



# OSB GROUP PLC (the “Company”) Group Models and Ratings Committee (“the Committee”) Terms of Reference

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Approved by the Board of Directors of OSB Group plc (the “Board”) on 29 April 2025, to take effect from 1 May 2025.

## 1. PURPOSE

1.1 The purpose of the 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 Company’s 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. Monitor and oversee the Group’s model risk profile in line with the Group’s risk appetite thresholds and regulatory objectives.

## 2. AUTHORITY

2.1 This Committee is a sub-committee of the Group Risk Committee from which it derives its authority and to which it regularly reports. For the avoidance of doubt, the Board has delegated authority to the Group Risk Committee for approval and oversight of all material aspects of the Company’s models and ratings, which in turn has delegated certain duties to the Committee. The Group Risk Committee will retain overall risk management oversight of the internal ratings-based (IRB) approach.

2.2 The Committee may sub-delegate all or any of its responsibilities as it sees fit, including delegating authority to the Chair or any other member.

2.3 The Committee is concerned with the business of the OSB Group plc and its subsidiaries (“OSB Group”) within the scope of its Terms of Reference and has the authority to obtain such information as it may require from any Director, officer or employee of the OSB Group.

## 3. CONSTITUTION

### 3.1 Members

3.1.1 The Committee shall be made up of at least two members, the majority of whom shall be Independent Non-Executive Directors<sup>1</sup>.

3.1.2 Members of the Committee shall be appointed by the Board upon the recommendation of the Group Nomination and Governance Committee and in consultation with the Chair of the Committee.

3.1.3 Appointments to the Committee shall be for a period of up to three years, which at the discretion of the Group Nomination and Governance Committee, may be extended for two further three-year periods, subject to members continuing to meet the criteria for membership.

### 3.2 Chair

3.2.1 The Committee will be chaired by the Chair of the Group Risk Committee.

3.2.2 In the absence of the Committee Chair, or in situations where the Committee Chair is precluded from chairing a meeting due to a conflict of interest, the remaining members present shall elect one of themselves to chair the meeting.

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<sup>1</sup> Independent Non-Executive Director (“INED”) has the meaning set out in section 4 of the OSB Group plc Corporate Governance Framework

### 3.3 **Attendees**

- 3.3.1 Only the members of the Committee have the right to attend Committee meetings, but the other Directors are entitled to observe any meetings at their discretion.
- 3.3.2 Other individuals such as other Board Directors, the Group Chief Risk Officer, the Group Deputy Chief Risk Officer, the Group Chief Credit Officer and MLRO, Head of Model and EUDA Governance, the Head of Model Validation, the Group Chief Internal Auditor, the Head of Portfolio Credit Risk, Group Technical Risk Directors & Chief Risk Officer, CCFSL and the Head of Models and Ratings may be invited to attend for all or part of any meeting as and where appropriate.
- 3.3.3 The Committee Chair retains the discretion to invite any other individual to attend for all or part of any meeting as a presenter or observe (subject to any conflicts of interest).

## **4 RESPONSIBILITIES**

4.1 The responsibilities of the Committee are to:

- a) Review and have oversight of the Model Risk appetite statements and associated metrics in accordance with the Group's overall risk appetite and business strategy for the key risks overseen by the Committee and recommend these to the Group Risk Committee.
- b) Review Model Risk appetite results, including key indicator breaches, to ensure they remain within the risk appetite level set by the Board.
- c) Review and monitor Model Risk events, issues and breaches and escalate as required to the Group Risk Committee.
- d) Oversee the Company's material models, ratings systems and estimation processes, including but not limited to IRB models and rating systems; the IFRS 9 model suite; the internal capital adequacy assessment process (ICAAP) model suite; and Stress Testing Frameworks.
- e) Act as the Designated Committee, the Committee will approve all material aspects of the rating and estimation processes. In undertaking this duty, the Committee shall possess a general understanding of the rating systems of the institution and detailed comprehension of its associated management reports.
- f) Oversee and receive reports from the IRB project and act as the Board oversight Committee for completion of the necessary steps to submit the IRB waiver application.
- g) Satisfy itself that the Committee members have a suitable understanding of the Company's rating systems and a detailed understanding of outputs, management reports and resultant usage and application in the business.
- h) Define the overall approach for all aspects of the Company's models and associated rating and estimation processes, including non-material rating systems, and approve a policy statement defining that approach.
- i) Carry out the regular review of policy statement(s) defining model and rating methodology, application and ongoing validation and maintenance.
- j) Approve and ensure the ongoing appropriateness for the Company's Definition of Default for use in all aspects of the rating and estimation processes; regulatory calculations; and statutory calculations.
- k) The Committee shall receive material changes or exceptions from established policies that will materially impact the operations of the institution's rating systems. The Committee shall also review and approve requests for model policy breaches and waivers.
- l) Regularly review, through appropriate management information and reports, model and rating systems' outputs performance, overseeing general model performance as it relates to standard key outputs and the accuracy and assessment of relevant components comprising overall rating estimations.

