance and regulatory risk

Definition - The risk that a change in legislation or regulation or an interpretation that differs from the Group's will adversely impact the Group.

Risk Appetite Statement	Risk	Mitigation and controls	Direction
The Group views on going conformance with regulatory rules and standards across all the jurisdictions in which it operates as a critical facet 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 to its business operating model.	**Prudential regulatory changes** The Group continues to see a high volume of key compliance regulatory changes that impact its business activities. These include: Change in Standardised Approach Capital Rules and implementation of an Internal Ratings-Based (IRB) floor; Implementation of the European Standardised Information Sheet (ESIS); Extending the Senior Managers and Certification Regime to all FCA regulated firms; and introduction of Strong Customer Authentication (SCA) requirements. The focus on external wall cladding for buildings has recently been extended to cover all buildings regardless of height.	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. The Group has initiated a study into external wall cladding and is reviewing the exposure against the lending portfolios.	**Unchanged** The Group continues to have a high level of interaction with its 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.	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.	**Unchanged** 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.

Integration risk

Definition - The risks resulting from the combined Group's ongoing integration activities, including business operational and financial performance, systems, people and infrastructure.

Risk Appetite Statement	Risk	Mitigation and controls	Direction
The combination of OSB and CCFS 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 Group Board has a low appetite for the realisation of events and outcomes which put at risk the strategic rational of the combination, the Group's purpose, vision and values and the Group's broader risk appetite. Notwithstanding that all post-combination integration programmes are subject to delays, reprioritisation and variations to planned financial forecasts, the Board expects these to be of a non-material nature, clearly understood and justified, subject to defined mitigation actions and governance.	**Negative impact of integration** A reduction in the oversight of business as usual operational performance, increased risk to operational resilience via the change process, unintended staff attrition and or infrastructure failure, which in turn adversely impacts operating and financial performance.	The Board is maintaining oversight of the integration process through the Board Integration Committee. A dedicated Integration Management Office has been established to drive the integration process forward. Independent second line and third line assessment, monitoring and reporting is being undertaken by the Risk and Internal Audit functions.	**Unchanged** To date, the integration project has progressed as planned and the governance, project management and control structures have operated effectively, with no material risks arising.

Emerging risks

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

Emerging Risks	Description	Mitigation Action
Political and Macroeconomic Uncertainty	The impact of COVID-19 and the removal of government support measures remains uncertain. The Group's lending activity is solely focused in the United Kingdom and, as such, will be impacted by any risks emerging from changes in the macroeconomic environment.	The Group implemented robust monitoring processes and via various stress testing activity (i.e. ad hoc, risk appetite and Internal Capital Adequacy Assessment Process (ICAAP)) understands how the Group performs over a variety of macroeconomic stress scenarios and has subsequently

		developed a suite of early warning indicators, which are closely monitored to identify changes in the economic environment. The Board and management produces and reviews 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. Physical risks can relate to specific weather events, such as storms and flooding, or to longer term shifts in the climate, such as rising sea levels. Transitional risks may arise from the adjustment towards a "low-carbon" economy, such as tightening energy efficiency standards for domestic and commercial buildings.	The Group developed an approach to addressing the increasing climate risks within its risk management framework. This includes scenario analysis, development of key risk indicators and inclusion of climate risks within operational resilience activities. A cross-functional working group is overseeing the Group's response to climate change, in line with industry best practise and regulatory guidelines. As part of the Group's ICAAP a detailed analysis was conducted using third party data to conduct an initial financial risk assessment that climate change could pose to the Group. This analysis will be developed further during 2021.
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. Post the completion of the combination with CCFS, the Group notes the increasing usage of models to conduct financial assessments whilst informing business decisions. The Group also notes changes in industry best practice with respect to managing model risk.	During 2020 the Board and management level model oversight committees were introduced along with a suite of Group level policies. Further enhancements are planned during 2021 to ensure the model governance arrangements meet regulatory expectations and model risk is managed effectively.
LIBOR Reform	The LIBOR benchmark may cease to be set after the end of 2021 due to the low level of supporting unsecured loans in the wholesale interbank loan market. The Group has exposure to the LIBOR benchmark within some of its customer lending products and wholesale derivative hedging transactions. If the benchmark were to cease	The ALCO has set up a dedicated working group to focus on this risk and transition away from the LIBOR benchmark is underway. The priority is to remove the LIBOR component from all new loan products and new swap hedges. In relation to existing loans and derivative hedges it is planned that they are transitioned onto

	or become unreliable these loans and derivatives may reflect rates that do not accurately represent short-term funding costs, therefore having an adverse effect on returns.	alternative benchmarks before LIBOR ceases.
Coronavirus (COVID-19)	The COVID-19 pandemic has had and continues to have a material impact on individuals and businesses where the Group has operations including the UK and India. The lockdown measures introduced to stem the spread of the virus have had a profound effect on how businesses operate and individuals work, which may have a materially adverse impact on the Group's profitability, capital and liquidity positions. It is unclear how the COVID-19 pandemic will evolve during 2021 and the impact that the roll out of vaccines will have and whether any new strains emerge. A further risk relates to the impact once government support measures subside during 2021 and the resultant impact on business failures, unemployment levels and house prices.	The Group has taken a considered approach to minimising and managing the impact of the COVID-19 global pandemic. The Group's approach represents a comprehensive response strategy covering both severity and consequences of a global pandemic. The Group's response strategy covers key aspects of an effective pandemic response approach, including prevention, continuity, impact assessment and stress testing. Supporting the Group's response strategy are established underlying capabilities to facilitate operational and financial resilience testing and planning, active monitoring and reporting procedures, and active communications with all employees (UK and India) and supervisory authorities.
Negative Interest Rates	To support economic performance, resulting from the impact of the COVID-19 pandemic, the Bank of England may consider reducing the Bank of England base rate below 0%. The Group would be impacted across its lending portfolios with adverse movements in interest income, offset by reductions in interest payable on savings accounts. A further risk relates to increased operational and conduct risks arising from system and process changes required to accommodate negative interest rates. Negative interest rates may also impact customer behaviour, with changes in the demand for lending and savings products potentially impacting the Group's loan book growth plans and liquidity coverage levels.	The Group has reviewed readiness for negative interest rates and presented findings to the Board. The review covered the terms and conditions of the Group's financial contracts and any systems limitations. Some key servicing systems have been identified as requiring further development to allow negative rates and, in particular, negative pay rates. Given a mixture of floors in terms and conditions for certain products and the Group's margins, negative interest rates would be unlikely to cause an issue until Bank of England Base Rate reaches a rate of -0.75 basis points or below. A working group is currently examining further system development to manage significantly negative rates.

Further information on risk profile performance can be found in the ARA on page 61.

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 the necessary financial and human resources are in place to enable OSBG to meet its objectives. In addition, it ensures the appropriate financial and business systems and controls are in place to safeguard shareholders' interests and to maintain 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 the OSBG's Articles of Association and its own written Terms of Reference. The Board has established a number of Committees as indicated in Table 3. 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 Terms of Reference and Matters Reserved for the Board which are approved 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 risk management framework

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, CEO, Senior Independent Director and Company Secretary

Other

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

The Board consists of both Executive and Non-Executive Directors which are detailed below, along with the number of other principal directorships held by each member.

Table 2: Number of other directorships held by Board members

Name	Position	Number of Other Directorships Held
David Weymouth	Non-Executive	4
Noël Harwerth	Non-Executive	4
Graham Allatt	Non-Executive	0
Sarah Hedger	Non-Executive	2
Rajan Kapoor	Non-Executive	1
Mary McNamara	Non-Executive	1
Andy Golding	Executive	1
April Talintyre	Executive	0

Board recruitment and diversity

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 2020, carefully considering the skills of the existing members and looking at any skills gaps applicable to each Committee. A number of changes had been made following the Combination with CCFS. The membership of the Committees were refreshed as a result of the departure of some NEDs. Sarah Hedger became a member of the Group Audit and Group Remuneration Committees, Noël Harwerth was appointed to the Group Audit Committee, and Mary McNamara was re-appointed to the Group Nomination and Governance Committee.

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, 17% of the Group Executive Committee and 50% of our Board are female. One of the eight 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.

