Delivering good outcomes for our customers

Annual Report and Accounts
2023

What we do

OSB Group is a leading specialist mortgage lender, primarily focused on carefully selected sub-segments of the UK mortgage market.

Our continued success is driven by strong relationships with all our stakeholders.

For more information **see pages 12-17**

Our Purpose is to help our customers, colleagues and communities prosper

Our Values are what our colleagues stand by, and support us in achieving our Purpose

What's inside...

The Group delivered 9% net loan book growth despite subdued demand in the wider mortgage market...

Andy Golding Chief Executive Officer

See my statement on **page 18**

For the latest investor relations / **www.osb.co.uk/investors**

Highlights

Throughout the Strategic report, the Key performance indicators (KPIs) are presented on a statutory and an underlying basis.

Management believes that the underlying KPIs provide a more consistent basis for comparing the Group's performance between financial periods.

Underlying KPIs exclude integration costs and other acquisition-related items. For a reconciliation of statutory to underlying KPIs, see the Appendix.

For more information see **pages 33-35**

Financial KPIs

Gross new lending[Δ]

-20%

2023	£4.7bn
2022	£5.8bn

Net interest margin[Δ]

-47bps

2023	231bps
2022	278bps

-52bps

2023	251bps
2022	303bps

Cost to income[Δ]

+9ppt

2023	36%
2022	27%

+8ppt

2023	33%
2022	25%

Net loan book

+9%

2023	£25.8bn
2022	£23.6bn

+9%

2023	£25.7bn
2022	£23.5bn

Loan loss ratio[Δ]

+7bps

2023	20bps
2022	13bps

+6bps

2023	20bps
2022	14bps

Profit before tax

-30%

2023	£374.3m
2022	£531.5m

-28%

2023	£426.0m
2022	£591.1m

Key:

Statutory 2023 | Statutory 2022 | Underlying 2023 | Underlying 2022 | Group 2023 | Group 2022

Highlights continued

Financial KPIs continued

Return on equity^Δ

-7ppt

2023 14%
2022 21%

-8ppt

2023 16%
2022 24%

Basic EPS^Δ (pence per share)

-27%

2023 66.1p
2022 90.8p

-25%

2023 75.0p
2022 99.6p

Common Equity Tier 1 (CET1) ratio

-220bps

2023 16.1%
2022 18.3%

Ordinary dividend^Δ

+5%

2023 32.0p
2022 30.5p

Δ The Group's external auditor performed an independent reasonable assurance review of certain KPIs as marked with the symbol Δ – see the Appendix for the auditor's assurance report.

Non-financial KPIs

Women in senior management[1]

+2ppt

2023 33%
2022 31%

Reduction in energy consumption per sq.m[2]

11%

2023 191.87 kWh/sq.m
2022 216.32kWh/sq.m

Savings customer satisfaction – Net Promoter Score[3]

OSB

+7

2023 +71
2022 +64

CCFS

+1

2023 +62
2022 +61

1. Employees at grades A (Executive Director) to grade E (including function heads with senior direct reports or employees at specialist roles of a senior nature).
2. Energy consumption is a measure of the total kWh used (electricity, gas and gasoil) in buildings under the Group's operational control, divided by the total square meterage of those buildings.
3. Prior to Q4 2022 the CCFS NPS was measured using its legacy engagement programme, thereafter measurement was aligned to the OSB Group programme.

The 2022 OSB NPS included email surveys in November and December. The 2023 OSB NPS included interactive voice recognition surveys, which were not considered for CCFS scores.

Our culture

Together we prosper

At OSB Group we are working hard to create a positive, collaborative and supportive environment.

Our Purpose

To help our customers, colleagues and communities prosper.

By that we mean more than just helping them to be more financially well off. We want them to flourish, thrive and succeed in their personal and professional goals.

Our Vision

To be recognised as the UK's number one choice of specialist bank, through our commitment to exceptional service, strong relationships and competitive propositions.

By working Stronger together, Taking ownership, Aiming high and Respecting others, we will more powerfully achieve our own goals, as well as those of our stakeholders'.

But we are not just focused on lending and savings (though that is what we do and what we are great at); we are a business that cares about leaving things better than we found them. We are passionate about Stewardship, which encourages us to give back to our communities, supporting those who are vulnerable or less fortunate, embracing diversity and finding new ways to protect our environment.

It does not matter where we are working from: a branch, on the road, in the office or from home. It does not even matter that we are not all in the same country. We are clear about what we want to achieve, we know how we want to achieve it and we are absolutely determined to build upon the foundations we have created so our customers, shareholders, communities and colleagues can prosper.

Our Values

Our Values are the principles that support our Purpose.

Stronger together

We collaborate to create a culture in which we all share goals and values. We aim to build trust, respect and openness across the Group.

Aim high

We set the bar high for ourselves and our customers. They are the ones who know when we are going above and beyond and remember the promises we keep.

Stewardship

We act with conscience and take social, environmental and ethical factors into consideration when making decisions.

Take ownership

We take ownership of what needs to be done as well as our personal and professional development, helping to achieve the collective goals of the business.

Respect others

We treat others fairly and communicate in a way that respects an inclusive and diverse culture, listening to all voices and ensuring opinions are offered and heard.

> **We will support achieving our goals by working Stronger together, Taking ownership, Aiming high and Respecting others...**

Why invest?

OSB Group is a leading specialist mortgage lender; what makes us different is our unique business model and our consistent returns.

Leader in specialist sub-segments

OSB Group is a leading mortgage lender in professional Buy-to-Let and specialist Residential market sub-segments.

The Private Rented Sector has experienced an expansion in the last 20 years boosted by a lack of affordable housing in the UK and the Group's share of new Buy-to-Let business was c.9% in 2023. The Group's net loan book grew by 9% in 2023.

For more information **see pages 25- 32**

Highly capital-generative

The Group is strongly capitalised with a proven track record of capital generation through profitability. This allows it to support strong growth as well as distributions to shareholders.

The Board has recommended a final dividend of 21.8 pence per share and a £50m share repurchase programme over the next six months.

Consistent returns

Since its IPO, the Group has consistently generated a market-leading return on equity (RoE), driven by attractive margins, significant growth in its specialist market sub-segments and sound risk management.

In 2023 the underlying and statutory RoEs remained strong at 16% and 14%, respectively, after the total net adverse EIR adjustment of £181.6m and £210.7m on an underlying and statutory basis.

Our competitive advantage

The Group focuses on market sub-segments where its specialist approach to underwriting offers a key source of differentiation.

The Group offers a unique breadth of complementary yet differentiated lending propositions to its customers, ranging from speedy decisions for 'off the peg' solutions from its Precise Mortgages brand, through to structuring unique 'bespoke' solutions through its InterBay brand.

For more information **see page 14**

Experienced leadership team

The Group is managed by an experienced and well-respected leadership team and governed by a Board with a broad range of skills and expertise. The leadership team has a long track record in operational management and in delivery of sustainable returns for shareholders.

For more information **see pages 106-109**

Focus on sustainability

The Group progressed its commitment to net zero[1] and the Net Zero Banking Alliance by publishing interim science-based targets for 2030. In 2023 we laid the foundations for achieving these targets be developing our inaugural Climate Transition Plan, available on our website.

We strive to make the Group a more diverse and inclusive organisation and, in the year, we achieved our 33% target of women in senior management roles in the UK.

For more information **see pages 69- 93**

Underlying net loan book
£25.7bn
2022: £23.5bn

Ordinary dividend per share
32.0p
2022: 30.5p

Underlying return on equity
16%
2022: 24%

1. Net zero is defined as a reduction in Scope 1, 2, and 3 emissions to zero or to a residual level that is consistent with reaching net zero emissions at the global or sector level in 1.5°C aligned pathways.

Strategic Report

Chair of the Board's statement

2023 was characterised by continuing macroeconomic uncertainty and geopolitical stress. For the Group, the combined impact of rapid Bank of England rate rises and volatility in yield curves was significant. Nonetheless our well regarded customer propositions underpinned strong underlying growth in our net loan book and the consistent delivery of good outcomes for our customers.

Total ordinary dividend pence per share

32.0

2022: 30.5

Share repurchase - next six months

£50m

2022: £150m

The story of strong growth was overshadowed in July as the Group announced an adverse effective interest rate (EIR) adjustment. This had a significant impact on its share price, and I share the disappointment amongst our shareholders from this event. I am pleased that the change in customer behaviour as interest rates rose rapidly in the first half of the year has, as reported in our Q3 trading update, been broadly stable since the adverse EIR adjustment was announced, providing some assurance to investors. The Board and I take confidence that the management team dealt with the issue appropriately and lessons learnt from this experience have been addressed.

The Group continued to formalise its approach to sustainability and was confirmed as a UN Global Compact signatory in December. We have also published our first Climate Transition Plan and interim emission targets for 2030, as we progress on the path to achieving our long-term goal of net zero greenhouse gas emissions by 2050.

April Talintyre our long-serving Chief Financial Officer (CFO) and Executive Director has advised the Board that she will not be seeking re-election and will retire at the Group Annual General Meeting on 9 May 2024. I and the Board of OSB Group would like to thank April for her exceptional contribution and commitment to the business since she joined in 2012, and I wish her all the best for her retirement. The process to appoint a permanent replacement for April is progressing well and Victoria Hyde, the Deputy Chief Financial Officer will become the acting CFO, subject to regulatory approval, whilst the process is completed.

The Group remains well-capitalised, and successfully issued £250m of Tier 2 debt and £300m of MREL qualifying senior notes in 2023 which strengthened our reputation in debt capital markets. The Group met its interim MREL requirement of 22.5% of risk weighted assets, including regulatory buffers, in January 2024 following a further £400m issuance of senior debt.

The Board is committed to returning excess capital to shareholders and I am pleased to announce that following the successful completion of the £150m share repurchase during 2023, a further £50m share repurchase programme over the next six months will commence on 15 March 2024. In addition, the Board has recommended a final dividend of 21.8 pence per share for 2023, which together with the interim dividend of 10.2 pence per share, represents a total ordinary dividend for the year of 32.0 pence per share (2022: 30.5 pence).

Chair of the Board's statement continued

The Group met its interim MREL requirement, including regulatory buffers, in January 2024 following a further £400m issuance of senior debt...

Overall, and notwithstanding continued economic and political uncertainty, the Board is confident that our focused strategy will continue to deliver strong net loan book growth, good capital generation supporting further capital returns to our owners, and a progressive dividend per share.

We are continuing to invest in people, our technology infrastructure and enhancements to our increasingly digital customer propositions. These are all vital to ensure the long-term sustainability of the business. Along with our Board, our Executives and most importantly the 2,500 colleagues in our teams, I am looking forward to the future with renewed confidence and enthusiasm.

David Weymouth
Chair of the Board
14 March 2024

COMPANIES ACT 2006 SECTION 172 COMPLIANCE STATEMENT

The Directors are bound by their duties under section 172(1)(a) to (f) of the Companies Act 2006 and the manner in which these have been discharged; in particular their duty to act in the way they consider, in good faith, promotes the success of the Company for the benefit of its shareholders as a whole.

Pages 119-125 in the Corporate Governance Report demonstrate how the Board has engaged with the Group's key stakeholders (customers, intermediaries, colleagues, shareholders, suppliers, regulators and the local communities in which we are located). Examples of strategic decisions which have impacted the Group's key stakeholders are set out on page 118.

Market review

Meeting market demand

Activity reduced in the housing and mortgage markets in 2023, with rising interest rates and cost of living pressures impacting buyer affordability.

The UK housing and mortgage market

Housing market activity was constrained during 2023, primarily by affordability pressures generated through the higher cost of living and borrowing. As a result, property transactions and mortgage completions fell. However product transfers increased, as borrowers reaching the end of their initial term sought to lock in their monthly repayments to protect against further interest rate rises.