- m) Approve any material changes to the risk and ratings models components, including redevelopment of the models, replacement of the models, changing inputs, changing weightings, changing calculations, and changing or extending the use of outputs.
- n) Ensure relevant controls are in place relating to model integrity and protection and that suitable tests of these controls are carried out.
- o) Ensure that policies and processes are in place to ensure that any deficiencies in model performance or behaviour are promptly and thoroughly reported to the Committee, that remedial action plans are in place as necessary and that these are regularly reviewed.
- p) Ensure analysis of the Company's IRB and IFRS 9 models is undertaken as an essential part of required management reporting, including (iv) comparison of realised default rates and Loss Given Defaults; (v) inclusion of the foregoing against expectations, and stress-test results.
- q) Assure itself of the effective operation of an independent credit risk control unit (The Models and Ratings function) that is suitably independent from the personnel and management function responsible for originating and renewing exposures; separate from the function that reviews and provides oversight of such exposures; separate from the Underwriting and Processing functions; and separate from the Credit Risk function.
- r) Ensure that the unit referred to in (1.3.n); (i) has responsibility for the design, selection, implementation, oversight and performance of the models and ratings systems; and (ii) regularly produces for the Committee review reports and analysis of the systems.
- s) At least annually, review the performance of the unit referred to in (1.3.n) to ensure that the areas of responsibility are properly met and are subject to prudential regulatory requirements. This includes but is not limited to testing and monitoring of grades and pools, implementing procedures to ensure the proper and consistent application of grades, documentation of system and model changes, regular review and analysis of rating criteria to ensure predictive risk power, participation in the ongoing validation process and selection of new models.
- t) Ensure compliance with the minimum modelling aspects set out in regulatory or compliance material of the IRB standards; the ICAAP regulatory documentation; and the IFRS 9 standard literature.
- u) Provide assurance that the modelling requirements contained within the Company's specific IRB permission, ICAAP regulatory documentation and the IFRS 9 standard are met.
- v) Seek assurance from management that the ratings systems' Information Technology systems and data storage management and associated policies can support business, operational and regulatory requirements.
- w) Define and ensure appropriate documentation of the process for non-material aspects of the Company's rating systems.
- x) Oversee the annual Significant Influence Function attestation as required for IRB.
- y) Review the inclusion and quantum of margins of conservatism considered for all aspects of the rating and estimation processes.
- z) Ensure the ongoing appropriateness of the models, rating systems and estimation processes for entity level (OSB solo and CCFS solo) application to the entities respective risk appetite; credit decision processes; management policies; and operational procedures.
- aa) Oversee the Company's governance, risk management and controls relating to End User Developed Applications (EUDAs).
- bb) Proactively monitor model and EUDA risks to identify any foreseeable harm or adverse impact to the delivery of good customer outcomes.
- cc) At least annually, review the performance of the unit referred to in (1.3) to ensure that the areas of responsibility are properly met and are subject to prudential regulatory requirements. This includes but is not limited to testing and monitoring of grades and pools, implementing procedures to ensure the proper and consistent application of grades, documentation of system and model changes, regular review and analysis of rating criteria to ensure predictive risk power, participation in the ongoing validation process and selection of new models.

- dd) Oversee the annual Significant Influence Function attestation as required for IRB.
- ee) On an annual basis review and recommend to the Group Risk Committee for approval the:
  - i) Group International Financial Reporting Standards (IFRS) 9 Models – Year End Model Changes and Post Model Adjustments.
  - ii) The IRB LGD Time to Sale Adjustments.
  - iii) IFRS9 Finance Prepayment Curve.
  - iv) IFRS9 Models – Half Year Model Changes and Post Model Adjustments.
  - v) Group Expected Credit Losses (ECL) engine.
  - vi) Margins of Conservatism.
  - vii) Risk Weighted Asset V1.1 Engine Annual Validation.
  - viii) Group Stress Test Engine.
  - ix) KRBS Residential Affordability Calculator Validation.
  - x) Market Risk ALM FOCUS Cloud Model (Upgraded Version 2021.2 Initial Validation).
- ff) On a biennial basis, review and recommend to the Group Risk Committee for approval the:
  - i) IRB Permissions Policy.
  - ii) IRB Senior Management Awareness Policy.