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 3: 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 and members of the Executive Team
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 lending up to 20% of CET1 capital at the connection level • Approve secured funding lines with a minimum drawn balance of up to £80m and capital consumption when fully drawn at £5m • Approve portfolio acquisitions in the range of £50m to £80m
Board Integration Committee	• The primary objective of the Board Integration Committee is to oversee planning for the integration of the businesses of OSB and Charter Court Financial Services Group plc and, following completion of the Combination of OSB and Charter Court, to provide oversight and guidance on the planning and execution of the integration plan, including oversight of synergy realisation
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.

The Group Risk Committee met nine times in 2020. Further information on the Board of Directors can be found within the Governance section of the ARA.

The Business

Group Executive Committee (ExCo)

The CEO chairs the ExCo, whose other members are the Chief Financial Officer, the Group Chief Operating Officer, Chief Risk Officers, Group General Counsel and Company Secretary, Group Commercial Director, Group Chief Information Officer, Group Chief Credit 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.

The activities of 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 planning
- Monitoring target operating model progress
- Culture - Purpose, Vision and Values

Management Committees

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

Table 4: 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
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
Executive M&A Committee	• Reviewing and assessing potential inorganic commercial opportunities • Providing oversight of transactions post-completion including the integration of acquired businesses and assets until the operation of these are business as usual.
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.

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 respectively 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 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

Mapping of financial statements to regulatory risk categories

Table 5: Mapping of financial statements

2020 **Assets**	**Carrying values as reported in published financial statements** **£m**	**Carrying values under scope of regulatory consolidation** **£m**	**Subject to credit risk framework** **£m**	**Subject to the CCR framework** **£m**	**Subject to the securitisation framework** **£m**	**Not subject to capital requirements or subject to deduction from capital** **£m**
Cash and cash equivalents	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	
Customer loans and receivables	19,230.7	19,230.7	19,230.7			
Fair value adjustment for hedged risk	181.6	181.6	181.6			
Derivative financial instruments	12.3	12.3		12.3		
Other assets held at fair value	0.0	0.0	0.0			
Current Tax Asset	8.4	8.4	8.4			
Deferred tax 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	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Deposits from bank	3,570.2	3,570.2				
Deposits from customers	16,603.1	16,603.1				
Amounts owed to other customers	72.9	72.9				
Fair value adjustment for hedged risk	8.2	8.2				
Debt securities in issue	421.9	421.9				
Derivative financial instruments	163.6	163.6		163.6		
Lease liabilities	11.7	11.7				
Other liabilities	27.8	27.8				
Provisions	1.8	1.8				
Corporation tax payable						
Deferred tax 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	1616.9				
Non-Controlling Interest	60.0	60.0				
Total Equity and Liabilities	**22,654.5**	**22,654.5**		**163.6**		

2019 Assets	Carrying values as reported in published financial statements £m	Carrying values under scope of regulatory consolidation £m	Subject to credit risk framework £m	Subject to the CCR framework £m	Subject to the securitisation framework £m	Not subject to capital requirements or subject to deduction from capital £m
Cash and cash equivalents	0.4	0.4	0.4			
Loans & advances to credit Institutions	2,204.6	2,204.6	2,204.6			
Investment securities	635.3	635.3	635.3			
Customer loans and receivables	18,446.8	18,446.8	17,961.6		485.2	
Fair value adjustment for hedged risk	16.8	16.8	16.8			
Derivative financial instruments	21.1	21.1		21.1		
Other assets held at fair value	14.3	14.3	14.3			
Deferred tax asset	4.8	4.8	3.9			0.9
Property, fixtures and equipment	41.6	41.6	41.6			
Intangible assets	31.4	31.4				31.4
Total Assets	**21,417.1**	**21,417.1**	**20,874.6**	**21.1**	**485.2**	**36.2**
Off balance sheet items		292.7	292.7			
Total Regulatory Exposures	**21,417.1**	**21,709.3**	**21,167.3**	**21.1**	**485.2**	**32.3**
Liabilities	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Deposits from bank	3,068.8	3,068.8				
Deposits from customers	16,255.0	16,255.0				
Amounts owed to other customers	29.7	29.7				
Fair value adjustment for hedged risk	(5.1)	(5.1)				
Debt securities in issue	296.3	296.3				
Derivative financial instruments	92.8	92.8		92.8		
Lease liabilities	13.3	13.3				
Other liabilities	34.9	34.9				
Provisions	1.6	1.6				
Corporation tax payable	41.5	41.5				
Deferred tax liability	63.1	63.1				

Subordinated liabilities	48.2	48.2				
Total Liabilities	**19,940.1**	**19,940.1**		**92.8**		
Shareholders' equity	1,477.0	1,477.0				
Total Equity and Liabilities	**21,417.1**	**21,417.1**		**92.8**		

Capital

As part of the insertion of OSBG, the existing share capital and share premium of OSB was cancelled following the market close on 27 November 2020 and the share capital and share premium amounts of OSB were transferred to retained earnings. Each cancelled £0.01 OSB share was replaced with one OSBG share with a nominal value of £3.04 each. The difference in the value of share capital in issue of the OSBG shares compared to the cancelled OSB shares is recognised in the transfer reserve within equity.

Adjustments are made to CET1 for intangible fixed assets, deferred tax assets, prudent valuation adjustments and IFRS 9 transitional arrangements.

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.

The following table summarises the composition of regulatory capital resources as of 31 December 2020. The Group complied with all externally imposed capital requirements to which it is subject for the entire year 2020.

Table 6: Capital resource

Capital Resource	(Unaudited) 2020	(Unaudited) 2019
	£m	**£m**
Common equity tier 1 capital:		
Called up share capital	1,359.8	4.5
Share premium, capital contribution and share-based payment reserve	7.8	876.3
Retained earnings	1,608.6	553.2
Transfer reserve	(1,355.3)	(12.8)
Other reserves	(4)	(4.2)
Total equity excluding equity bonds	1,616.9	1,417.0
Foreseeable dividends	(64.9)	(49.9)
IFRS 9 transitional adjustment	35.9	5.3
Deductions from common equity tier 1 capital:		
Prudent valuation adjustment	(0.4)	(0.5)
Intangible assets	(20.6)	(31.4)
Deferred tax asset	(0.9)	(0.9)
Common Equity Tier 1 Capital	**1,566.0**	**1,339.6**
AT1 securities		60.0
Total Tier 1 Capital	**1,566.0**	**1,399.6**
Subordinated debt and PSBs		47.4
Deductions from tier 2 capital		(0.7)
Total Tier 2 Capital		**46.7**
Total Regulatory Capital	**1,566.0**	**1,446.3**
Risk Weighted Assets (unaudited)	**8,565.7**	**8,383.0**

The following table sets out the reconciliation of the Group's total equity and regulatory capital.

Table 7: Reconciliation of regulatory capital to equity

Reconciliation of Regulatory Capital to Equity	2020	2019
	£m	£m
Regulatory total capital	1566.0	1,446.3
IFRS 9 transitional adjustment	(35.9)	(5.3)
Prudential value adjustment	0.4	0.5
Intangible fixed asset deduction	20.6	31.4
Deferred tax asset deduction	0.9	0.9
Proposed final dividend	64.9	49.9
Subordinated liabilities		(10.6)
Perpetual subordinated bonds		(37.6)
Deductions from tier 2 capital		1.5
Total shareholders' funds	**1616.9**	**1,477.0**

The Group's outstanding subordinated liabilities are summarised below:

Table 8: Subordinated liabilities

	2020	2019
	£m	£m
Linked to LIBOR:		
Floating rate subordinated loans 2022 (LIBOR + 5%)	0.1	0.2
Floating rate subordinated loans 2022 (LIBOR + 2%)	0.2	0.2
Fixed rate:		
Subordinated liabilities 2024 (7.45%)	10.2	10.2
	10.5	**10.6**

The fixed rate subordinated liabilities are repayable at the dates stated or earlier, in full, at the option of the Group with the prior consent of the PRA. All subordinated liabilities are denominated in Pounds Sterling and are unlisted.

The rights of repayment of the holders of these subordinated liabilities are subordinated to the claims of all depositors and all creditors.