Inflationary pressures which began in 2022 carried on into 2023 with prices rising by 10.1% in the 12 months to January 2023.[1] This prompted the Bank of England (BoE) to implement five successive increases in the base rate in 2023, with the objective of reducing inflation towards its 2.0% target. The base rate rose to 5.25% by August 2023 an increase of 1.75% from the start of the year.[2]

The BoE's response contributed to an easing of CPI inflation which fell steadily throughout 2023, leading the Monetary Policy Committee to vote to hold rates steady at the final three meetings of the year in September, November and December, with CPI of 4.0% at the end of the year.[1]

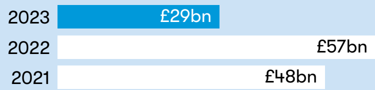
Mortgage interest rates increased significantly following the Government's mini-budget in September 2022 and higher rates persisted throughout 2023 with some moderation through the early part of the year. The average rate on a new two-year fixed rate residential mortgage at 75% loan to value fell from 5.14% in January 2023 to 4.60% in April according to the Bank of England, before rising again during a period of volatile interest rate swap pricing, hitting a peak of 6.22% in July. Mortgage rates then eased to the end of the year, with the average two-year fixed rate product offered at 5.03% in December.[3]

House prices also continued to increase in the first half of the year, despite weakening demand, before turning negative from July onwards. UK house prices fell by 1.4% in the 12 months to December 2023.[4]

The combination of these factors greatly suppressed overall activity in the housing and mortgage markets, with the number of residential property transactions in the UK falling by 19% to 1.02m in 2023 (2022: 1.26m)[5], the number of approvals for new mortgages falling by 30% to 1.02m (2022: 1.46m)[6] and total UK gross mortgage lending falling by 29% to £224bn in 2023 (2022: £313bn).[7]

UK Buy-to-Let gross advances

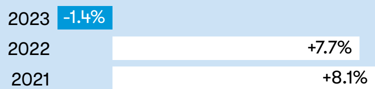
£29bn



Source: UK Finance, Feb 2024.

UK average house price inflation

-1.4%



Source: ONS, Feb 2024.

Market review continued

The UK savings market

Savings balances in the UK reduced by 0.9% in 2023 to close the year at £2,182.2bn, compared to growth of 3.1% a year earlier, as cost of living pressures weighed on households' disposable income.[8]

Consumer preference pivoted in favour of term savings accounts over instant access and current accounts, with term deposits and cash ISA balances increasing by 36.3% and 16.3% respectively during the year. This performance is a marked shift to the declining balances reported in these product types in 2022, as higher interest rates motivated consumers to lock into term savings in 2023.[9]

Pricing on one-year fixed term accounts increased from a peak of 3.64% in 2022 to a peak of 5.45% in 2023, reflecting a higher SONIA yield curve and signs of increasing competition in the second half of the year.[10] At the end of December 2023, 1,918 savings products were promoted in the market, which represented a step-up from the 1,690 accounts advertised a year earlier.[11]

The Bank of England base rate increased by 175bps during the year. The majority of this benefit was passed through to savers with interest rates on instant access savings products increasing by an average of 161bps in 2023.[10] In August 2023, NS&I made an aggressive step, moving to the top of the best buy tables and banks and building societies were compelled to follow suit.

The Group's lending segments

Buy-to-Let

Buy-to-Let gross advances totalled £29.0bn in 2023, a 49% decrease from £57.2bn in 2022, reflecting affordability concerns, with rising borrowing costs and pressures stemming from higher energy prices and increasing maintenance costs.[12]

The regulatory landscape also continued to shift, with speculation regarding two pending pieces of legislation contributing to landlords' uncertainty:

- The Renters (Reform) Bill was introduced to Parliament in May and proposed a wide-ranging set of measures that seek to improve standards in the private rented sector. This includes the abolition of 'no fault' evictions via a Section 21 notice, the strengthening of landlords' grounds for repossession and the application of a Decent Homes Standard to the private rented sector for the first time.

- A consultation on Improving the Energy Performance of Privately Rented Homes in England and Wales closed in January 2021. The outcome was widely expected to introduce a minimum requirement for all rental properties to achieve an EPC (Energy Performance Certificate) rating of C or higher from 2028, however the Prime Minister announced that this plan had been withdrawn in September.

UK Buy-to-Let mortgage balances outstanding fell by 0.2% to £301bn during the year, and it is evident that a limited number of landlords chose to exit the market.[12] However, it is likely that this activity was more concentrated towards amateur landlords with single properties or small portfolios.

Research conducted by BVA BDRC on behalf of the Group showed that single property landlords were the least likely to make a profit, the least likely to acquire new properties and the most likely to exit the private rented sector in the next 12 months. The research also showed that of all landlords who planned to purchase new properties in the next 12 months, the majority (63%) planned to do so within a limited company structure. This correlates with the Group's own Landlord Leaders research. This illustrates that professional, multi-property landlords that form the Group's customer base will play an increasing role in the sector's future.[13]

> **...professional, multi-property landlords that form the Group's customer base will play an increasing role in the sector's future...**

Market review continued

Data collected by RICS showed that the Private Rented Sector had a critical role to play in the provision of housing in the UK. RICS members reported increasing tenant demand in every survey since mid-2020, with supply remaining weak. This was also the case in 2023, as evidenced by a decline in landlord instructions coming to market, further magnifying supply and demand imbalance[14].

This imbalance exerted growing pressure on rents during 2023. The ONS reported that rents on the existing rental stock increased by 6.2% in the 12 months to December 2023[15], while Rightmove reported that asking rents for newly let properties increased by 9.2% in the fourth quarter of 2023 compared to a year earlier[16]. Research conducted by BVA BDRC suggested that over half (51%) of landlords planned to increase rents in the next six months, with most suggesting an increase is necessary to cover the running costs of the property.[13]

Residential

Total residential loans to homeowners reached £186bn in 2023 according to UK Finance, a 26% decrease from £250bn in 2022. Within this total, purchase activity declined by 28% to £121bn (2022: £168bn) while refinancing fared slightly better, down 21% to £65bn (2022: £82bn).[17]

Refinancing volumes during the year were likely dampened by the growing popularity of product transfers within an existing lender which are not included in gross lending totals. This trend was in part driven by the Mortgage Charter, under which signatory lenders agreed to allow customers who are approaching the end of their fixed rate term the opportunity to lock in a new fixed rate product up to six months in advance.

Product transfers totalled £240bn in 2023, a 21% year-on-year increase (2022: £198bn), and represented 78% of all regulated refinancing activity during the year (2022: 69%).[18]

Commercial

There was a sense of confidence in commercial property during the first half of 2023, supported by stable or slightly increasing capital and rental values. This positive momentum reversed in some segments during the second half of the year, with declines becoming more pronounced in the fourth quarter. Data for 'all property' showed capital values fell by 3.9% in 2023, with varying degrees of impact across commercial property sub-categories.[19]

UK office investment remained at low levels throughout 2023 and the traditional end-of-year surge in activity did not materialise. According to CoStar Research, annual office investment stood at £8.8bn, a 14-year low and less than half the ten-year annual average of £23.7bn. The reduction in trading was most pronounced for higher-value properties. Prices fell as a result of weak investor sentiment, higher borrowing costs and rising vacancies as hybrid working continued. In response to this, cash-rich investors have been entering the market seeking high quality offices in desirable locations or, in some cases, seeing an opportunity to capitalise on the increasing occupier preference for energy efficient offices by retrofitting older buildings.[20]

Investor sentiment towards the retail sector has generally deteriorated in recent years amid multiple lockdowns and a wave of store closures and company administrations. There were however, some pockets in good high street locations in affluent commuter towns and established market towns that were bucking this trend. Average yields increased at the end of 2023, with retail property trading at a big discount to industrial properties in a complete reversal from a decade earlier. Rising interest rates, inflationary pressures and faltering retail sales made retail property appear less attractive and financing more difficult to secure, with the last two quarters of the year representing the weakest time for investment in the last three years. Overall, retail leasing demand continued to decline in the second half of 2023.

The strong levels of occupier and investor demand for industrial property, witnessed through the height of the pandemic, faded in 2023, amid higher inflation and interest rates. However, the sector continued to benefit from structural factors such as e-commerce, supply chain reconfiguration and the push towards net zero carbon emissions. Although occupiers scaled back growth plans which weighed on take up, vacancies remained relatively low at 4.1% nationally.[21] Industrial properties with the highest energy-efficiency ratings posted stronger rental growth than their lower rated or unrated counterparts. Sector-wide rental growth rates eased from record levels as vacancies increased and occupiers faced growing cost pressures.

Residential development

A lower level of activity in the residential development sector reflected the subdued wider housing market as developers reduced the number and scale of projects in response to the higher cost of financing and lower demand from homebuyers. New build completions were 9% lower in the third quarter of 2023 than in the third quarter of 2022, whilst new build starts were down 47%.[22]

Demand for new properties remained relatively resilient for housing that was affordable to local populations, in contrast to the broader market. However, as mortgage pricing began to fall towards the end of the year there was anecdotal evidence of increased activity in the new build sector.

1. ONS, Consumer price inflation, UK: Dec 2023.
2 BoE, Interest rates and Bank Rate, Dec 2023.
3. BoE, 2 year (75% LTV) fixed rate mortgage to households (IUMBV34), Dec 2023.
4. ONS, UK House Price Index, Dec 2023.
5. HMRC, Monthly property transactions, Jan 2024.
6. UK New mortgage approvals, Jan 2024.
7. BoE, UK Gross mortgage lending, Jan 2024.
8. BoE, Sterling retail deposits (VRJX), Jan 2024 .
9. Building Societies Association, Household savings, Jan 2024.
10. Building Societies Association, Savings interest rates, Jan 2024.
11. Moneyfacts, Treasury Reports, Dec 2022–Dec 2023.
12. UK Finance, BTL mortgages outstanding and new lending, Feb 2024.
13. BVA BDRC, Landlords Panel Research, Q4 2023.
14. RICS, UK Residential Market Survey, Jan 2024.
15. ONS, Index of Private Housing Rental Prices, Jan 2024.
16. Rightmove, Rental Prices Tracker, Q4 2023.
17. UK Finance, Residential new mortgages and remortgages, Feb 2024.
18. UK Finance, Lending and affordability for new refinancing and releveraging mortgages, Feb 2024.
19. CBRE, UK Monthly Index Snapshot, Jan 2024.
20. CoStar Research, Office national report, Jan 2024.
21. CoStar Research, Industrial national report, Jan 2024.
22. ONS, UK House building: permanent dwellings started and completed, Jan 2024.

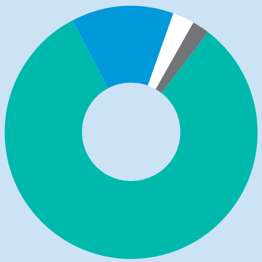
Our business model

We are a leading specialist mortgage lender, supported by diversified and stable funding platforms and operating through a unique and cost-efficient operating model.

Sophisticated funding platforms

Our lending is predominantly funded by retail deposits sourced through our Kent Reliance (KR) and Charter Savings Bank (CSB) franchises. The Group's issuance of high-quality residential mortgage-backed securities, access to Bank of England's funding schemes and issuance of MREL qualifying debt provide funding diversification.

Group's funding channels as at 31 December 2023



Statutory retail deposits

£22.1bn

2022: £19.8bn

23

securitisations since 2013 worth

£11.4bn

2022: 22 securitisations worth £11.1bn

Competitive advantages

Brands and heritage
Both KR and CSB are award-winning franchises. KR has over 160 years of heritage and nine branches

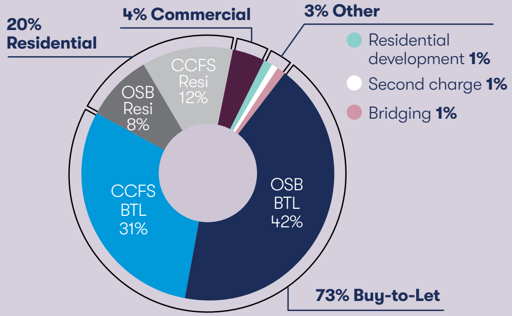
Capital markets expertise
Our strategy is to be dynamic and nimble with issuance plans providing cost efficient term funding

Read more on pages 15-16

Specialist mortgage lending

The Group's complementary underwriting platforms support OSB's bespoke and experience-based manual approach and CCFS's automated approach to loan assessment, offering attractive solutions for each of our borrowers.

Gross loans



Statutory loans to customers

£25.8bn

2022: £23.6bn

Gross new lending

£4.7bn

2022: £5.8bn

Competitive advantages

Relationships with intermediaries
We invest time to develop strong relationships with mortgage brokers who distribute our products to customers

Breath of propositions
Our diverse brands allow us to tailor our lending proposition to better meet the needs of our borrowers

Read more on page 14

Value we create

Unique operating model

The Group operates customer service functions in multiple locations, including our wholly-owned subsidiary OSB India. The Group also has expertise in credit assessment, case management, in-house real estate expertise and collections.

Read more on page 17

OSB savings customer NPS

+71

CSB savings customer NPS

+62

Statutory cost to income ratio

36%

Competitive advantages

Outstanding customer service
OSB India puts customer service at the heart of everything it does, demonstrated by the excellent customer Net Promoter Scores

Deep credit expertise
Our deep credit expertise and strong data analytical capabilities offer valuable insights and learning from the performance of mortgage products

Our business model continued

Value we create

For shareholders

Our proven business strategy and capital generation capability support consistent capital returns including a progressive dividend per share.

Statutory basic EPS
66.1p
2022: 90.8p

Ordinary dividend per share
32.0p
2022: 30.5p

For savers

We offer fair and transparent products that meet our customers' needs and recognise loyalty with special rates for existing savers. Our commitment to excellent customer service is reflected in our strong NPS scores.