## **5 MEETING PROCEEDINGS**

### **5.1 Quorum**

- 5.1.1 The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which the quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- 5.1.2 Meetings of the Committee may be held by telephone or by any other means whereby the participants are able to communicate effectively with each other.

### **5.2 Secretary**

- 5.2.1 The Committee Secretary shall be a member of the Group Governance Office as agreed with the Committee Chair.

### **5.3 Minutes**

- 5.3.1 The Committee Secretary shall minute the proceedings of Committee meetings, which shall be circulated promptly to all members of the Committee, once agreed by the Committee Chair (subject to any actual or potential conflicts of interest restricting such circulation).

### **5.4 Notice and frequency of meetings**

- 5.4.1 The Committee shall meet at least six times a year at appropriate times as determined by the Committee Chair and otherwise as required.
- 5.4.2 Meetings of the Committee shall be convened by the Committee Secretary at the request of the Committee Chair or any of the Committee's members.
- 5.4.3 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and, as appropriate, any other person required to attend, not later than five business days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

## **6 ADVICE**

- 6.1 The Committee is authorised to obtain any information it requires from any employee of OSB Group plc in order to perform its duties and, at the Company's expense, obtain external legal or other professional advice on any matter within its Terms of Reference, The Committee is also authorised to select and set out the terms of appointment for any external advisers to the Committee.

## **7 GENERAL MATTERS**

7.1 The Committee shall:

- 7.1.1 Have access to sufficient resources to carry out its duties, including access to external advisers and the Group Governance Office for assistance as required, and shall ensure the proper involvement of such functions as are necessary to ensure that the Committee is appropriately advised.
- 7.1.2 Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
- 7.1.3 Give due consideration to relevant legislation, regulation, best practice guidance, industry practice and development trends affecting issues within the Committee's remit.
- 7.1.4 Oversee any investigation of activities which are within its Terms of Reference.
- 7.1.5 Ensure a periodic evaluation of the Committee's own performance is carried out.
- 7.1.6 Promote the success of the OSB Group for the benefits of its shareholders, whilst having due regard to its wider stakeholder group (including employees, regulators, communities, customers and suppliers) as set out in the Companies Act 2006. During its deliberations, the Committee shall consider the long-term consequences of its decisions, and the need to act to deliver good customer outcomes, foster good relationships, demonstrate acts of fairness, maintain a reputation of high standards of business conduct and mindfulness of environmental impacts.
- 7.1.7 Work and liaise as necessary with all committees of the Board. Where there is a perceived overlap of responsibilities, the respective committee chairs shall have the discretion to determine the most appropriate committee to fulfil the obligation.

## **8 REPORTING RESPONSIBILITIES**

- 8.1.1 The Committee Chair (or their elected nominee) shall report to the Group Risk Committee on the Committee's proceedings after each meeting.
- 8.1.2 The Committee shall where appropriate make recommendations to the Group Risk Committee on any area within its remit.
- 8.1.5 The Committee is authorised by Group Risk Committee, as delegated by the Board, to:
- i) investigate any activity within its terms of reference and to seek any information it requires from any Group employee. All Group employees are directed to co-operate with any request made by the Committee.
  - ii) Have access to, and will be provided with, all accounting, compliance, internal and external audit reports, and records required to enable it to discharge its obligations and duties. It is also free to request any further information it considers necessary.
  - iii) Obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
  - iv) Approve expenditure in relation to, and the deployment of, resources for the purposes of maintaining and developing the rating system and credit modelling (including staffing and IT infrastructure).

- v) For rating and estimation processes, to approve all material aspects of the rating and estimation processes as delegated by the Group Risk Committee.

## **9. CHANGES TO THE TERMS OF REFERENCE**

- 9.1 These Terms of Reference shall be reviewed periodically by the Committee and any proposed amendments will be **recommended to the Group Risk Committee for approval.**