Table 9: Perpetual subordinated bonds

	2020	2019
	£m	£m
Sterling perpetual subordinated bonds (4.5991%)	22.3	22.3
Sterling perpetual subordinated bonds (4.6007%)	15.3	15.3
	37.6	**37.6**

The bonds are listed on the London Stock Exchange. The 4.6007% bonds were issued with no discretion over the payment of interest and may not be settled in the Group's own equity. They are therefore classified as financial liabilities. The coupon rate was 5.9884% until the reset date on 27 August 2019. Subsequent to this, the coupon rate is 4.6007% until the next reset date on 27 August 2024.

The 4.5991% bonds were issued with discretion over the payment of interest which is not absolute. The bonds are therefore classified as financial liabilities. The coupon rate is 4.5991% and resets annually in March.

Subordinated debt and PSBs issued by OSB no longer qualify as regulatory capital at the Group level.

The following table sets out the Group's capital instruments:

Table 10: Capital instruments

Capital Instruments Main Features	Tier 1
Issuer	OSB GROUP PLC
Unique Identifier	(ISIN:) GB00BLDRH360
Governing laws of the instrument	English law
Regulatory Treatment	
Transitional CRR Rules	CET1
Post Transitional CRR Rules	CET1
Eligible at solo/(sub-)consolidated / solo & (sub-)consolidated	Consolidated
Instrument type	Common Equity
Amount recognised in Regulatory Capital	1,359.8
Nominal amount of instrument	£3.04
Issue price	£3.04
Redemption price	Not Applicable
Accounting classification	Shareholders' Equity
Original date of issuance	27 November 2020 - 447,304,196 Ordinary Shares issued 3 December 2020 - 1,716 10 December 2020 - 572 17 December 2020 - 6294
Perpetual or dated	Perpetual
Original maturity date	Not Applicable
Issuer call subject to prior supervisory approval	No
Optional call date contingent call dates and redemption amount	No
Subsequent call dates if applicable	Not Applicable
Coupons / Dividends	
Fixed or floating dividend/coupon	Floating
Coupon rate and any related index	Not Applicable
Existence of a dividend stopper	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
Existence of step up or other incentive redeem	No
Noncumulative or cumulative	Non-Cumulative
Convertible or non-convertible	Non-Convertible
Write down features	No

Position in subordination hierarchy in liquidation	All liabilities
Non-compliant transitioned features	No
If yes specify non-compliant features	Not applicable

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.

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 (CCFSG used the Basic Indicator Approach in 2019)

The following table shows the total RWA's and minimum 8% Pillar 1 capital requirements broken down by exposure class.

Table 11: Disclosure of own funds requirements and risk weighted exposure amounts

	2020		2019	
Standard Exposure Classes	**Risk Weighted Assets**	**Capital Requirement**	**Risk Weighted Assets**	**Capital Requirement**
	£m	**£m**	**£m**	**£m**
Central government and central banks	9.8	0.8	9.8	0.8
Institutions	56.6	4.5	38.2	3.1
Corporates	53.9	4.3	90.7	7.3
Retail	31.1	2.5	79.3	6.3
Secured by mortgages on immovable property	6,897.4	551.8	6,692.4	535.4
Exposures in default	467.4	37.4	407.7	32.6
Items with particularly high risk	210.2	16.8	260.3	20.8
Securitisation positions	67.3	5.4	76.5	6.1
Other items	43.6	3.5	48.3	3.9
Total Credit Risk	**7,837.3**	**627.0**	**7,703.3**	**616.3**
Counterparty Credit Risk	20.5	1.6	7.3	0.6
Operational Risk	704.7	56.4	666.7	53.3
Credit Valuation Adjustment	3.2	0.3	5.7	0.5
Total Pillar 1/Risk Weighted Assets	**8,565.7**	**685.3**	**8,383.0**	**670.6**

Table 12: Capital metrics with and without IFRS 9 transitional arrangement

	2020	**2019**
	£m	**£m**
Capital		
Common equity tier 1 capital (CET1) with transitional arrangement	1,566.0	1,339.6
Common equity tier 1 capital (CET1) without transitional arrangement	1,530.1	1,334.3
Tier 1 capital with transitional arrangement	1,566.0	1,399.6
Tier 1 capital without transitional arrangement	1,530.1	1,394.3
Total capital with transitional arrangement	1,566.0	1,446.3
Total capital without transitional arrangement	1,530.1	1,441.0
Risk weighted assets		
Total risk weighted assets with transitional arrangement	8,565.7	8,383.0

Total risk weighted assets without transitional arrangement	8,550.8	8,381.1
Capital Ratios		
CET1 as % of RWAs with transitional arrangement	18.3%	16.0%
CET1 as % of RWAs without transitional arrangement	17.9%	15.9%
Tier 1 as % of RWAs with transitional arrangement	18.3%	16.7%
Tier 1 as % of RWAs without transitional arrangement	17.9%	16.6%
Total capital as % of RWAs with transitional arrangement	18.3%	17.3%
Total capital as % of RWAs without transitional arrangement	17.9%	17.2%
Leverage ratio		
Leverage ratio with transitional arrangement	6.9%	6.5%
Leverage ratio without transitional arrangement	6.7%	6.4%

Operational risk

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. CCFS used the Basic Indicator Approach to calculate their operational risk capital requirement in 2019 and approaches across both banks and the Group were aligned in 2020.

The Group maintain levels of operational risk capital consistent with any Pillar 2A adjustment identified through the ICAAP.

Overall Pillar 2 rule

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.

Capital is allocated to businesses in 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 also 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.

Capital buffers

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

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

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

The CCoB ensures that banks build up capital buffers in order to absorb losses without breaching minimum capital requirements. The Group applies a 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 2020. On 11 March 2020 the Financial Policy Committee (FPC) reduced the CCyB to 0% with immediate effect as a response to COVID-19 (Coronavirus). The rate had been 1% and had been due to reach 2% by December 2020.

The amount of Institution specific CCyB as at 31 December 2020 are set out below:

Table 13: Institution specific countercyclical capital buffer

Institution Specific Countercyclical Buffer	2020	2019
Total risk exposure amount (£m)	7,771.0	8,383.0
Institution specific countercyclical capital buffer rate (%)	0%	1%
Institution specific countercyclical capital buffer requirement	0.0	82.9

Geographical distribution of credit exposures 'relevant for the calculation' of the CCyB at 31 December 2020 are set out below:

Table 14: Geographical distribution of credit exposures

Breakdown By Country 31 December 2020	General Credit Exposure	Securitisation Exposures	Own Funds Requirements			Own Funds Requirements Weights	
	Exposure Value for Standardised Approach £m	Exposure Value for Standardised Approach £m	Of which: General Credit Exposures £m	Of which: Securitisation Exposures £m	Total £m		CCy Buffer %
United Kingdom	19,449.6	455.9	609.0	5.4	614.4	98.8%	0.0%
Ireland							
United States							
Channel Islands	154.9		7.3		7.3	1.2%	0.0%
Total	**19,604.4**	**455.9**	**616.3**	**5.4**	**621.7**	**100.0%**	**0.0%**

Breakdown By Country 31 December 2019	General Credit Exposure	Securitisation Exposures	Own Funds Requirements			Own Funds Requirements Weights	
	Exposure Value for Standardised Approach £m	Exposure Value for Standardised Approach £m	Of which: General Credit Exposures £m	Of which: Securitisation Exposures £m	Total £m		CCy Buffer %
United Kingdom	20,951.4	485.2	599.8	6.1	605.9	98.3%	1.%
Ireland	29.0		0.5		0.5	0.1%	0%
United States	4.1		0.1		0.1	0.0%	0%
Channel Islands	186.7		9.7		9.7	1.6%	0%
Total	**21,171.2**	**485.2**	**610.1**	**6.1**	**616.2**	**100%**	**1%**

4. Counterparty Credit Risk

Counterparty Credit Risk is the risk of failure of a counterparty to fulfil its contractual obligations by failing to pay. Counterparty Credit Risk arises from treasury operations in the management of interest rate risk.

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 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.

Interest rate risk relating to securitised assets is managed through bilateral interest rate swap agreements entered in to by Special Purpose Vehicle (SPVs) that are not subject to margining but have rating triggers that require the swap counterparties to be replaced in the event of multiple notch rating downgrades.