OSB customer retention[1]
91%
2022: 94%

CCFS customer retention[1]
85%
2022: 88%

For intermediaries

Our Sales teams have strong relationships with intermediaries, helping them to understand our products. We structure bespoke solutions for our borrowers, delivering clear, accurate and efficient decisions that are recognised for their quality, fairness and consistency.

OSB and CCFS broker NPS[2]
+57
2022: OSB +37, CCFS +39

For employees

We strive to create a positive, collaborative and inclusive environment for all colleagues. We invest in training, development and employee engagement activities and offer competitive remuneration and attractive benefits.

Women in senior management roles[3]
33%
2022: 31%

Number of Group employees promoted in 2023
183
2022: 318

For the environment

We are committed to environmental stewardship, reducing our impact on the environment, supporting the transition to a low carbon economy and achieving net zero across our value chain.

Reduction in energy consumption per sq.m[4]
11%

Electricity purchased in the UK from renewable tariffs
99%
2022: 100%

For our communities

We support our national and local community partnerships through a variety of volunteering initiatives, fundraising events and sponsorships.

Group sponsorships and donations:
over £288k
2022: over £220k

1. Retention is defined as average maturing fixed contractual retail deposits that remain with the Group on their maturity date.
2. OSB broker NPS relates to Kent Reliance brokers and CCFS broker NPS relates to Precise Mortgages brokers.
3. Employees at grades A (Executive Director) to grade E (including function heads with senior direct reports or employees at specialist roles of a senior nature).
4. Energy consumption is a measure of the total kWh used (electricity, gas and gasoil) in buildings under the Group's operational control, divided by the total square meterage of those buildings. In 2023, 191.87kWh/sq.m was used and 216.32 kWh/sq.m in 2022.

Our business model explained

Specialist mortgage lending

The complementary strengths and enhanced customer propositions from the Group's diverse brands make us a leading specialist lender in the UK. The Group reports its lending business under two segments: OneSavings Bank and Charter Court Financial Services.

OneSavings Bank segment

Through our brands we tailor our lending proposition to the specific needs of our borrowers. Under our Kent Reliance and InterBay brands all of our loans are underwritten by experienced and skilled underwriters, supported by technology to reduce the administrative burden on underwriters and mortgage intermediaries. We refer to scorecards and bureau data to support our skilled underwriter loan assessments. We consider each loan on its own merits, responding quickly and flexibly to offer an attractive solution for each of our customers. No case is too complex for us, and for those borrowers with more tailored or larger borrowing requirements, our Transactional Credit Committee meets three times each week, demonstrating our responsiveness to customer needs.

Charter Court Financial Services segment

Our Precise Mortgages brand uses an automated underwriting platform to manage mortgage applications and to deliver a rapid decision in principle, based on rigorous lending policy rules and credit scores. The platform is underpinned by extensive underwriting expertise, enabling identification of new niches and determining appropriate lending parameters.

It allows for consistent underwriting within the Group's risk appetite. Quick response times help the Group to compete for the 'first look' at credit opportunities, while a robust manual verification process further strengthens the disciplined approach to credit risk.

Complementary brand propositions

'Off the peg'

PRECISE.

If the case fits the policy then we will issue a speedy agreement in principle

Buy-to-Let
Residential
Bridging

'Tailored'

Kent Reliance

Experience-based manual underwriting allows us to assess more complex and larger mortgage requirements

Buy-to-Let
Residential

'Bespoke'

InterBay Commercial

Heritable Development Finance

Unique to each customer, we structure the deal to the specifics of an application

Commercial
Semi-commercial
Complex Buy-to-Let
Funding lines
Asset finance
Residential developmental finance

Our business model explained continued

Sophisticated funding platforms

The Group's lending business is supported by diversified and stable funding platforms. This enables cost of funds optimisation, while prudently managing funding and liquidity risks.

Retail savings

The Group is predominantly funded by retail savings deposits sourced through two brands: Kent Reliance and Charter Savings Bank (CSB).

Kent Reliance is an award-winning retail savings franchise with over 160 years of heritage and nine branches in the South East of England. It also takes deposits via telephone and online, while CSB, a multi- award-winning retail savings bank, offers its products online.

Both Banks have a wide range of savings products, including easy access, fixed term bonds, cash ISAs and business savings accounts. CSB and Kent Reliance have diversified their retail funding sources through pooled funding platforms with a range of products offered, including easy access, longer-term bonds and non-retail deposits.

In 2023, our savings products received industry recognition: Charter Savings Bank won Best Overall Savings Provider for the sixth year running from Personal Finance Awards and ISA Provider of the Year from Moneyfacts Consumer Awards. Moneynet Personal Finance Awards named Kent Reliance as Best Fixed Rate Savings Provider.

Kent Reliance's proposition for savers is simple: to offer consistently good-value savings products that meet customer needs for cash savings with loyalty rates for existing customers.

CSB's philosophy is to maintain and develop its award-winning business, offering competitively priced savings products. Operating with an agile, nimble approach, CSB can respond quickly to the funding requirements of the business.

Securitisation platforms

The Group accesses the securitisation market to provide attractive long-term wholesale funding to complement its retail deposit franchise and to optimise its funding mix. Securitisations also provide efficient access to commercial and central bank repo facilities.

The Group's strategy is to be fleet-of-foot and dynamic rather than deterministic with its securitisation issuance plans. This enables it to maximise opportunities with repeat issuances during periods of buoyant market activity and to use other funding when the market is less favourable.

The Group is a programmatic issuer of high-quality prime residential mortgage-backed securities through the Precise Mortgage Funding (PMF), Charter Mortgage Funding (CMF) and Canterbury Finance securitisation programmes. OSB has also issued three deals of owner-occupied and Buy-to-Let acquired mortgages via Rochester Financing since 2013.

In 2023, the Group issued its second Simple, Transparent and Standardised securitisation, CMF 2023-1, a publicly marketed transaction that securitised c.£330m of mortgage loans, and issued c.£300m of AAA rated senior bonds.

In total, the Group has completed 23 securitisations worth more than £11.4bn since 2013.

The Group also uses a secured warehouse facility which provides access to funding on a contingent basis secured on a portfolio of residential mortgages. £250m of this facility was drawn at the year end.

Statutory retail deposits

£22.1bn

2022: £19.8bn

Securitisations

23

securitisations since 2013, across OSB and CCFS, worth

£11.4bn

2022: 22 securitisations worth £11.1bn

Our business model explained continued

Other funding

Bank of England Schemes

The Group takes advantage of the Bank of England's funding schemes. Drawings under the Term Funding Scheme for SMEs (TFSME) reduced to £3.3bn as at 31 December 2023 as the Group repaid £900m during the year (31 December 2022: £4.2bn). TFSME borrowings provide four-year funding at a cost of base rate and are due for repayment by October 2025. Drawings under Index Long-Term Repo were £10.1m as at 31 December 2023 (31 December 2022: £300.9m).

Debt issuance

The Group was active in unsecured debt issuance markets in 2023, as it continued to optimise its capital composition. In April 2023, the Group issued £250m of Tier 2 notes carrying an initial coupon of 9.993% with a maturity date in 2033 and optional redemption in 2028. The Group returned to the markets in September with a £300m issuance of senior preferred notes at an initial coupon of 9.5% with a maturity date in 2028 and optional redemption in 2027. The Group met its interim MREL requirement, including regulatory buffers, in January 2024 following a further £400m issuance of senior debt.

The trades were well received by the primary issuance market and the Group significantly expanded its debt investor base as a result. Both instruments are MREL qualifying and are actively traded in the secondary market.

The Group significantly expanded its debt investor base.

Jens Bech, Group Commercial Director

Our business model explained continued

Unique operating model

The lending and savings businesses operate through the Group's unique and cost-efficient operating model.

osbIndia

Customer service

The Group operates customer service functions in multiple locations across the UK including Chatham, Wolverhampton, Fareham, London and Fleet. These, together with our wholly-owned subsidiary OSB India, help us deliver on our aim of putting customers first.

The Group has proven collections capabilities and expertise in case management and supporting customers in financial difficulty.

This offers valuable insights into, as well as the opportunity to learn from, the performance of mortgage loan products. We have deep credit expertise through strong data analytical capabilities.

We deliver cost efficiencies through excellent process design and management. We have strong IT security and continue to invest in enhancing our digital offering as customer demand changes.

OSB India

OSB India (OSBI) is a wholly-owned subsidiary based in Bangalore and Hyderabad, India.

OSBI puts customer service at the heart of everything it does and we reward our colleagues based on the quality of service they provide to customers, demonstrated by our excellent customer Net Promoter Score.

At OSBI, we employ highly talented and motivated colleagues at a competitive cost. We benchmark our processes against industry best practice, challenging what we do and eliminating customer pain points as they arise. We continue to invest in developing skills that enable highly efficient service management, matching those to business needs both in India and the UK.

Various functions are also supported by OSBI, including Support Services, Operations, IT, Finance and Human Resources. We have a one team approach between the UK and India. The employee turnover in India improved significantly in the year with the regretted attrition rate of 12%[1] for 2023 demonstrating strong culture and the Group's compelling employee proposition.

OSBI operates a fully paperless office – all data and processing are in the UK.

ESG

We operate in a sustainable way with relevant Environmental, Social and Governance matters at the heart of everything we do.

As a specialist lender, we have been long aware of our responsibilities and the positive impact we can make in society through our activities.

We will be publishing our Climate Transition Plan with the annual report, where we laid the foundations for progressing towards net zero[2] by the 2050 target.

The Group strives to create a more diverse and inclusive workplace, and in the year we reached our target of having 33% women in senior management roles in the UK and made enhancements to maternity and family benefits. We also donated over £288k to charitable causes in the year.

1. Employees electing to leave the Group by way of resignation, excluding those retiring or resigning due to formal performance or absence process.
2. Net zero is defined as a reduction in Scope 1, 2, and 3 emissions to zero or to a residual level that is consistent with reaching net zero emissions at the global or sector level in 1.5°C aligned pathways.
3. Employees at grades A (Executive Director) to grade E (including function heads with senior direct reports or employees at specialist roles of a senior nature).
4. Energy consumption is a measure of the total kWh used (electricity, gas and gasoil) in buildings under the Group's operational control, divided by the total square meterage of those buildings.

Colleagues employed at OSB India
928
2022: 663

OSBI regretted attrition rate[1]
12%
2022: 24%

Group colleagues
2,459
2022: 2,021

Women in senior management roles[3]
33%
2022: 31%

Reduction in energy consumption per sq.m[4]
11%
2023: 191.87 kWh/sq.m
2022: 216.32 kWh/sq.m

Electricity purchased in the UK from renewable tariffs
99%
2022: 100%

Chief Executive Officer's statement

The Group reported strong performance in its core lending and savings franchises during 2023, with robust demand for its specialist mortgages delivering 9% net loan book growth, despite a challenging interest rate environment that subdued demand in the wider mortgage market.

We grew market share in our core Buy-to-Let sub-segment and I am proud that we remain a trusted partner for professional multi-property landlords who provide homes in the Private Rented Sector.

Underlying and statutory net loan book growth

9%

2022: 12%

Underlying and statutory retail deposits growth

12%

2022: 13%

Our fair and attractively priced savings products were popular, and we grew our retail deposits book by 12% in the year. Our debt issuance programme was well-received by investors, and following the January issuance of £400m of MREL qualifying debt securities, we met the interim MREL requirement, including regulatory buffers

As reported at the half-year, the Group's 2023 results were significantly impacted by the total net adverse effective interest rate (EIR) adjustment of £181.6m on an underlying basis. This related to the reduction in expected time spent on reversion rates for Precise Mortgages customers in response to rapid base rate rises and fluctuating interest rate expectations during the first half of the year. I am pleased that since then, there has been no material change in borrowers' behaviour and we continue to observe a trend consistent with our EIR assumption of c.5 months on the reversion rate for Precise customers.

The credit quality of the book remained robust, and our strong origination, capital and liquidity positions allow us to announce further capital distributions. The Board has recommended a final dividend of 21.8 pence per share, which together with the interim dividend of 10.2 pence per share, results in a total ordinary dividend for the year of 32.0 pence per share. In addition we have announced a new £50m share repurchase over the next six months.

April Talintyre, our long-serving CFO will retire at the Group Annual General Meeting on 9 May 2024. She has been instrumental in shaping and delivering OSB's strategy over the last 11 years, helping steward OSB through private equity ownership into a successful FTSE 250 listed business, as well as playing a key role in the Group's combination with Charter Court Financial Services in 2019. She has been an excellent and trusted support to me through the years, helping to build one of the UK's leading specialist lenders. I wish her well for her retirement.

> **I am pleased that the Board has recommended a final dividend per share of 21.8 pence to deliver a progressive full year dividend per share of 32.0 pence, representing a payout ratio of 29% of underlying earnings, excluding the impact of the EIR adjustment.**

Chief Executive Officer's statement continued

Financial performance

The Group delivered an underlying pre-tax profit of £426.0m in 2023, down 28% from £591.1m in 2022, primarily due to the adverse EIR adjustment. The underlying basic earnings per share was 75.0 pence (2022: 99.6 pence). The underlying pre-tax profit would have increased to £607.6m and the underlying basic earnings per share would have improved to 106.7 pence, excluding the adverse EIR adjustment. On a statutory basis, profit before tax decreased to £374.3m and basic earnings per share was 66.1 pence (2022: £531.5m and 90.8 pence, respectively).

The underlying and statutory net interest margins reduced to 251bps and 231bps respectively (2022: 303bps and 278bps), largely due to the adverse EIR adjustment and as the benefit of the lower cost of retail funding was offset by the impact of some lower margin lending due primarily to delays in mortgage pricing reflecting the rate rises and higher swap costs. The underlying net interest margin would have been 314bps, excluding the adverse EIR adjustment. The table below presents Key Performance Indicators (KPIs) on a statutory and underlying basis, including and excluding the adverse EIR adjustment of £210.7m and £181.6m, respectively.

The Group maintained its focus on cost discipline and efficiency during the year with the underlying and statutory management expense ratios remaining broadly unchanged at 81bps and 82bps respectively

(2022: 80bps and 81bps, respectively). The anticipated impact of balance sheet growth, inflation and planned investment in people and digital solutions to enhance our customer propositions were reflected in a 14% increase in underlying administrative expenses to £232.9m. The underlying and statutory cost to income ratios of 33% and 36% respectively, were impacted by the reduction in income due to the adverse EIR adjustment and a loss on the Group's hedging activities compared to a gain in the prior year (2022: 25% and 27%, respectively). Underlying cost to income would have been 26% excluding the adverse EIR adjustment.

The Group delivered an underlying return on equity of 16% for 2023 (2022: 24%) and 14% on a statutory basis (2022: 21%), which reflected the impact of the adverse EIR adjustment on the profit for the year. Underlying return on equity would have been 22% excluding the adverse EIR adjustment.

KPIs on a statutory and underlying basis including and excluding the adverse EIR adjustment

	Statutory			Underlying		
FY 2023	as reported	excl. EIR	difference	as reported	excl. EIR	difference
Net loan book growth	9%	9%	–	9%	10%	(1)ppt
NIM	231bps	303bps	(72)bps	251bps	314bps	(63)bps
Cost to income ratio	36%	27%	(9)ppt	33%	26%	(7)ppt
Manex ratio	82bps	81bps	(1)bp	81bps	81bps	–
Pre-tax profit	£374.3m	£585.0m	£(210.7)m	£426.0m	£607.6m	£(181.6)m
EPS	66.1p	102.8p	(36.7)p	75.0p	106.7p	(31.7)p
RoE	14%	22%	(8)ppt	16%	22%	(6)ppt
CET1 ratio	16.1%	17.3%	(1.2)ppt	–	–	–

Our lending franchises

Strong demand for the Group's lending products delivered underlying and statutory net loan book growth of 9% in the year to £25.7bn and £25.8bn, respectively (31 December 2022: £23.5bn and £23.6bn). Organic originations were £4.7bn in the year (2022: £5.8bn), despite difficult mortgage market conditions and subdued purchase activity, demonstrating the strength of our relationships with intermediaries, the continued professionalisation of Buy-to-Let landlords and our long-term positioning in specialist mortgage market sub-sectors. I am particularly pleased that our renewed focus on lending on smaller commercial properties through the InterBay brand led to originations of £406m, a 46% increase from 2022.

Chief Executive Officer's statement continued

The rising costs of living and borrowing were reflected in subdued purchase activity across all mortgage market sectors and I am proud that the Group's relationship managers and underwriters continued to work hand in hand with their broker partners, fully utilising our bespoke capabilities to find solutions for our borrowers. Refinancing was particularly strong in the year as borrowers sought to lock in lower monthly repayments to avoid further base rate rises, and as a result the proportion of Buy-to-Let completions due to refinancing was 62% for Kent Reliance and 48% for Precise Mortgages. There was also an improvement in retention as we continued to engage proactively with our borrowers offering new products, with 78% of Kent Reliance and 66% of Precise Mortgages customers choosing to refinance with the Group within three months of their fixed rate product ending.

The Group's mortgage propositions continued to win industry awards and in 2023 Kent Reliance for Intermediaries won Best Specialist Lender from L&G Mortgage Club Awards, Precise Mortgages was awarded Best Specialist Lender from TMA Club and the Group was recognised as the Best Specialist Bank at the Bridging and Commercial Awards. During the year we became signatories to the Government's Mortgage Charter, underlining our commitment to provide support to residential customers.

We continued to demonstrate our leadership and commitment to the Buy-to-Let sector through our Landlord Leaders initiative. In 2023, we set up the Landlord Leaders Community with 31 founding members, and in December we published the second research report that looked at tenants' experiences and most frequent challenges.

Credit and risk management

The high quality of the Group's loan book was demonstrated by a strong credit performance, with balances over three months in arrears at 1.4% of the loan book at the end of December (31 December 2022: 1.1%). The increase in arrears was largely due to the impact of the rising costs of living and borrowing on a small group of borrowers, and we continue to work closely with those needing assistance.

The Group recorded an impairment charge of £48.5m on an underlying basis, which represented an underlying loan loss ratio of 20bps for the year (2022: £30.7m and 14bps, respectively). The impairment charge principally reflected changes in the risk profile of borrowers as they transitioned through modelled IFRS 9 impairment stages and an increase in provisions for accounts with arrears of three months or more. The statutory impairment charge was £48.8m, equivalent to a loan loss ratio of 20bps (2022: £29.8m and 13bps, respectively).

The weighted average loan to value (LTV) of the Group's loan book increased to 64% as at 31 December 2023, from 60% at the end of 2022, largely due to negative house price inflation in the year. The weighted average LTV of new business written by the Group reduced to 68% from 71% in 2022, and interest coverage ratios remained strong at 176% for OSB and 154% for CCFS, despite higher mortgage rates, reflecting the long-term income improvement enjoyed by professional landlords.

Multi-channel funding model

Retail deposits remained the primary source of funding for the Group and the deposit book grew by 12% to £22.1bn by the end of 2023 (31 December 2022: £19.8bn), as we continued to offer fair and attractively priced savings products to our customers.

We opened more than 210,000 new savings accounts in the year, and retention rates remained very high at 91% for customers with maturing fixed rate bonds and ISAs at Kent Reliance and 85% for Charter Savings Bank. To supplement our savings propositions, we maintained a strong focus on customer service, which was reflected in Net Promoter Scores for the year of +71 for Kent Reliance and +62 for Charter Savings Bank.

We complement retail deposits funding with our expertise in the wholesale markets and in June we completed a £330m securitisation of owner-occupied prime mortgages, originated by Precise Mortgages under the CMF programme. In February 2024, we completed another transaction, securitising £509m of Buy-to-Let mortgages under the PMF programme. We saw an exceptional level of demand from our growing investor base and this allowed us to achieve very attractive pricing. We will continue to access the wholesale markets when conditions are favourable, to benefit from diversification of funding and support a smooth transition as we repay drawings under the Term Funding Scheme for SMEs (TFSME). In the year, we repaid £900m of TFSME funding with the remainder due to be repaid by October 2025. As at 31 December 2023, the Group's drawings under this Bank of England facility reduced to £3.3bn (31 December 2022: £4.2bn). We have repaid a further £600m so far in 2024.

Capital management

The Group's capital position, which reflects the £150m share repurchase programme announced in March 2023 and the post-tax impact of the adverse EIR adjustment, remained strong with a CET1 ratio of 16.1% as at 31 December 2023 (31 December 2022: 18.3%). We expect to continue to operate above our 14% CET1 target as we wait for clarity on the final Basel 3.1 rules, which are expected to be published in the second quarter of 2024.

Following the January issuance of £400m of MREL qualifying debt securities, we met the interim MREL requirement, plus regulatory buffers, of 22.5% of risk weighted assets, under the current standardised rules.

> **We saw an exceptional level of demand for our securitisations and the growing investor base allowed us to achieve very attractive pricing...**

Chief Executive Officer's statement continued

OSB Group has strengthened its compliance with the IRB requirements and has reflected upon the PRAs feedback to the industry. The Group continues to engage with the regulator ahead of commencing the formal application process. Underlying IRB capabilities and disciplines have become progressively more integrated into the Group's business planning, risk, capital, IT and data management disciplines. In particular, enhanced IRB capabilities have played a vital role in informing and shaping the Group's response to the rising costs of living and borrowing.

The Board has recommended a final dividend per share of 21.8 pence (2022: 21.8 pence), which together with the interim dividend per share of 10.2 pence (2022: 8.7 pence), results in a total ordinary dividend per share for the year of 32.0 pence (2022: 30.5 pence), in line with our stated desire to deliver a progressive dividend per share.

The Board remains committed to returning excess capital to shareholders and has today announced a new £50m share repurchase programme over the next six months. When combined with the ordinary dividend, the announced share repurchase represents a total return to shareholders of £177m and demonstrates the Board's intention to use multiple levers to deliver shareholder returns. The Board will consider the potential for additional capital returns later in the year, subject to further MREL issuance to support growth opportunities and meet the final Basel 3.1 requirements once published, subject to regulatory approval.

Investing in our future

The Group is recognised for its efficiency and excellent customer service, and throughout 2023 we continued to invest to remain agile and nimble. We made progress on our digitalisation journey, which will enable us to meet the future needs of our customers, brokers and wider stakeholders, whilst delivering further operational efficiencies. This investment will be a key focus going forward as we deliver digital solutions to enhance our customer propositions.

Our success is dependent on our 2,459 employees across the UK and India, and we took further actions in the year to become a more diverse and inclusive organisation. By the end of the year, we reached our target to have 33% of women in senior management roles in the UK and we set a new target of 40% by the end of 2026. We also made major upgrades to all policies relating to maternity and family benefits in the UK to support our employees who are parents and carers.

I am pleased that in 2023, we also laid solid foundations for achieving our 2050 net zero emissions target in our inaugural Climate Transition Plan that will be published with the annual report. It outlines actionable steps in reducing our operational emissions as well as those from the housing stock we finance.

Looking forward

Our specialist market sub-segments continue to perform well, despite the subdued mortgage market. The Group's target professional landlords demonstrate resilience and provide much needed homes with exceptional support to the Private Rented Sector, and our specialist residential and commercial brands have good levels of demand as customer confidence improves. Our savers remain loyal to the Group, as we offer them good value, with improving customer NPS results. We are confident this will continue as proposition enhancing digital solutions are delivered.

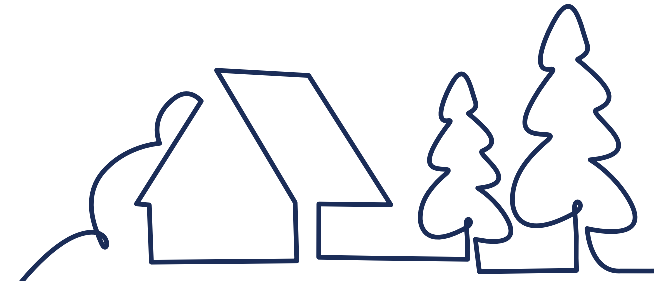
Based on current application volumes and against the backdrop of the subdued mortgage market, the Group expects to deliver underlying net loan book growth of c.5% for 2024.

The underlying net interest margin is expected to be broadly flat to the 2023 underlying NIM of 251bps, reflecting the impact of a higher cost of funds and the full year impact of some lower margin lending in 2023, due primarily to delays in mortgage pricing reflecting the rate rises and higher swap costs. The cost of funding is expected to increase in 2024, primarily due to the normalisation of retail deposit spreads, the impact of planned TFSME repayment, and the cost of MREL qualifying debt issuance.

We will maintain our cost discipline and efficiency however the underlying cost to income ratio is expected to be broadly flat to the 2023 underlying ratio of 33%, commensurate with the NIM guidance.

The Group remains well capitalised, with strong liquidity and a high-quality secured loan book. We have demonstrated the strength of our customer franchises and intermediary relationships and continue to focus on delivering good outcomes for our stakeholders and strong returns for our shareholders.

Andy Golding
Chief Executive Officer



Strategic framework

Our Vision is to be recognised as the UK's number one choice of specialist bank, through our commitment to exceptional service, strong relationships and competitive propositions.