The Group has a defined appetite for Wholesale Counterparty Risk and only transacts with counterparties falling into Credit Quality Step 1 or 2. Limits to maximum allowable exposures to single counterparties are specified relative to total regulatory capital. This risk is considered to be inherently low from a capital perspective due to the quality of the counterparties the Group will do business with. The Group is not a rated institution, therefore the risk of a downgrade in its own rating is not assessed.

The CRR defines counterparty credit risk calculated in accordance with Part Three, Title II, and Chapter 6. The Group's derivatives are calculated using the mark to market method referred to in this part. In addition, the Group enters into repurchase agreements under the terms of the Group Master Repurchase Agreement (GMRA). These transactions are calculated using the Financial Collateral Comprehensive Method described in Part Three, Title II, Chapter 4 of the CRR.

Table 15: CVA capital charge at 31 December 2020

	2020 £m		2019 £m	
	Exposure Value	RWA	Exposure Value	RWA
Standardised Method	9.0	3.2	17.4	5.7

Table 16: Analysis of CCP exposures December 2020

	£m	£m	£m	£m
2020	Replacement Cost	Potential Future Credit Exposure	Exposure at Default post CRM	RWAs
Mark to Market	70.4	35.6	106.0	9.4
Financial Collateral			22.1	11.1

	£m	£m	£m	£m
2019	Replacement Cost	Potential Future Credit Exposure	Exposure at Default post CRM	RWAs
Mark to Market	8.5	16.9	25.5	7.3

5. Credit Risk

The Group assesses all financial assets for impairment.

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

Loans and advances to customers

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

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

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 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.

If the present value of estimated future cash flows discounted at the original EIR is less than the carrying value of the loan, a specific provision is recognised for the difference. Such loans are classified as impaired. If the present value of the estimated future cash flows exceeds the carrying value no specific provision is recognised.

The Group applies its IFRS 9 models 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.

In accordance with PRA COVID-19 guidance, the Group does not automatically consider the take up of customer payment deferrals to be an indication of a SICR and, in the absence of other indicators such as previous arrears, low credit score or high other indebtedness, the staging of these loans remains unchanged in its ECL calculations.

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 for the life of the loan. 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.

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 the Bank of England (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.

Definition of exposure values

The Group uses the Standardised Approach to determine regulatory capital requirements for credit risk exposures. There are no accounting off sets and the Group does not use Credit Risk Mitigation (CRM).

	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.

Further information covering exposure to credit risk, loans by loan to value and loan collateral can be found within note 46 of the ARA.

Forbearance

The Group has a range of options available where borrowers experience financial difficulties which impact their ability to service their financial commitments under the loan agreement.

Where borrowers experience financial difficulties 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 and to see them through the period of financial stress.

The specific tools available to assist customers vary by product and the customers' status. The various treatments 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 mortgages 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 later date.

- Bridging Loans which are more than 30 days past due their original maturity date: Repayment is rescheduled to receive 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.

Tables 17 – 20 have been prepared under the EBA FINREP definitions.

Table 17: Credit quality of forbearance 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**
2020			**Of which defaulted**	**Of which impaired**				
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**

2019	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing Forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
			Of which defaulted	Of which impaired				
Loans and Advances	152.2	110.2	97.9	110.2	(0.5)	(3.1)	26.6	26.6
Of which Non-financial Corporations	5.0	5.2	4.4	5.2	(0.0)	(0.2)	3.6	3.6
Households	147.2	105.0	93.5	105.0	(0.5)	(2.8)	23.0	23.0
Debt Securities	3.6	0.5						
Total	**155.8**	**110.7**	**97.9**	**110.2**	**(0.5)**	**(3.1)**	**26.6**	**26.6**

Table 18: Credit quality of performing and non-performing exposures by past due days

	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**

	Gross carrying amount/nominal amount 2019											
	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	**20,371.1**	**19,624.5**	**746.6**	**431.5**	**286.9**	**65.0**	**42.2**	**29.4**	**4.6**	**3.3**		**406.6**
Central banks	1,962.0	1,962.0										
Credit institutions	348.1	348.1										
Other financial corporations	6.6	6.6										
Non-financial corporations	6,945.4	6,792.4	153.0	64.6	47.9	6.1	1.2	9.4				62.1
Of which SMEs	*6,945.4*	*6,792.4*	*153.0*	*64.6*	*47.9*	*6.1*	*1.2*	*9.4*				*62.1*
Households	11,109.0	10,515,4	593.6	366.9	239.0	58.9	41.0	20.0	4.6	3.3		344.5
Debt Securities	**635.0**	**635.0**										
General governments	149.8	149.8										
Other financial corporations	485.2	485.2										
Off-balance-sheet exposures	**1,210.7**											
Non-financial corporations	440.1											
Households	770.6											
Total	**22,216.9**	**20,259.5**	**746.6**	**431.5**	**286.9**	**65.0**	**42.2**	**29.4**	**4.6**	**3.3**	**0.0**	**406.6**

Table 19: Performing and non-performing exposures and related provisions 2020

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, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which 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 banks																
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**

2019	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, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
Loans and advances	**20,371.1**	**19,624.5**	**746.6**	**431.5**	**3.3**	**363.6**	**10.7**	**5.4**	**5.3**	**26.4**	**0.0**	**26.4**	**0.8**	**9,871.8**	**280.1**
Central banks	*1,962.0*	*1,962.0*													
Credit institutions	*348.1*	*348.1*													
Other financial corporations	*6.6*	*6.6*													
Non-financial corporations	*6,945.4*	*6,792.4*	*153.0*	*64.6*			*3.1*	*2.0*	*1.1*	*7.7*		*7.7*		*4,467*	*38.9*
Households	*11,109.0*	*10,515.4*	*593.6*	*366.9*	*3.3*	*363.6*	*7.6*	*3.4*	*4.2*	*18.7*		*18.7*	*0.8*	*5,405*	*241.2*
Debt securities	**635.0**	**635.0**													
Central banks	*149.8*	*149.8*													
Other financial corporations	*485.2*	*485.2*													

Off-balance-sheet exposures	**1,210.8**	**1,210.8**					**0.7**								
Non-financial corporations	*440.1*	*440.1*													
Households	*770.7*	*770.7*					*0.7*								
Total	***22,216.9***	**21,470.3**	**746.6**	**431.5**	**3.3**	**363.6**	**11.4**	**5.4**	**5.3**	**26.4**	**0.0**	**26.4**	**0.8**	**9,871.8**	**280.1**

Table 20: Collateral obtained by taking possession and execution process

	Collateral obtained by taking possession			
	Value at initial recognition 2020	Accumulated negative changes 2020	Value at initial recognition 2019	Accumulated negative changes 2019
Property, plant and equipment (PP&E)				
Other than PP&E	39.4	(7.1)	44.2	(11.2)
Residential immovable property	36.8	(6.4)	44.2	(10.3)
Commercial immovable property	2.6	(0.7)		(0.9)
Movable property (auto, shipping, etc.)				
Equity and debt instruments				
Other				
Total	**39.4**	**(7.1)**	**44.2**	**(11.2)**

Credit exposures by counterparty type

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

Table 21: Credit quality of exposures by counterparty type gross of conversion factors

2020	£m		£m	£m	£m	£m
	Gross Carrying Values of					
Counterparty Type	Defaulted Exposures	Non-Defaulted Exposures	Stage 1 Credit Risk Adjustment	Stage 2 Credit Risk Adjustment	Stage 3 Credit Risk Adjustment	Net Value
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		239.1				239.1
Credit Risk - Standardised Approach	**512.6**	**22,483.6**	**8.9**	**13.0**	**50.1**	**22,924.2**

2019	£m		£m	£m	£m	£m
	Gross Carrying Values of					
Counterparty Type	Defaulted Exposures	Non-Defaulted Exposures	Stage 1 Credit Risk Adjustment	Stage 2 Credit Risk Adjustment	Stage 3 Credit Risk Adjustment	Net Value
Central banks		1,958.1				1,958.1
Central government		153.7				153.7
Credit institutions		246.8				246.8
Financial corporations		485.5				485.5
Non-financial corporations	64.6	6,956.1	2.0	1.0	7.7	7,010.0
Households	342.0	10,987.7	3.4	4.2	13.4	11,308.7
Other		8.4				8.4
Credit Risk - Standardised Approach	**406.6**	**20,796.3**	**5.4**	**5.2**	**21.1**	**21,171.2**