Specialist mortgage lending

Be a leading specialist lender in our chosen market sub-segments

Our goals

Originate loans at attractive margins in our chosen market sub-segments

- Target market sub-segments which offer attractive returns on a risk-adjusted basis
- Invest in a highly responsive, customer-focused culture
- Innovate to secure sustainable segment leadership

2023

- Organic originations were £4.7bn (2022: £5.8bn) in a subdued market with £406m of new business in our InterBay commercial sub-segment
- Proportion of completions due to refinance remained high at 62% under Kent Reliance and 48% under Precise Mortgages as purchase activity fell

Looking forward

- Maintain our strong credit and return requirements and assess the attractive growth opportunities in our current market sub-segments
- Deploy scale and resources on organic lending opportunities
- Identify new market sub-segments with high returns on a risk-adjusted basis

Key risks

- Political and economic uncertainty affecting demand for specialist mortgages and appetite from professional landlords to grow their portfolios
- Potential regulatory changes including legislative focus on Buy-to-Let and environmental regulation
- New specialist lenders entering the market

KPIs

Organic originations

£4.7bn

2022: £5.8bn

Focus on automated and experience-based manual underwriting

Our goals

High-quality decisions protecting the business

- Use deep credit expertise to deliver high-quality lending decisions
- Provide a differentiated underwriting approach based on the needs and characteristics of our customers; offering both an automated approach and a skilled experience-based manual underwriting capability and in-house real estate expertise
- Deliver clear, accurate and efficient decisions recognised by intermediaries for their quality and fairness

2023

- The OSB Transactional Credit Committee met three times a week to assist with more complex and larger new mortgage applications and larger portfolio relationships

Looking forward

- Increase underwriting efficiency to better serve borrower needs across complementary brands
- Invest in digital solutions to support deep underwriting expertise enabling faster decision making and processing

Key risks

- Changing regulations for underwriting
- More complex underwriting requirements
- Difficulty in recruiting experienced colleagues
- Increasing intermediary demands

KPIs

Statutory loan loss ratio

20bps

2022: 13bps

Strategic framework continued

Specialist mortgage lending

Further deepen relationships and reputation for delivery with intermediaries

Our goals

Increase partner engagement in response to demand

- Access to specialist products developed by listening to intermediary partners
- Offer complementary propositions for lending brands across the Group
- Deliver bespoke solutions to meet intermediary and customer needs

2023

- Widened access to the Group's specialist products as we leveraged our complementary brand propositions
- Launched Landlord Leaders Community to drive positive change in the Buy-to-Let sector

Looking forward

- Continue to build direct relationships with intermediaries
- Enhance the digital application process for brokers and customers
- Continue Landlord Leaders programme, providing market leading guidance and support to landlords

Key risks

- More complex underwriting requirements slowing the process
- Speed of investment in technology solutions to ensure that the Group can keep pace with market demands
- Competitive pressures and changing macroeconomic conditions leading to peaks and troughs, affecting service levels

KPIs

OSB broker NPS

57

2022: +37

CCFS broker NPS

57

2022: +39

Sophisticated funding platforms

Maintain stable, high-quality, diversified funding platforms

Our goals

Expertise in funding options

- Maintain resilient and diversified funding platforms to support future growth and ensure that liquidity requirements are met through the economic cycle and cost of funds is optimised
- Be primarily funded through attracting and retaining loyal retail savings customers, whilst maintaining a sophisticated securitisation funding programme and balance sheet management capability

2023

- Opened over 210k new savings accounts across both savings brands in 2023 (2022: 191k)
- Achieved 91% customer retention for Kent Reliance and 85% for Charter Savings Bank
- Completed a £330m securitisation of residential mortgages under the CMF programme
- The Group met its interim MREL requirement, including regulatory buffers, in January 2024 following a further £400m issuance of senior debt

Looking forward

- Increase investment in digitalisation to further enhance customer experience and servicing capabilities
- Benefit from the ability to execute structured balance sheet management transactions across the Group's balance sheet

Key risks

- Competition in wholesale and retail markets as banks repay their TFSME drawings
- Increased expectation for technology-based accounts
- Volatility of capital markets on demand and price

KPIs

Savings accounts opened

over 210,000

2022: over 191,000

Unique operating model

Leverage our unique and cost-efficient operating model

Our goals

Best-in-class customer service

- Have customer service at the heart of everything we do
- Maintain centres of excellence across existing locations in Chatham, Wolverhampton and in India
- Extend activity in OSB India (OSBI) to develop high-quality areas of excellence
- Deliver cost efficiencies through excellent process design and management

2023

- Maintained strong savings customer NPS of +71 for Kent Reliance and +62 for Charter Savings Bank due to our focus on customer service and transparent and fair savings products
- Continued to develop deep credit know-how through strong data analytical capabilities

Looking forward

- Invest in digital solutions to deliver operational efficiencies and enhance our customer propositions
- Deliver cost efficiencies and operational enhancements by leveraging OSBI's lending, savings and support operations and capabilities

Key risks

- Need to achieve continuous service improvement as the Group grows
- Increasing complexity from compliance with changing regulation
- Maintaining operational resilience as the Group grows

KPIs

Statutory cost to income ratio

36%

2022: 27%

Strategy in action

The Group is recognised for its efficiency and excellent customer service and through 2023 we continued to invest to remain agile and nimble.

Our digitalisation journey

We made progress on the digitalisation journey which will enable us to meet the future needs of our customers, brokers and wider stakeholders whilst delivering further operational efficiencies.

Recently we have delivered an advanced digital front end to our Precise Mortgages brand and a new online broker registration process, a one-stop window into the Group's brand portfolio. We have trialled successfully our new digital savings platform and look forward to bringing that to market.

OSB Group has always been a market leader in cost-efficient delivery and our investment in technology will allow us to maintain this reputation whilst also removing friction from our customers experience and enabling a deeper more personal relationship to be built through our focus on their specialist needs.

Segments review

The Group reports its lending business under two segments: OneSavings Bank and Charter Court Financial Services.

OneSavings Bank (OSB) segment

The OSB segment comprises two sub-segments:

BTL/SME:
Buy-to-Let mortgages secured on residential property held for investment purposes by experienced and professional landlords, commercial mortgages secured on commercial and semi-commercial properties held for investment purposes or for owner occupation, residential development finance to small and medium-sized developers, secured funding lines to other lenders and asset finance.

Residential:
First charge mortgages to owner-occupiers, secured against a residential home and under shared ownership schemes.

The following tables present OSB's contribution to profit and loans and advances to customers on a statutory basis:

Contribution to profit

For year ended 31 December 2023	BTL/SME £m	Residential £m	Total £m
Net interest income	**394.4**	**79.4**	**473.8**
Other expense	**(2.5)**	**(0.6)**	**(3.1)**
Total income	**391.9**	**78.8**	**470.7**
Impairment of financial assets	**(36.9)**	**(4.7)**	**(41.6)**
Contribution to profit	**355.0**	**74.1**	**429.1**

For year ended 31 December 2022			
Net interest income	383.1	77.6	460.7
Other income	7.1	1.8	8.9
Total income	390.2	79.4	469.6
Impairment of financial assets	(23.5)	1.2	(22.3)
Contribution to profit	366.7	80.6	447.3

Loans and advances to customers

As at 31 December 2023	BTL/SME £m	Residential £m	Total £m
Gross loans and advances to customers	**12,175.1**	**2,334.2**	**14,509.3**
Expected credit losses	**(102.4)**	**(8.7)**	**(111.1)**
Net loans and advances to customers	**12,072.7**	**2,325.5**	**14,398.2**
Risk-weighted assets	**6,117.9**	**1,068.4**	**7,186.3**

As at 31 December 2022			
Gross loans and advances to customers	10,920.0	2,324.7	13,244.7
Expected credit losses	(95.2)	(8.0)	(103.2)
Net loans and advances to customers	10,824.8	2,316.7	13,141.5
Risk-weighted assets	5,258.8	1,033.7	6,292.5

Segments review continued

OSB segment continued

Buy-to-Let/SME sub-segment

Loans and advances to customers

	31-Dec-2023 £m	31-Dec-2022 £m
Buy-to-Let	**10,764.5**	9,755.0
Commercial	**1,095.7**	881.3
Residential development	**280.8**	184.5
Funding lines	**34.1**	99.2
Gross loans and advances to customers	**12,175.1**	10,920.0
Expected credit losses	**(102.4)**	(95.2)
Net loans and advances to customers	**12,072.7**	10,824.8

Gross loan book
£12,175m
2022: £10,920m
+11%

Net interest income
£394m
2022: £383m
+3%

Contribution to profit
£355m
2022: £367m
-3%

The Buy-to-Let/SME net loan book increased by 12% to £12,072.7m at the end of 2023, supported by strong retention and organic originations of £2,163.7m, which reduced by 5% from £2,283.8m in 2022 in a subdued mortgage market.

Net interest income in this sub-segment increased by 3% to £394.4m (2022: £383.1m), largely reflecting growth in the loan book and an adverse effective interest rate (EIR) adjustment of £0.1m was recognised for the year (2022: £20.0m gain).

Other expenses were £2.5m and related to losses from the Group's hedging activities (2022: £7.1m gain). The impairment charge increased to £36.9m (2022: £23.5m) primarily due to changes in the macroeconomic outlook, model and post-model enhancements, modelled IFRS 9 stage migration and increased arrears. Overall, the Buy-to-Let/SME sub-segment made a contribution to profit of £355.0m, a decrease of 3% compared with £366.7m in 2022.

The Group remained highly focused on the risk assessment of new lending, as demonstrated by the average loan to value (LTV) for Buy-to-Let/SME originations of 70% (2022: 73%).[1] The average book LTV in the Buy-to-Let/SME sub-segment increased to 67% (31 December 2022: 63%)[1] as a result of negative house price inflation in the year. Only 4.0% of loans in this sub-segment exceeded 90% LTV (31 December 2022: 3.2%).

Buy-to-Let

The Buy-to-Let gross loan book increased by 10% to £10,764.5m at the end of December 2023 (31 December 2022: £9,755.0m) benefitting from an increase in refinance activity, as borrowers sought to lock in lower monthly repayments in expectation of further base rate rises. During the year, the Group's originations decreased by 13% in the Buy-to-Let sub-segment to £1,575.4m from £1,804.6m at the end of 2022 as overall market segment volumes reduced significantly.

The proportion of Kent Reliance Buy-to-Let completions represented by refinance increased to 62% from 61% in 2022 as purchase activity fell. In addition, there was also an upward trend in product transfers, with 78% of existing borrowers choosing a new product, under the Choices retention programme, within three months of their initial rate mortgage coming to an end (2022: 72%).

The Group's borrowers continued to favour five-year fixed rate mortgages, which represented 74% of Kent Reliance completions in 2023 (2022: 83%), however an increasing proportion of customers elected to take shorter-term mortgages in anticipation of falling interest rates.

Landlords continued to optimise their businesses from a tax perspective, with 87% of Kent Reliance mortgage applications for purchases coming from landlords borrowing via a limited company (2022: 78%), and overall professional, multi-property landlords represented 91% of completions by value for the Kent Reliance brand in 2023 (2022: 86%).

Research conducted by BVA BDRC on behalf of the Group, showed that the proportion of landlords planning to purchase properties was low relative to historical averages, reflecting wider macroeconomic conditions, although this increased modestly year-on-year to 11% in the fourth quarter (Q4 2022: 9%). There was positivity in the Group's Landlord Leaders research which found that 42% are optimistic about operating as a landlord in the future while 24% have a neutral outlook. The research also found that 65% of landlords are considering or have already transitioned to become incorporated entities, reflecting ongoing landlord professionalisation.

The weighted average LTV of the Buy-to-Let book as at 31 December 2023 was 66% with an average loan size of £255k (31 December 2022: 62% and £255k). The weighted average interest coverage ratio for Buy-to-Let originations during 2023 were 176% (2022: 207%).

1. Buy-to-Let/SME sub-segment average weighted LTVs include Kent Reliance and InterBay Buy-to-Let, semi-commercial and commercial lending.

Segments review continued

OSB segment continued

Commercial

Through its InterBay brand, the Group lends to borrowers investing in commercial and semi-commercial property, reported in the Commercial total, and more complex Buy-to-Let properties and portfolios, reported in the Buy-to-Let total.

The Group experienced an increased level of business following the launch of new products in February and March. The refreshed range of InterBay products included the reintroduction of two-year fixed rate mortgages, lower LTV mortgages and a reduced minimum loan size. Organic originations increased by 46% to £405.6m in 2023 (2022: £278.7m) supporting a 24% increase in the gross loan book to £1,095.7m as at 31 December 2023 (2022: £881.3m). The Group also expanded its bridging finance range offered by the InterBay brand in July, relaunching products to support landlords seeking to purchase or renovate commercial and semi-commercial properties.

The weighted average LTV of the commercial book increased to 73%, largely due to a reduction in commercial property values. The average loan size was £410k in 2023 (2022: 69% and £375k).

InterBay Asset Finance, which predominantly targets UK SMEs and small corporates financing business critical assets, continued to grow adding to its high-quality portfolio with the gross carrying amount under finance leases increasing by 36% to £222.7m as at 31 December 2023 (31 December 2022: £163.2m).

Residential development

Our Heritable residential development business provides development finance to small and medium-sized residential property developers. The preference is to fund house builders which operate outside of central London and provide relatively affordable family housing, as opposed to complex city centre schemes where affordability and construction cost control can be more challenging. New applications represented repeat business from the team's extensive existing relationships and Heritable continued to take an exacting approach to approving funding for new customers.

The residential development finance gross loan book at the end of 2023 was £280.8m, with a further £120.9m committed (31 December 2022: £184.5m and £162.2m, respectively). Total approved limits were £566.8m, exceeding drawn and committed funds due to the revolving nature of the facility, where construction is phased and facilities are redrawn as sales on the initially developed properties occur (31 December 2022: £502.6m).

At the end of 2023, Heritable had commitments to finance the development of 2,709 residential units, the majority of which are houses located outside of central London or other major cities in England.

Funding lines

OSB continued to provide secured funding lines to non-bank lenders which operate in certain high-yielding, specialist sub-segments, primarily secured against property-related mortgages. Total credit approved limits as at the end of 2023 were £197.1m with total gross loans outstanding of £34.1m (31 December 2022: £274.0m and £99.2m, respectively). During the year, the Group maintained a cautious risk approach focusing on servicing existing customers.

Segments review continued

OSB segment continued

Residential sub-segment

> The Residential sub-segment net interest income increased 2% in the year to £79m...

Loans and advances to customers

	31-Dec-2023 £m	31-Dec-2022 £m
First charge	**2,199.1**	2,152.9
Second charge	**135.1**	171.8
Gross loans and advances to customers	**2,334.2**	2,324.7
Expected credit losses	**(8.7)**	(8.0)
Net loans and advances to customers	**2,325.5**	2,316.7

Gross loan book
£2,334m
2022: £2,325m

Net interest income
£79m
2022: £78m
+2%

Contribution to profit
£74m
2022: £81m
-8%

The Residential sub-segment net loan book was £2,325.5m as at 31 December 2023, broadly flat compared with £2,316.7m in the prior year and organic originations reduced to £342.2m in the year (2022: £575.9m) reflecting reduced customer demand in a subdued market.

Net interest income in the Residential sub-segment increased by 2% to £79.4m (2022: £77.6m) and this sub-segment recognised a favourable EIR adjustment of £1.0m based on updated customer behavioural trends (2022: £1.6m loss). Other expenses of £0.6m (2022: £1.8m other income) related to losses from the Group's hedging activities and the impairment charge was £4.7m (2022: £1.2m credit). The impairment charge was largely due to modelled IFRS 9 stage migration and increased arrears. Overall, contribution to profit from this sub-segment reduced by 8% to £74.1m for the year compared with £80.6m in 2022.

The average book LTV increased to 48% (31 December 2022: 45%)[1] as a result of negative house price inflation, with only 2.2% of loans with LTVs exceeding 90% (31 December 2022: 0.8%). The average LTV of new residential origination during 2023 decreased to 62% (2022: 64%)[1] as a result of an increase in lower LTV owner-occupied originations.

First charge

First charge mortgages are provided under the Kent Reliance brand, which largely serves prime credit quality borrowers with more complex circumstances. This includes high net worth individuals with multiple income sources and self-employed borrowers, as well as those buying a property in conjunction with a housing association under shared ownership schemes.

The first charge gross loan book increased 2% in the year to £2,199.1m from £2,152.9m at the end of 2022.

Second charge

The OSB second charge mortgage book is in run-off and managed by Precise Mortgages. Total gross loans were £135.1m at the end of 2023 (31 December 2022: £171.8m).

1. Residential sub-segment average weighted LTVs include first and second charge lending.

Segments review continued

Charter Court Financial Services (CCFS) segment

The CCFS segment comprises four sub-segments:

Buy-to-Let mortgages secured on residential property held for investment purposes by both non-professional and professional landlords, residential mortgages to owner-occupiers secured against residential properties including those unsupported by the high street banks, short-term bridging secured against residential property in both the regulated and unregulated sectors and the second charge loan book which is in run-off.

The following tables present CCFS' contribution to profit and loans and advances to customers on an underlying basis, excluding acquisition-related items and a reconciliation to the statutory results.

Contribution to profit

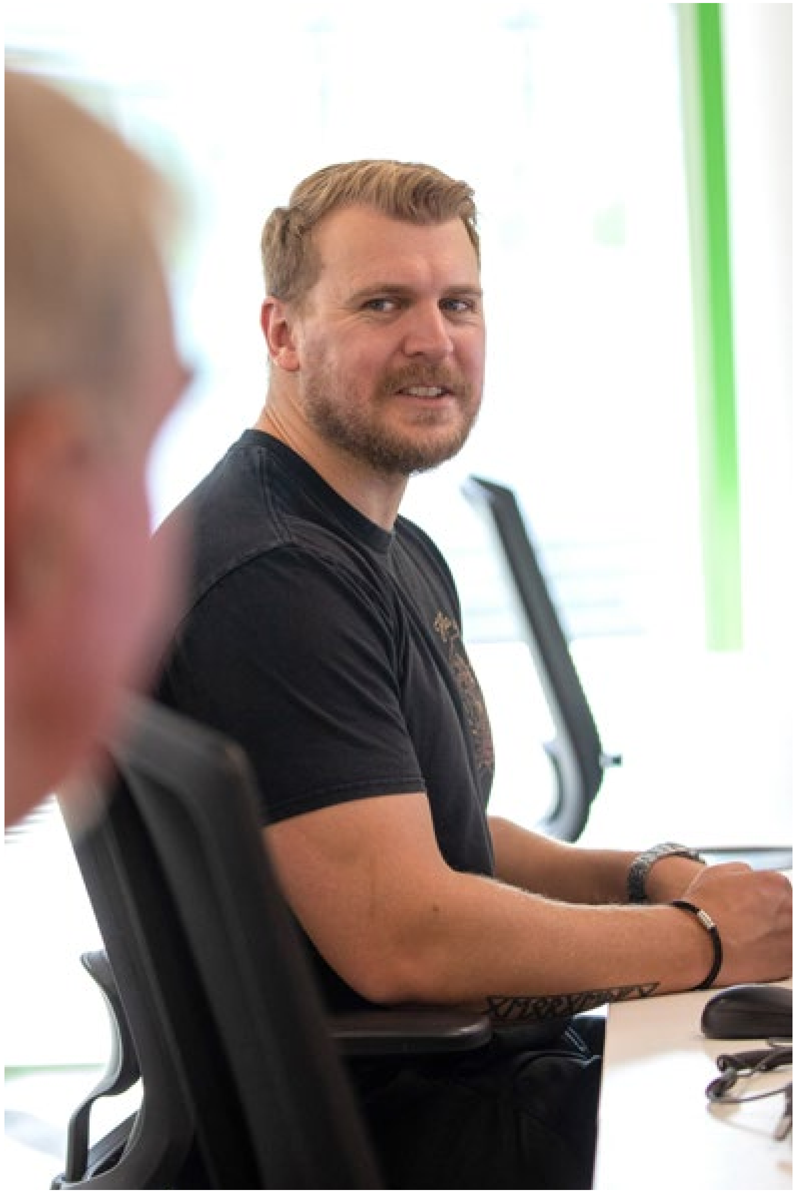
For year ended 31 December 2023	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1] £m	Total underlying £m	Acquisition-related items[2] £m	Total statutory £m
Net interest income	**127.4**	**75.2**	**8.8**	**4.8**	**24.7**	**240.9**	**(56.1)**	**184.8**
Other (expense)/income	**–**	**–**	**–**	**–**	**(3.8)**	**(3.8)**	**6.4**	**(2.6)**
Total income	**127.4**	**75.2**	**8.8**	**4.8**	**20.9**	**237.1**	**(49.7)**	**187.4**
Impairment of financial assets	**(5.0)**	**(1.2)**	**(0.7)**	**–**	**–**	**(6.9)**	**(0.3)**	**(7.2)**
Contribution to profit	**122.4**	**74.0**	**8.1**	**4.8**	**20.9**	**230.2**	**(50.0)**	**180.2**

For year ended 31 December 2022	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1] £m	Total underlying £m	Acquisition-related items[2] £m	Total statutory £m
Net interest income	206.0	96.0	5.0	5.9	(4.5)	308.4	(59.2)	249.2
Other income	–	–	–	–	46.2	46.2	10.4	56.6
Total income	206.0	96.0	5.0	5.9	41.7	354.6	(48.8)	305.8
Impairment of financial assets	(9.5)	1.2	(0.2)	0.1	–	(8.4)	0.9	(7.5)
Contribution to profit	196.5	97.2	4.8	6.0	41.7	346.2	(47.9)	298.3

1. Other relates to net interest income from acquired loan portfolios as well as gains on structured asset sales, fee income from third party mortgage servicing and gains or losses on the Group's hedging activities.
2. For more details on acquisition-related adjustments, see Reconciliation of statutory to underlying results in the Financial review.

Segments review continued

CCFS segment continued



Loans and advances to customers

As at 31 December 2023	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1] £m	Total underlying £m	Acquisition-related items[2] £m	Total statutory £m
Gross loans and advances to customers	**7,921.5**	**3,026.0**	**333.1**	**83.0**	**13.6**	**11,377.2**	**24.3**	**11,401.5**
Expected credit losses	**(29.0)**	**(5.4)**	**(1.2)**	**(0.2)**	**–**	**(35.8)**	**1.1**	**(34.7)**
Net loans and advances to customers	**7,892.5**	**3,020.6**	**331.9**	**82.8**	**13.6**	**11,341.4**	**25.4**	**11,366.8**
Risk-weighted assets	**3,138.9**	**1,263.0**	**167.5**	**35.8**	**5.4**	**4,610.6**	**48.7**	**4,659.3**

As at 31 December 2022	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1] £m	Total underlying £m	Acquisition-related items[2] £m	Total statutory £m
Gross loans and advances to customers	7,468.8	2,671.3	149.7	111.9	14.6	10,416.3	81.7	10,498.0
Expected credit losses	(23.5)	(3.8)	(0.5)	(0.2)	–	(28.0)	1.2	(26.8)
Net loans and advances to customers	7,445.3	2,667.5	149.2	111.7	14.6	10,388.3	82.9	10,471.2
Risk-weighted assets	2,927.1	1,107.3	70.9	45.4	5.5	4,156.2	46.0	4,202.2

1. Other relates to acquired loan portfolio.
2. For more details on acquisition-related adjustments, see Reconciliation of statutory to underlying results in the Financial review.

Segments review continued

Charter Court Financial Services (CCFS) segment

Underlying loans and advances to customers

	31-Dec-2023 £m	31-Dec-2022 £m
Buy-to-Let	**7,921.5**	7,468.8
Residential	**3,026.0**	2,671.3
Bridging	**333.1**	149.7
Second charge	**83.0**	111.9
Other[1]	**13.6**	14.6
Gross loans and advances to customers	**11,377.2**	10,416.3
Expected credit losses	**(35.8)**	(28.0)
Net loans and advances to customers	**11,341.4**	10,388.3

1. Other relates to acquired loan portfolios.

Gross loan book[2]

£11,377m

2022: £10,416m

+9%

Net interest income[2]

£241m

2022: £308m

-22%

Contribution to profit[2]

£230m

2022: £346m

-34%

2. Underlying.

The CCFS underlying net loan book grew by 9% to £11,341.4m at the end of 2023 (31 December 2022: £10,388.3m) supported by strong retention and organic originations of £2,186.8m, which decreased by 26% from £2,969.4m of new business written in 2022 reflecting a subdued mortgage market.

CCFS Buy-to-Let sub-segment

Organic originations in the Buy-to-Let sub-segment through the Precise Mortgages brand decreased in 2023 to £1,006.0m (2022: £1,998.7m) reflecting the impact of the higher interest rate environment on smaller portfolio and individual landlords. The underlying gross Buy-to-Let loan book grew by 6% in the year to £7,921.5m from £7,468.8m at the end of 2022 supported by strong refinance activity.

Underlying net interest income in this sub-segment reduced to £127.4m compared with £206.0m in the prior year, as the benefit of loan book growth was more than offset by the underlying adverse EIR adjustment of £139.5m (2022: £37.5m loss). The EIR adjustment related to the expectation that Precise Mortgages customers would spend less time on the higher reversion rate before refinancing, based on observed customer behavioural trends.