Credit exposures by geographical location

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

Table 22: Credit exposures by geographical location

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
United States						
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**

2019	£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	380.5	20,602.6	5.1	5.0	19.5	20,953.5
Ireland	-	29.0	-	-	-	29.0
United States	-	4.1	-	-	-	4.1
Channel Islands	26.1	160.6	0.3	0.2	1.6	184.6
Total	**406.6**	**20,796.3**	**5.4**	**5.2**	**21.1**	**21,171.2**

Table 23: Credit exposures by exposure class

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
Exposure class	Defaulted Exposures	Non-Defaulted Exposures				
Central Government or Central Banks		2,312.7				2312.7
Institutions		156.3				156.3
Corporates		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 Exposures		239.1				239.1
Total Credit Risk Standardised Approach	**512.6**	**22,483.6**	**8.9**	**13.0**	**50.1**	**22,924.2**

2019	£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
Exposure class	Defaulted Exposures	Non-Defaulted Exposures				
Central bank		1,958.1				1,958.1
Central government		153.7				153.7
Institutions		348.1				348.1
Retail		113.7				113.7
Secured by mortgages on immovable property		17,923.8	5.4	5.2	21.1	17,892.1
Of which SME		*5,244.4*				*5,244.4*
Exposures in Default	406.6					406.6

Exposures associated with particularly high risk		178.5				178.5
Other items		120.4				120.4
Total	**406.6**	**20,796.3**	**5.4**	**5.2**	**21.1**	**21,171.2**

Reconciliation of changes in provisions

The reconciliation in the changes of provisions for the Group as at 31 December 2020 was as follows:

Table 24: Reconciliation of changes in provisions

2020 Impairment provisions	£m
Opening Balance	42.9
Originations	6.4
CCFS combination	
Redemptions and write-offs	(6.3)
Re-measurement of loss allowance	43.1
Changes in assumptions and model parameters	25.5
Incurred loss protection	(0.6)
Closing Balance	**111.0**

2019 Impairment provisions	£m
Opening Balance	21.9
Originations	1.9
CCFS combination	3.6
Redemptions and write-offs	(5.5)
Re-measurement of loss allowance	14.3
Changes in assumptions and model parameters	0.8
Incurred loss protection	5.9
Closing Balance	**42.9**

Credit risk exposure breakdown

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

Table 25: Exposures by counterparty type and exposure classes

	£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 and central governments	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
Exposures 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**

Exposure Class 2019	Central Banks £m	Central Government £m	Credit Institutions £m	Financial Corporations £m	Non-Financial Corporations £m	Households £m	Other £m	Total £m
Central banks	2,111.8							2,111.8
Institutions			221.5	126.6				348.1
Retail					51.1	62.6		113.7
Corporates					90.7			90.7
Secured by mortgages on immovable property					6,627.6	11,264.5		17,892.1
Exposures in default					62.1	344.5		406.6
Exposures associated with particularly high risk					178.5			178.5
Other Items							29.7	29.7
Credit Risk-Standardised Approach	**2,111.8**		**221.5**	**126.6**	**7,010.0**	**11,671.6**	**29.7**	**21,171.2**

Table 26: Year end and average exposure by exposure class

Standardised Exposure Classes	Exposure at 31/12/2020[4] £m	Average exposure during 2020 £m	Exposure at 31/12/2019 £m	Average Exposure during 2019 £m
Central government and central banks	2,312.7	2,354.0	2,111.8	1,557.4
Multilateral development banks				19.1
Institutions	156.3	283.4	348.1	61.3
Corporates	56.2	93.0	90.7	94.4
Retail	62.3	107.3	113.7	41.5
Secured by mortgages on immovable property	19,342.7	18,829.5	17,892.0	10,957.8
Exposures in default	462.0	434.0	406.6	312.3
Items associated with particularly high risk	292.9	278.4	178.5	154.5
Other items	239.1	172.5	29.7	43.3
Total	**22,924.2**	**22,552.2**	**21,171.2**	**13,241.6**

Table 27: Exposures by significant counterparty type and exposure classes 2020

Standardised Exposure Classes 2020	Corporate £m	Retail £m	Other £m	Total £m
Central banks and central governments	2,312.7			2,312.7
Institutions	156.3			156.3
Retail	60.4	1.9		62.3
Corporates	56.2			56.2

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

Secured by mortgages on immovable property	506.4	18,836.3		19,342.7
Exposures in default	76.1	385.9		462.0
Exposures associated with particularly high risk	278.2	14.7		292.9
Other Items		239.1		239.1
Total	**3,446.3**	**19,477.9**		**22,924.2**

Standardised Exposure Classes 2019	Corporate £m	Retail £m	Other £m	Total £m
Central banks	2,111.8			2,111.8
Institutions	348.1			348.1
Retail	45.6	68.1		113.7
Corporates	90.7			90.7
Secured by mortgages on immovable property	4,866.20	13,025.90		17,892.10
Exposures in default	56.2	350.4		406.6
Exposures associated with particularly high risk	146.1	32.4		178.5
Other Items		16.5	13.2	29.7
Total	**7,664.7**	**13,493.3**	**13.2**	**21,171.2**

Table 28: Exposures by geographic area and material exposure classes 2020

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
Exposures 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**

Standardised Exposure Classes 2019	UK £m	Channel Islands £m	Other Rest of the World £m	Total £m
Central banks	2,111.8			2,111.8
Institutions	315.0		33.1	348.1
Corporates	90.7			90.7
Retail	113.7			113.7
Secured by mortgages on immovable property	17,731.6	160.5	0.00	17,892.1
Exposures in default	387.7	18.9		406.6
Exposures associated with particularly high risk	178.5			178.5
Other Items	29.2		0.5	29.7
Total	**20,958.1**	**179.4**	**33.6**	**21,171.2**

Table 29: Exposures by residual maturity breakdown

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
Exposures 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**

Standardised Exposure Classes 2019	<3 months £m	3 months to 1 year £m	1 to 5 years £m	>5 years	No stated maturity £m	Total £m
Central banks	2,109.2		2.6			2,111.8
Institutions	348.1					348.2
Corporates	60.9	8.5	21.3			90.7
Retail	3.1	4.7	41.3	64.7		113.8
Secured by mortgages on immovable property	94.2	330.8	557.9	16,909.2		17,892.1
Exposures in default	27.6	1.9	35.3	341.8		406.6
Exposures associated with particularly high risk	44.6	73.2	60.8	-		178.5
Other Items	6.0		23.1	0.5		29.6
Total	**2,693.6**	**419.0**	**742.2**	**17,316.2**	**0.0**	**21,171.2**

Credit risk with and without conversion factor (CF)

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

Table 30: Standardised approach - Credit risk exposure gross and net of CF

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%
Corporates	51.6	4.6	51.6	2.3	53.9	100.0%
Retail	50.8	11.5	50.8	-	31.1	61.1%
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 Exposures	239.1	-	239.1	-	43.6	18.3%

Credit Risk-Standardised Approach	**21,938.6**	**985.7**	**21,938.6**	**165.9**	**7,770.0**	**35.1%**

2019	**£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	2,111.8	-	2,111.8	-	9.8	0.5%
Institutions	348.1	-	348.1	-	38.1	10.9%
Retail	113.2	6.1	113.2	0.5	79.3	69.7%
Corporates	90.3	1.8	90.3	0.4	90.7	100.0%
Secured by mortgages on immovable property	17,675.7	1,081.9	17,675.8	216.3	6,769.1	37.8%
Exposures in default	406.5	-	406.6	-	407.7	100.3%
Exposures associated with particularly high risk	177.5	120.5	177.5	1.0	260.3	145.9%
Other Items	29.7	-	29.7	-	48.3	162.6%
Credit Risk-Standardised Approach	**20,952.9**	**1,210.3**	**20,953.0**	**218.2**	**7,703.3**	**36.4%**

Use of external credit assessment institutions (ECAIs)

For institutional exposures under the Standardised Approach where the use of external ratings are used to calculate risk weightings, CCFS 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 Group subscribes to Fitch Ratings, a PRA recognised ECAI. Ratings assessments provided by Fitch are used by the Group to establish counterparty credit risk weightings using the PRA standardised approach.

The ECAIs are used for the following exposure classes:

a) Central Banks
b) Exposures to Institutions
c) Securitisation Positions

Exposures calculated under Part Three, Title III Chapter 2 shall be reported under credit risk. This would include cash balances with institutions. Exposures calculated under Part Three, Title III Chapter 5 shall be reported under securitisation positions. This would include RMBS securitised positions. Exposure calculated under Part Three, Title III Chapter 6 shall be reported under counterparty credit risk. This would include derivative exposures to institutions.

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 31: Exposures by credit quality step

Credit Quality Step	Fitch	Moody	S&P	Risk Weight	Exposure 2020 £m	Exposure 2019 £m
1	AAA to AA-	AAA to AA-	Aaa to Aa3	20%	798.5	39.8
2	A+ to A-	A+ to A-	A1 to A3	50%	42.1	7.5
3	BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	100%		
Total					**840.6**	**47.3**

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

The primary market risk faced by the Group is Interest Rate Risk in the Banking Book (IRRBB). IRRBB refers to the current or prospective risk to a bank's capital and earnings arising from adverse movements in interest rates that affect its banking book positions. When interest rates change, the timing and present value of future cash-flows change. This in turn changes the underlying value of a bank's assets, liabilities and off-balance sheet items and hence its economic value. Changes in interest rates also affect a bank's earnings by altering interest rate-sensitive income and expenses, affecting its Net Interest Income (NII). Excessive IRRBB can pose a significant threat to a bank's current capital base and/or future earnings if not appropriately managed.

Utilising the definitions within the Basel Committee on Banking Supervision (BCBS) framework, the Group is exposed to the following sub categories of IRRBB

- Gap Risk;
- Basis Risk; and
- Option Risk

The Group is exposed to IRRBB in the normal course of its business activities, but do not look to profit from, and have no appetite for incremental interest rate risk. The Group does not actively assume interest rate risk, does not execute client or speculative securities transactions for its own account and does not seek to take a significant directional interest rate position. The Group does not run a trading book, with all interest rate risk residing within the banking book. Through prudent management the Group seeks to minimise its IRRBB exposures, typically through matching assets and liabilities with similar tenors, taking offsetting interest rate swaps or through the allocation of reserves against fixed rate assets.

Gap risk

Gap Risk arises from the term structure of banking book instruments and describes the risk arising from the timing of instruments' rate changes. Since rate resets on different instruments occur at different tenors, the risk to the Group arises when the rate of interest paid on liabilities increases before the rate of interest received on assets, or reduces on assets before liabilities. Unless hedged in terms of tenor and amount the Group may be exposed to a period of reduced or negative interest margins or, may experience changes in the relative economic value of assets and liabilities. Mismatched repricing positions arise through normal banking activities with fixed rate mortgages typically having a longer duration than fixed rate deposits.

Interest rate risk exposures relating to fixed rate positions are managed in accordance with the Risk Management Policy; typically through taking balancing interest rate swaps or, where possible, through natural offsets achieved between assets and liabilities with similar maturities. The Group has also used a small proportion of net free reserves as a hedge against specific mortgage assets. These practices provide the Group with protection against future interest rate movements.

Over 2020 OSB measured economic value at risk using the impact of six different internally derived interest rate scenarios and a parallel 250 basis points rate curve shift up and down. Over 2020, CCFS risk appetite for economic value at risk was set against the impact of a parallel +/-200 basis points shock. Since 1 January 2021, the stress scenarios have been aligned across the Group applying a range of a minimum of 1 in 20 year stresses to the yield curve including parallel, steepener, flattener and twist.

For OSB, the Board has set a capital at risk limit on interest rate risk exposure of 2.25% of CET1. After taking into account the derivatives entered into by OSB, the maximum decrease under the OSB scenarios as at 31 December 2020 would have been £5.6m (2019: £4.3m).

For CCFS the Board has set a capital at risk limit on interest rate risk exposure of 1% of CET1. After taking into account the derivatives entered into by CCFS, the maximum decrease under the CCFS scenarios as at 31 December 2020 would have been £0.6m (2019: £3.6m).

Exposure for earnings at risk is measured by the impact of a +/-50 basis points parallel shift in interest rates on the expected profitability of the OSB and CCFS in the next 12 months. The risk appetite limit is 2% of projected 12 month NII. This limit applied to CCFS throughout 2020 and has been applied to OSB and CCFS since 1 January 2021. As at 31 December 2020 the maximum decrease for CCFS would have been £1.9m (2019: £0.6m).

Throughout 2020, both Banks managed their interest rate risk exposures within risk appetite limits.

Basis risk

Basis Risk describes the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices (bases) (e.g. an asset priced off LIBOR funded by a liability priced off BoE Base Rate). It arises from the imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar rate change characteristics.

During 2020 OSB measured basis risk using the impact of five scenarios on net interest income over a one year period including movements such as diverging Base, LIBOR and SONIA rates. The Board had set a limit on basis risk exposure of 2.25% of CET1 as at 31 December 2019.

During 2020 CCFS measured basis risk using the impact of three scenarios on net interest income over a one year period including movements such as diverging Base, LIBOR and SONIA rates. The Board had set a limit on basis risk exposure of 3% of projected 12 month NII as at 31 December 2019.

Throughout 2020, both Banks managed its basis risk exposure within its risk appetite limits.

As of 1 January the basis risk scenarios used by OSB and CCFS have been aligned. Historical data is used to calibrate the severity of the scenarios to the Group's risk appetite. The Board has updated the OSB and CCFS limits under the new scenarios to 4% of the projected calendar year NII.

Option risk

Option Risk arises from option derivative positions or from optional elements embedded in the Group's assets, liabilities and/or off-balance sheet items, where the Group or its customer can alter the level and timing of their cash-flows and interest rate characteristics.

The Group is exposed to optionality risk on its mortgages through prepayment, on its offer pipeline through conversion and lead time to completion and on its Retail Deposits through withdrawal. Static prepayment assumptions are applied to all lending for the measurement of IRRBB. Assumptions are reviewed at least quarterly and a full review is approved through ALCO at least annually, although changes may be approved at ALCO more regularly as necessary. Pipeline transactions comprise mortgage offers which are assumed to convert to completion at observed rates and lead times. Assumptions are reviewed at least quarterly and a full review is approved through ALCO at least annually, although changes may be proposed more regularly as necessary. The residual IRRBB attached to Retail Deposit positions with optionality is considered minimal because the majority reprice in the shortest time buckets (Easy Access and Notice) and the remainder are subject to interest charges.

7. Asset Encumbrance

In line with the business strategy, assets are encumbered as part of the Group's funding arrangements. The main activities relate to securitisation, repurchase agreements, indexed long term repo, TFS and TFSME. The Group also holds encumbered assets in the form of the required cash ratio deposit with the Bank of England 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 CCFS 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.

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, CCFS and the Group monthly. Any events causing a change in the asset encumbrance levels are examined.

The following disclosures are provided in accordance with Article 443 of the CRR following guidance issued by the EBA on "disclosures of encumbered and unencumbered assets" in March 2017.

Asset encumbrance is calculated using the median values of the four quarter end values in the year, determined by interpolation.

Table 32: Encumbered and unencumbered assets

2020		£m Carrying amount of encumbered assets		£m Fair value of encumbered assets		£m Carrying amount of unencumbered assets		£m 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		

2019		£m Carrying amount of encumbered assets		£m Fair value of encumbered assets		£m Carrying amount of unencumbered assets		£m 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**	**3,102.3**	**2,897.1**			**8,825.2**	**2,190.1**		
030	Equity instruments					0.5			
040	Debt securities	5.0		5.0		164.5	164.5	164.5	164.5
060	of which: asset-backed securities								
070	of which: issue by general governments					149.8	149.8	149.8	149.8
080	of which: issue by financial corporations					9.5	9.5		
120	Other assets					123.3	0.4		

Table 33: Sources of encumbrance December

2020	Matching Liabilities, Contingent Liabilities or Securities Lent £m	Assets, Collateral Received and Own Debt Securities Issued other than Covered Bonds and Asset Backed Securities Encumbered £m
Carrying amount of selected financial Liabilities	3,874.8	5,909.2

2019	Matching Liabilities, Contingent Liabilities or Securities Lent £m	Assets, Collateral Received and Own Debt Securities Issued other than Covered Bonds and Asset Backed Securities Encumbered £m
Carrying amount of selected financial Liabilities	1,683.2	2,956.3

8. Leverage

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. The Leverage Ratio is calculated at month end dates and no adjustments to Tier 1 Capital are permitted through the derogations under Chapter 1 and 2 of the CRR, are applied.