This sub-segment recognised an impairment charge of £5.0m (2022: £9.5m) largely due to changes in the macroeconomic outlook, modelled IFRS 9 stage migration and increased arrears. On an underlying basis, Buy-to-Let made a contribution to profit of £122.4m, compared with £196.5m in the prior year, with the decline largely due to the impact of the adverse EIR adjustment.

On a statutory basis, the Buy-to-Let sub-segment made a contribution to profit of £82.1m (2022: £154.8m).

Refinance activity continued to represent nearly half of Precise Mortgages completions, at 48%, as landlords sought to lock in lower monthly repayments in expectation of further base rate rises (2022: 50%). Under the Precise Mortgages retention programme, 66% of existing borrowers chose a new product within three months of their initial rate mortgage coming to an end in the year (2022: 35%).

Five-year fixed rate products accounted for 67% of Precise Mortgages completions, down from 74% in 2022, as an increasing proportion of customers elected to take shorter-term mortgages in anticipation of falling interest rates. Borrowing via a limited company made up 68% of Buy-to-Let completions in 2023 (2022: 65%) and the proportion of completions for loans for specialist property types, including houses of multiple occupation and multi-unit properties remained at 21%.

Research conducted by BVA BDRC in the fourth quarter of 2023 on behalf of the Group found that over six in ten landlords that intended to acquire new properties planned to do so within a limited company structure, in line with an upward trend that has been observed over a number of years, reflecting ongoing landlord professionalisation.

The weighted average LTV of the loan book in this segment increased to 68% due to negative house price inflation in 2023 (2022: 66%). The new lending average LTV was 71% with an average loan size of £190k (2022: 73% and £191k, respectively). The weighted average interest coverage ratio for Buy-to-Let origination was 154% in 2023 (2022: 191%).

CCFS Residential sub-segment

The underlying gross loan book in CCFS' Residential sub-segment reached £3,026.0m by 31 December 2023, an increase of 13% from £2,671.3m as at 31 December 2022, supported by organic originations of £743.6m (2022: £749.4m). The Group continued to benefit from CCFS' expertise, with a strong focus on self-employed individuals and those with minor adverse credit records.

Underlying net interest income reduced to £75.2m (2022: £96.0m) as the benefit of loan book growth was more than offset by the underlying adverse EIR adjustment of £43.0m (2022: £4.0m loss). The EIR adjustment related to the expectation that Precise Mortgages borrowers would spend less time on the higher reversion rate before

Segments review continued

CCFS segment continued

refinancing, based on observed customer behavioural trends. The Residential sub-segment recorded an impairment charge of £1.2m (2022: £1.2m credit) largely due to changes in the macroeconomic outlook, modelled IFRS 9 stage migration and increased arrears. Overall, on an underlying basis, the Residential sub-segment made a contribution to profit of £74.0m, compared with £97.2m in 2022 and £59.5m on a statutory basis (2022: £81.9m).

The average loan size in this sub-segment was £160k (31 December 2022: £147k) with an average LTV for new lending of 63% (2022: 66%) and an increase in book LTV to 59% as a result of negative house price inflation in the year (31 December 2022: 57%).

CCFS Bridging sub-segment

The Group's short term lending offering saw continued success in 2023 as borrowers made use of its regulated and non-regulated products to assist with chain-break finance, refurbishment works and property conversions, while the Group's refurbishment Buy-to-Let proposition also remained popular. The sub-segment saw originations of £437.2m, double the amount of £217.5m recorded in 2022,and a growth in the underlying gross loan book to £333.1m as at 31 December 2023 (31 December 2022: £149.7m).

Underlying net interest income increased by 76% to £8.8m (2022: £5.0m), and the impairment charge was £0.7m (2022: £0.2m) largely due to balance sheet growth. The bridging sub-segment made a contribution to profit of £8.1m in 2023 on an underlying basis compared with £4.8m in 2022 and £6.9m on a statutory basis (2022: £4.2m).

CCFS Second charge sub-segment

The second charge gross loan book reduced to £83.0m compared with £111.9m as at 31 December 2022, as the Group no longer offers second charge products under the Precise Mortgages brand and the book is in run-off.

Key performance indicators

Throughout the Strategic report, the results and the Key performance indicators (KPIs) are presented on a statutory and an underlying basis.

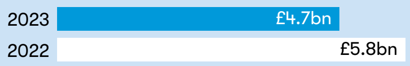
Management believes that the underlying results and KPIs provide a more consistent basis for comparing the Group's performance between financial periods.

Underlying results and KPIs for 2023 and 2022 exclude integration costs and other acquisition-related items. For a reconciliation of statutory results to underlying results, see page 44.

The Group's external auditor performed an independent reasonable assurance review of certain KPIs as marked with the symbol Δ – see the Appendix for the auditor's assurance report.

Gross new lendingΔ

-20%

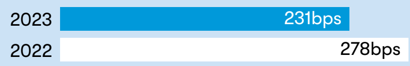


Definition
Gross new lending is defined as gross new organic lending before redemptions.

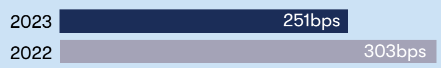
2023 performance
Gross new lending decreased in the year reflecting subdued mortgage market due to rising interest rates and affordability pressures.

Net interest margin (NIM)Δ

-47bps



-52bps

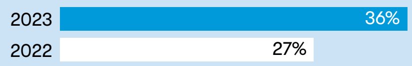


Definition
NIM is defined as net interest income as a percentage of a 13-point average of interest earning assets (cash, investment securities, loans and advances to customers and credit institutions). It represents the margin earned on loans and advances and liquid assets after swap expense/income and cost of funds.

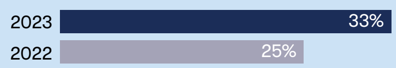
2023 performance
Statutory and underlying NIM reduced in 2023 largely due to the adverse EIR adjustment and as the benefit of the lower cost of retail funding was offset by the impact of some lower margin lending due primarily to delays in mortgage pricing reflecting the rate rises and higher swap costs.

Cost to income ratioΔ

+9ppt



+8ppt



Definition
Cost to income ratio is defined as administrative expenses as a percentage of total income. It is a measure of operational efficiency.

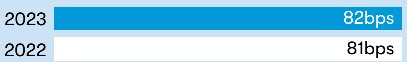
2023 performance
Statutory and underlying cost to income ratios increased in 2023 primarily as a result of lower income due to the adverse EIR adjustment and a net fair value loss on financial instruments compared with a gain in the prior year.

Key:
Statutory 2023
Statutory 2022
Underlying 2023
Underlying 2022

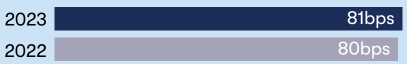
Key performance indicators continued

Management expense ratio[Δ]

+1bp



+1bp



Definition

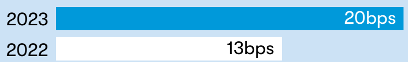
Management expense ratio is defined as administrative expenses as a percentage of a 13-point average of total assets. It is a measure of operational efficiency.

2023 performance

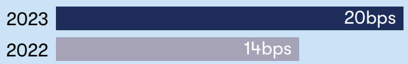
Statutory and underlying management expense ratios remained broadly flat in the year demonstrating the Group's focus on cost discipline and efficiency.

Loan loss ratio[Δ]

+7bps



+6bps



Definition

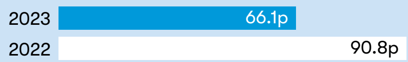
Loan loss ratio is defined as expected credit losses as a percentage of a 13-point average of gross loans and advances. It is a measure of the credit performance of the loan book.

2023 performance

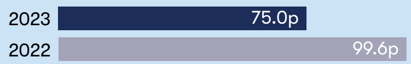
Statutory and underlying loan loss ratios increased in the year largely due to updated macroeconomic scenarios, changes in the risk profile of borrowers as they transitioned through modelled IFRS 9 impairment stages, loan book growth and an increase in balances in arrears of three months or more.

Basic EPS[Δ] (pence per share)

-27%



-25%



Definition

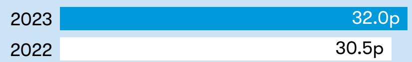
Basic EPS is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on AT1 securities, gross of tax, divided by the weighted average number of ordinary shares in issue.

2023 performance

Statutory and underlying basic EPS decreased largely due to lower profit after tax as a result of the adverse EIR adjustment.

Ordinary dividend per share[Δ] (pence per share)

+5%



2022 Special dividend of 11.7p

Definition

Dividend per share is defined as the sum of the recommended final dividend per share and any interim dividend per share for the year.

2023 performance

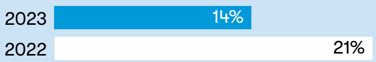
The Board has recommended a final dividend for 2023 of 21.8 pence per share, which together with the 2023 interim dividend of 10.2 pence represents a total ordinary dividend of 32.0 pence per share.

For calculation of the final dividend, see the Appendix.

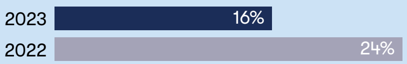
Key performance indicators continued

Return on equity[Δ]

-7ppt



-8ppt



Definition

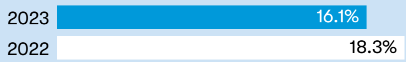
Return on equity is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on AT1 securities, gross of tax, as a percentage of a 13-point average of shareholders' equity (excluding £150m of AT1 securities).

2023 performance

The lower statutory and underlying return on equity reflected the reduction in profitability primarily due to the adverse EIR adjustment.

CRD IV Common Equity – Tier 1 capital ratio

-220bps



Definition

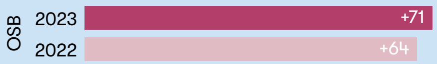
It is defined as Common Equity Tier 1 (CET1) capital as a percentage of risk-weighted assets (calculated on a standardised basis for credit risk and operational risk) and is a measure of the capital strength of the Group (for more information, see note 52 to the Consolidated Financial Statements).

2023 performance

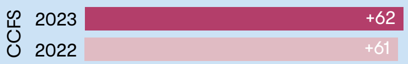
The CET1 ratio remained strong, although reduced due to lower profitability in the year as a result of the adverse EIR adjustment, loan book growth, foreseeable and paid dividends and the impact of the £150m share repurchase programme completed in 2023.

Savings customer satisfaction – Net Promoter Score[1]

+7



+1



Definition

The NPS measures customers' satisfaction with services and products. It is based on customer responses to the question of whether they would recommend us to a friend. The response scale is 0 for absolutely not to 10 for definitely yes. Based on the score, a customer is a detractor between 0 and 6, a passive between 7 and 8 and a promoter between 9 and 10. Subtracting the percentage of detractors from promoters gives an NPS of between -100 and +100.

2023 performance

Savings customer NPS increased due to fair savings products offering and excellent customer service.

1. Prior to Q4 2022 the CCFS NPS was measured using its legacy engagement programme, thereafter measurement was aligned to the OSB Group programme.

   The 2022 OSB NPS included email surveys in November and December. The 2023 OSB NPS included interactive voice recognition surveys, which were not considered for CCFS score.

Effective interest rate adjustment overview

2023 results included a total net adverse effective interest rate (EIR) adjustment of £210.7m on a statutory basis and £181.6m on an underlying basis which was included in Net Interest Income. This adjustment was equivalent to 72bps of statutory net interest margin (NIM) and 63bps of underlying NIM.

Interest rates and volatile outlook

The Bank of England raised the UK's Bank Base Rate (BBR) 13 times from the start of 2022 through to 31 December 2023, as summarised in Table 1. The interest rate outlook was also volatile across the same period and Table 2 shows the futures implied BBR peak since 30 June 2021 by quarter.

Table 1

Date changed	BBR %
December 2021	0.25
February 2022	0.50
March 2022	0.75
May 2022	1.00
June 2022	1.25
August 2022	1.75
September 2022	2.25
November 2022	3.00
December 2022	3.50
February 2023	4.00
March 2023	4.25
May 2023	4.50
June 2023	5.00
August 2023	5.25

Table 2

Date	Implied BBR peak[1] %
30 June 2021	0.70
30 September 2021	0.99
31 December 2021	1.37
31 March 2022	2.52
30 June 2022	3.09
30 September 2022	5.88
31 December 2022	4.74
31 March 2023	4.65
30 June 2023	6.29
30 September 2023	5.45
31 December 2023	5.28

1. Bloomberg, implied peak interest rate futures pricing at the applicable date.

Impact on customer behaviour

These rapid BBR rises and fluctuating interest rate expectations led to customer behavioural changes. Precise Mortgages (Precise) fixed rate products were designed to revert to a rate which was similar to the initial fixed rate and open market rates. This encouraged borrowers to spend significant time on the variable reversion rate before choosing a new fixed rate product or refinancing with another lender.