Table 34: Summary reconciliation of assets and leverage ratio exposures

Reconciliation of Accounting Assets and Leverage Ratio Exposures	2020 £m	2019 £m
Tier 1 Capital	**1,566.0**	**1,399.5**
Total Assets per the Group Statement of Financial Position	22,654.5	21,417.1
Adjustments for derivative financial instruments	(117.1)	48.5
Adjustments for securities financing transactions (SFTs)	22.1	
Adjustment for off-balance sheet items	181.2	218.4
Adjustment for exposures excluded from the leverage ratio exposure measure	(21.9)	
Other Adjustments	(21.4)	(27.6)
Leverage Ratio Exposures	**22,697.5**	**21,656.4**

Table 35: Leverage ratio common disclosures

Leverage Ratio Common Disclosures	2020 £m	2019 £m
On Balance Sheet Items	22,409.9	21,393.3
(Assets Amounts Deducted in Determining Tier 1 Capital)	(21.9)	(3.8)
Total on Balance Sheet Exposures	**22,388.0**	**21,389.5**
Replacement Cost Associated with all Derivatives	70.4	31.6
Add on Amounts Potential Future Exposure	12.4	16.9
Exposure determined under Original Exposure Method	23.3	
Total Derivative Exposure	**106.0**	**48.5**
Counterparty credit risk exposure for SFT assets	22.1	
Total securities financing transaction exposures	**22.1**	
Other Off Balance Sheet Exposures Notional	961.5	1,210.8
(Adjustments for Conversion)	-780.3	(992.4)
Total Other Off Balance Sheet	**181.2**	**218.4**
Tier 1 Capital	**1,566.0**	**1,399.5**
Total Leverage Ratio Exposures	**22,697.5**	**21,656.4**
Leverage Ratio	**6.9%**	**6.5%**
Choice of Transitional Arrangements for the definition of Capital Measure	**Fully**	**Fully**

Table 36: Split of on balance sheet exposures (excluding derivatives, SFT and exempted exposures)

Split of On Balance Sheet Exposures	2020 £m	2019 £m
Banking Book Exposures:		
Exposures Treated as Sovereigns	2,312.7	2,111.8
Institutions	156.3	348.1
Secured by Mortgages on Immovable Property	18,519.2	17,892.1
Retail Exposures	50.8	113.7
Corporate	51.6	90.7
Exposures in Default	462.0	406.6
Other Exposures	857.2	693.4
Total	**22,409.9**	**21,656.4**

Managing 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.

The Board recognises that leverage is important for firms below the PRA threshold and at 31 December 2020 it has a leverage ratio of 6.9% (2019: 6.5%). 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 RMF 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.

Factors that have impacted the leverage ratio during the period

The Group's leverage ratio increased from 6.5% at 31 December 2019 to 6.9% at 31 December 2020 driven by a number of factors:

- strong profitability from robust NIM and cost management
- gain on sale of loan portfolios
- total asset growth low due to reduced loan growth from COVID and sale of loan portfolios

9. Liquidity

LCR disclosure

Table 37: Key liquidity metrics

		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%

		Total adjusted value £m			
		Q1 2019	Q2 2019	Q3 2019	Q4 2019
21	Liquidity buffer	1,259.0	1,634.0	1,607.7	1,410.6
22	Total net cash outflows	622.6	789.8	778.4	1,141.7
23	Liquidity coverage ratio (%)	202.2%	206.9%	206.5%	123.6%

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

Note: Quarter 4 2019 onwards includes CCFS Group data to reflect the Combination.

The liquidity for both OSB and CCFSL remains strong. OSB solo has a Liquidity Coverage Ratio (LCR) of 254.1% (Dec 19: 199.4%) and CCFSL 146.0% (Dec 19: 145%). Each Bank manages its own liquidity.

The OSB LCR has increased primarily due to increased HQLA funded by increased Retail term deposits and TFSME. The LCR has also increased due to a reduced pipeline requirement.

The CCFS position has remained broadly stable.

Liquidity & funding risk

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 and CCFS' 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.

The Group continues to attract new retail savers and achieves high retention levels with existing customers. In addition the Combination has provided increased diversity in the wholesale funding options available to the Group including securitisation issuances and use of retained notes from both Banks.

In 2020, 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 CCFS remain well above risk appetite and regulatory minimums with LCR at 254.1% and 146.0% respectively as at 31 December 2020.

The individual and consolidated Group LCR disclosures are aligned to those submitted to the regulator.

Table 38: EU LIQA on liquidity risk management

	Comment
Strategies and processes in the management of the liquidity risk	The Group adopts a thorough approach to risk management ensuring the effective identification, assessment, monitoring and management of all risks as defined by the Transitional Risk Management Framework (TRMF). Liquidity and funding risk are both principal risks included with the TRMF. The TRMF 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.
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 TRMF. 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 CCFS. 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.
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 CCFS 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 CCFS 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 CCFS 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.
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 Annex II of these guidelines) 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	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 prearranged 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.

Table 39: Template on qualitative information on LCR, which complements the LCR disclosure template

	Comment
Concentration of funding and liquidity 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.
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.
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 CCFS hold individual HQLA portfolios and liquidity risk appetites. Risk appetite is also set at Group level for some key metrics.
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

Objectives and role in relation to securitisation activity

The Group actively utilises securitisation to achieve four key objectives:

- provide long term funding to its balance sheet, diversifying its funding mix and increasing the weighted average life of its liabilities;
- opportunistically enable the acceleration of organic capital generation through the sale of residual positions;
- provide contingent capital generation optionality by structuring its funding trades in such a way as to enable the future sale of residual positions and derecognition of the underlying assets; and
- generate retained bonds to utilise as collateral for commercial and central bank sale and repurchase transactions.

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 and Standard and Poor's to rate its securitisations, with two of these three 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).

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 use ECAIs published by Fitch, Standard and Poor's and Moody's. Where credit rating agencies report different ratings which are not equivalent, as per Art 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 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. As at the 2020 year end, it held two senior positions, retained from the PMF2019-1B and PMF 2020-1B transactions. The PMF 2019-1B transaction is held on a Hold to Collect and Sell basis, while PMF 2020-1B is held on a Hold to Collect basis.

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 consolidation 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.

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 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. During 2020, there were 29,183 mortgages publically securitised and the Group has repurchased 13 loans as a result of a breach of warranty.

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 the 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 resecuritisation activity and has no intention of doing so.

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 2020 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, the majority of these positions, with the exception being the PMF 2019-1B retained bonds are held to maturity.

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

Securitisation 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 Strategic Report of the ARA.

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 40: Public securitisations

						Outstanding Loan Notes – 31 December 2020 £m				% Held/Retained						
SSPE	**Deal Type**	**Close Date**	**1st Call Date**	**Legal Final Maturity**	**Original Securitised Amount**	**Senior**	**Mezzazine**	**Junior**	**Uncollateralised**	**Senior**	**Mezzazine**	**Junior**	**Uncollateralised**	**Risk Transfer Status**	**Exposure Values £m**	**Group RWAs £m**
Precise Mortgage Funding 2017-1B Plc	RMBS	28/04/2017	12/03/2022	12/03/2054	300.0	163.9	43.2	4.8	-	18%	0%	0%	0%	Yes	29.1	4.4
Charter Mortgages Funding 2017-1 Plc	RMBS	27/07/2017	12/09/2021	12/06/2054	297.3	49.4	34.2	3.0	-	0%	0%	0%	0%	Yes	-	-
Precise Mortgage Funding 2018-1B Plc	RMBS	24/01/2018	12/12/2021	14/12/2054	246.1	112.5	23.4	-	-	0%	0%	0%	0%	Yes	-	-
Precise Mortgage Funding 2018-2B Plc	RMBS	20/03/2018	20/03/2023	12/03/2055	374.5	180.6	35.6	-	-	0%	0%	0%	0%	Yes	-	-
Charter Mortgage Funding 2018-1 Plc	RMBS	08/06/2018	12/03/2023	12/06/2055	285.5	110.3	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	484.4	95.4	-	3.5	56%	0%	0%	0%	Yes	269.5	40.4
Precise Mortgage Funding 2020-1B Plc	RMBS	24/01/2020	16/12/2024	16/10/2056	375.5	315.4	48.9	-	9.1	32%	0%	0%	0%	Yes	100.8	15.1
CMF 2020-1 Plc	RMBS	26/02/2020	18/03/2024	16/01/2057	329.8	261.0	28.0	-	0.6	0%	0%	0%	0%	No	289.5	101.8
Canterbury Finance No.1 plc	RMBS	12/07/2019	16/08/2023	01/05/2056	500.1	319.4	145.1	-	6.7	0.0%	0%	0%	0%	Yes	-	-
Canterbury Finance No.2 plc	RMBS	27/03/2020	17/03/2025	18/12/2056	1,036.6	79.1	176.2	-	28.6	100%	100%	0%	100%	No	958.3	339.5
Canterbury Finance No.3 plc	RMBS	04/09/2020	18/08/2025	16/05/2057	1,049.1	792.9	188.9	-	29.0	75%	100%	0%	100%	No	958.9	338.6

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 41: Overview of RWAs

Exposure Class	RWAs £m		Minimum Capital Requirements 2020
	2020	2019	
Credit Risk – Standardised Approach	**780.0**	**289.2**	**62.4**
Secured by mortgages on immovable property - securitised	773.8	274.2	61.9
Exposures in default - securitised	6.1	15.0	0.5
Securitisation exposures in the banking book - SA	**67.3**	**76.5**	**5.4**
Total	**847.3**	**365.7**	**67.8**

Credit quality of exposures

Table 42: Credit quality of exposures by exposure class December

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**
Of which: loans	*6.8*	*2,203.0*	*1.1*	*1.3*	*0.7*	*2,206.7*
Of which: debt securities		*455.9*	*0.0*			*455.9*

2019 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	1.0	779.6				780.6
Of which SME - securitised	*0.1*	*203.8*				*203.9*
Exposures in default - securitised	14.4				0.3	14.1
Securitisation positions		485.2				485.2
Total	**15.4**	**1,264.8**			**0.3**	**1,279.9**
Of which: loans	*15.4*	*779.6*			*0.3*	*794.7*
Of which: debt securities		*485.2*				*485.2*

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).

Decision-making process

The Group Remuneration Committee is responsible for the governance of remuneration for Executive Directors and other Material Risk Takers (MRT). During the year the Group Remuneration Committee (the Committee) comprised independent Non-Executive Directors; Mary McNamara (Chair), Noël Harwerth, Sarah Hedger, Rajan Kapoor and David Weymouth. Sir Malcolm Williamson and Rod Duke ceased to be members when they stepped down from the Board on 4 February 2020. Sarah Hedger became a member of the Committee on 4 March 2020.

The Committee met eight times during the 2020 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. The Committee also considers advice from the Chairman of the Board, 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.

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 the 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 OneSavings Bank plc in May 2020, 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.

Following the insertion of OSB GROUP PLC as the holding company and listed entity in November 2020; the Remuneration Policy will be re-presented to the annual general meeting on 6 May 2021.

Remuneration structures and their purpose

This section sets out the key elements of pay for Material Risk Takers in 2020, their purpose, and detail on the quantum of variable pay awards and an explanation of the performance conditions which are used. These remuneration arrangements also applied to Material Risk Takers who joined OSB following the Combination with CCFS.

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 for excellent performance. The cap for other Material Risk Takers is set by reference to the role and grade within the organisation, but no employee is eligible for a bonus above 100% of salary. Under this scheme, a minimum of 90% of the award is subject to achievement against the Balanced Business Scorecard (BBS). The BBS 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 the award is based on personal performance targets.

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 2020, the performance conditions for Executive Directors in the BBS 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 scorecard, and the weightings on each element, will be set annually and varies for members of the ExCo. The weightings may also be flexed according to role (e.g. Material Risk Takers in the Risk and Compliance functions have a significantly higher weighting on Compliance, Credit & Operational Risk).

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 the ExCo, other Material Risk Takers participate in the management bonus plan. Under this plan, performance is assessed against a matrix of individual and corporate performance factors based on similar principles to the EBS.

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

Performance Share Plan

Members of the ExCo and certain 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 2020 awards were based on Earnings per Share (EPS) (35% weighting), Total Shareholder Return (TSR) (35% weighting), return on equity (ROE) (15% weighting) and a newly-introduced non-financial risk-based measure (15% weighting). The performance criteria for PSP awards granted in 2020 are set out in the table below.

Table 43: 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 5% CAGR	Below median	Below 19%	Commercially sensitive	0%
'Threshold'	5% CAGR	Median	19%		25%
'Stretch'	12% CAGR	Upper quartile	25%		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 with-holding deferred bonus shares, reducing or with-holding future PSP awards or cash bonuses, or seeking to recoup cash already paid.

Ratios between fixed and variable remuneration

The shareholders of OneSavings Bank 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. Following the insertion of OSB GROUP PLC as the holding company and listed entity in November 2020; the two times fixed pay resolution will be re-presented at the annual general meeting on 6 May 2021.

Additional information on Directors' remuneration

Additional information on Directors' remuneration is available in the 2020 Annual Report and Accounts.

Aggregate quantitative information on remuneration

The tables below provide aggregate quantitative information set out in accordance with clauses 1(h) (i) to (vi) of CRR Article 450.

Table 44: Code staff aggregate remuneration

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

2019 Remuneration		Executive Directors	Non-Executive Directors	Retail Banking	Independent Control Functions	Corporate Functions
Senior management	Total Remuneration	£3,994,328	£923,334	£2,613,623	£1,207,774	£1,084,535
	Number of Staff	5	12	7	2	2
Other Code Staff	Total Remuneration			£2,232,371	£794,226	£1,878,054
	Number of Staff			8	3	11

12. Glossary

ALCO	Group Assets and Liabilities Committee
ALMM	Additional Liquidity Monitoring Metrics
ARA	Annual Report and Accounts
ATP	Arrangement To Pay
BAU	Business As Usual
Basel	Basel Committee on Banking Supervision
BBR	Bank of England Base Rate
BBS	Balanced Business Scorecard
BCBS	Basel Committee on Banking Supervision
BOE	Bank of England
BTL	Buy-to-Let
CCFSL	Charter Court Financial Services Limited

CCFSG	Charter Court Financial Services Group Plc
CCoB	Capital Conservation Buffer
CCyB	Countercyclical Buffer
CEO	Chief Executive Officer
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 (being the 4th update of the Basel Directives)
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
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
ESIS	European Standardised Information Sheet
ESMA	European Securities and Markets Authority
EU	The European Union
ExCo	Group Executive Committee
FCA	Financial Conduct Authority
FPC	Financial Policy Committee
GDP	Gross Domestic Product
GIA	Group Internal Audit
GMRA	Group Master Repurchase Agreement
HPI	House Price Index
HTM	Held-To-Maturity
HQLA	High Quality Liquid Asset
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process

IRB	Internal Ratings-Based
IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swaps and Derivatives Association
KRI	Key Risk Indicator
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LPA	Law of Property Act
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
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
RICS	Royal Institution of Chartered Surveyors
RMBS	Residential Mortgage Backed Security
RMC	Risk Management Committee
RMF	Risk Management Framework
ROE	Return on Equity
RWA	Risk Weighted Assets
SCA	Strong Customer Authentication
SICR	Significant Increase in Credit Risk
SONIA	Sterling Overnight Index Average
SPV	Special Purpose Vehicle
TCR	Total Capital Requirement
TFS	Term Funding Scheme
TRMF	Transitional Risk Management Framework
TSR	Total Shareholder Return
UK	United Kingdom
UR	Unemployment Rate