Over the course of the first half of 2023, the Group observed a step change in how long these customers were spending on the reversion rate, in particular the attrition rate of borrowers who historically stayed on the reversion rate for several months.

Precise customers generally contractually revert to a margin over BBR at the end of their fixed rate term.

As BBR continued to rise, customers saw steep increases in the BBR linked reversion rate, and as the Group continued to develop its Precise retention programme, customers chose to refinance earlier and spent less time on the higher reversion rate compared to previously observed behavioural trends.

In contrast, the Kent Reliance brand has historically had a higher reversion rate, its managed standard variable rate (SVR), resulting in a significant rate step-up in reversion versus both the fixed rate and open market rates. Due to this step up, Kent Reliance has a long and well-established broker led retention programme, Choices, to encourage borrowers to switch to a new product quickly. Kent Reliance customers have therefore spent less time on reversion historically than Precise customers and their behaviour is therefore less sensitive to increasing interest rates.

Table 3 illustrates the different way in which Precise and Kent Reliance mortgages have reverted since 2020, by showing the difference between the average fixed and reversion rates for five-year fixed Buy-to-Let products when they reached the end of their initial fixed rate term.

The table shows that the Precise Buy-to-Let five-year fixed rate products on average reverted to a variable rate broadly consistent with the fixed rate prior to the rapid rise in BBR. Conversely, the Kent Reliance five-year fixed rate products have consistently had a higher step-up in reversion providing an incentive to refinance quickly.

Table 3

	Five-year fixed Buy-to-Let step up in reversion	
	Precise ppt	Kent Reliance ppt
2020	0.1	1.3
2021	(0.1)	1.7
2022 Q1	0.4	2.2
2022 Q2	1.1	3.0
2022 Q3	2.1	3.6
2022 Q4	3.7	4.5
2023 Q1	4.7	5.7
2023 Q2	5.6	6.4
2023 Q3	6.3	7.3
2023 Q4	6.8	7.4

The step-change in customer behavioural trends, observed over the course of the first half of 2023, led to a decrease in the weighted average number of months that Precise Mortgages borrowers who reach the end of their fixed term were expected to spend on the reversion rate before refinancing from c.17 months to c.5 months. The weighted average number of c.5 months remained unchanged as at 31 December 2023.

Kent Reliance borrowers, who reach the end of their fixed term were expected to spend on average 1-2 months on the reversion rate as at 31 December 2023.

Effective interest rate adjustment overview continued

Impact of the step-change in behaviour in reversion for Precise customers

The reduction in the expected time spent on reversion by Precise customers from c.17 to c.5 months, resulted in an adverse underlying EIR adjustment to the carrying value of Loans and Advances to Customers through Net Interest Income of £182.5m in 2023, of which £178.0m was recognised in the first half.

This moved the Precise EIR asset to an EIR liability. Other Group EIR adjustments totalled £0.9m as at 31 December 2023.

Table 4 details Precise Mortgages' underlying EIR assets and liabilities, with the movement in the balance sheet recognised in Net Interest Income in each year:

Table 4

Precise Mortgages EIR	Movement recognised through Net Interest Income £m	Net £m	Underlying EIR asset/(liability) £m
As at 31 December 2019			**5.6**
Recognition of interest income	16.8		
Behavioural adjustment	(2.0)		
As at 31 December 2020		**14.8**	**20.4**
Recognition of interest income	12.6		
Behavioural adjustment	(14.7)		
As at 31 December 2021		**(2.1)**	**18.3**
Recognition of interest income	70.6		
Behavioural adjustment	(41.7)		
As at 31 December 2022		**28.9**	**47.3**
Recognition of interest income	106.9		
Behavioural adjustment[1]	(182.5)		
As at 31 December 2023		**75.6**	**(28.4)**

1. Includes £4.5m of other behavioural adjustments in the second half.

Precise has historically had an EIR asset, primarily reflecting the expected time spent in reversion and early repayment charges (ERC) income which moved to a liability of £28.4m as at 31 December 2023 following the adverse EIR adjustment. This liability will unwind over the remaining life of the mortgages.

Kent Reliance had a net EIR liability of £2.6m as at 31 December 2023 (31 December 2022: £17.2m liability) due to the deferral of net fee income outweighing the impact of expected ERC income and time spent in reversion.

The Group's commercial brand, InterBay, had an EIR asset of £5.7m as at 31 December 2023 (31 December 2022: £8.8m asset) in relation to expected ERC income and time spent in reversion. InterBay products did not change in reversion versus the initial fixed rate until 2022 when BBR and LIBOR replacement first exceeded the interest rate floors used in the reversion periods for these products.

Behavioural sensitivities

A three months' movement in the weighted average time spent in the reversion period for Precise is considered to be a reasonably possible change in assumption in a sustained high interest rate environment and an uncertain macroeconomic outlook. Applying a +/- 3 months movement in the time spent on reversion would lead to a +/- c.£77m impact on the underlying Net Interest Income and +/- c.£82m impact on the statutory Net Interest Income.

This sensitivity will increase/decrease as BBR rises/falls.

Sensitivity to changes in base rate

As the BBR increased throughout 2022 and 2023, using the effective interest rate approach resulted in additional monthly net interest income as the benefit of time spent on a reversion rate became greater. If BBR decreases this will lead to a decrease in monthly net interest income. If BBR were to reduce by 50bps it is estimated that this will decrease monthly net interest income by £1.2m across Precise and Kent Reliance Mortgages.

The full year adverse EIR adjustment remained broadly unchanged from the half year...

Effective interest rate adjustment overview continued

EIR accounting overview

In accordance with IFRS 9, the Group recognises interest income from mortgages using the effective interest method, which aims to recognise interest income at a consistent effective interest rate (EIR) over the expected life of the mortgages.

The effective interest method requires that an EIR% is calculated at origination that considers all contractual and behavioural cash flows associated with the mortgage including fees, early redemption charges (ERCs) and the average time the customer spends on the reversion rate after the initial fixed rate period. This has the effect of bringing forward expected income from the reversion period. An EIR asset is built up over time from origination in respect of expected ERC income and reversion income. An EIR liability is recognised at origination in respect of deferred net fee income.

The Group uses the latest observable trends to predict future behaviour in reversion and assumes current interest rates for reversion cash flows when calculating the EIR.

For Precise Mortgages products the reversion rate is generally linked to BBR and if this remains static, there is no change to the EIR% calculated at origination. If BBR increases, the EIR methodology prescribes that the EIR% is recalculated immediately to reflect the higher anticipated income in the reversion period, which leads to higher revenue recognition over the expected remaining life of the mortgage.

A change in customer behaviour, which emerges over time, for example customers spending less time on the reversion rate before refinancing, can also lead to a change in expected cash flows and the revenue to be recognised. Generally, such a change would cause a reduction in the anticipated total amount of interest received from the customer over the revised expected life of the mortgage. Similarly, an expectation of a longer period spent on the reversion rate would lead to an increase in the anticipated total amount of interest received over the revised, longer life of a mortgage.

The EIR% for a loan is not adjusted for behavioural changes where a trend in customer behaviour is observed. Instead IFRS 9 requires an immediate adjustment to the carrying value of Loans and Advances to Customers, with a corresponding gain or loss recognised in the income statement. This maintains the EIR% for the loan over its remaining behavioural life.

In a rapidly rising rate environment, changes in BBR are observable immediately and are reflected in revisions to the EIR, applied prospectively, whereas trends in customer behaviour take more time to emerge. This leads to use of an EIR% calculated based on cash flows in reversion that are no longer expected, resulting in a dynamic where a behavioural-driven adjustment, due to customers spending less time on the reversion rate, can create an EIR liability. This liability unwinds over the remaining expected life of the mortgages to adjust interest accruals to actual cash receipts.

The Group's retention programmes

Kent Reliance has a long and well-established broker led retention programme, Choices, to encourage borrowers to switch to a new product quickly rather than refinance away from the Group after a period on the higher reversion rate. This programme has been successful in retaining borrowers by engaging with them before the end of their fixed rate term and offering preferential terms compared to new customer offers to reflect the Group's lower processing costs. In 2023, 78% (2022: 72%) of existing borrowers chose a new KR product within 3 months of their initial rate mortgage coming to an end.

The Group introduced a similar proactive retention programme for Precise borrowers in October 2022 in reaction to the BBR increases and the resulting step-up in rates on reversion. There was a steady improvement in retention with 66% (2022: 35%) of existing Precise borrowers choosing a new product within 3 months of their initial rate mortgage coming to an end in 2023.

Financial review

Review of the Group's performance presented on a statutory basis for 2023 and 2022

Summary Profit or Loss	Group 31-Dec-2023 £m	Group 31-Dec-2022 £m
Net interest income	**658.6**	709.9
Net fair value (loss)/gain on financial instruments	**(4.4)**	58.9
Other operating income	**3.9**	6.6
Administrative expenses	**(234.6)**	(207.8)
Provisions	**(0.4)**	1.6
Impairment of financial assets	**(48.8)**	(29.8)
Integration costs	**-**	(7.9)
Profit before tax	**374.3**	531.5
Profit after tax	**282.6**	410.0

Key ratios Δ		
Net interest margin	**231bps**	278bps
Cost to income ratio	**36%**	27%
Management expense ratio	**82bps**	81bps
Loan loss ratio	**20bps**	13bps
Return on equity	**14%**	21%
Basic earnings per share, pence	**66.1**	90.8
Ordinary dividend per share, pence	**32.0**	30.5
Special dividend per share, pence	**-**	11.7

Extracts from the Statement of Financial Position	£m	£m
Loans and advances to customers	**25,765.0**	23,612.7
Retail deposits	**22,126.6**	19,755.8
Total assets	**29,589.8**	27,566.7

Key ratios		
Common equity tier 1 ratio	**16.1%**	18.3%
Total capital ratio	**19.5%**	19.7%
Leverage ratio	**7.5%**	8.4%

For definitions of key ratios, see Key performance indicators on pages 33-35, for more detail on the calculation of key ratios, see the Appendix **see pages 265-267.**

The Group's external auditor performed an independent reasonable assurance review of certain alternative performance measures as highlighted with the symbol Δ – **see the Appendix for the auditor's statement.**

Statutory profit

The Group's statutory profit before tax decreased by 30% to £374.3m (2022: £531.5m) after acquisition-related items of £51.7m[1] (2022: £59.6m). The benefit of net loan book growth was more than offset by the total net adverse statutory effective interest rate (EIR) adjustment of £210.7m. The decrease in statutory profit before tax was also due to a net fair value loss on financial instruments compared with a gain in the prior year, higher administration costs and a higher impairment charge.

Statutory profit after tax was £282.6m in 2023, a decrease of 31% from £410.0m in the prior year and included acquisition-related items of £37.1m[1] (2022: £38.7m). The Group's effective tax rate increased to 24.6%[2] due to higher corporation tax rates, partially offset by a lower proportion of the profits being subject to the bank surcharge (2022: 24.0%).

Statutory return on equity for 2023 reduced to 14% (2022: 21%) reflecting the reduction in profitability in the year.

Statutory basic earnings per share decreased to 66.1 pence (2022: 90.8 pence), in line with the decrease in profit after tax.

Statutory profit before tax

£374.3m

2022: £531.5m

Common Equity Tier 1 ratio

16.1%

2022: 18.3%

Financial review continued

Net interest income

Statutory net interest income decreased by 7% in 2023 to £658.6m (2022: £709.9m), as the benefit of net loan book growth was more than offset by the total net adverse EIR adjustment of £210.7m on a statutory basis. The adverse EIR adjustment primarily related to the expectation that Precise Mortgages borrowers would spend less time on the higher reversion rate before refinancing based on observed customer behavioural trends.

Statutory net interest margin (NIM) was 231bps compared with 278bps in the prior year, down 47bps, largely due to the adverse EIR adjustment and as the benefit of the lower cost of retail funding was offset by the impact of some lower margin lending due primarily to delays in mortgage pricing reflecting the rate rises and higher swap costs.

The total net adverse EIR adjustment accounted for 72bps of statutory NIM for the year ended 31 December 2023.

Net fair value loss on financial instruments

Statutory net fair value loss on financial instruments of £4.4m in 2023 (2022: £58.9m gain) included a £11.1m net loss on unmatched swaps (2022: £57.1m gain) following a reduction in swap prices in the fourth quarter and a gain of £2.0m (2022: £8.1m loss) in respect of the ineffective portion of hedges.

The Group also recorded a £6.4m net gain (2022: £10.2m gain) from the unwind of acquisition-related inception adjustments, a 4.3m loss (2022: £1.2m gain) from the amortisation of hedge accounting inception adjustments and a net gain of £2.6m from other items (2022: £1.5m loss).

The net loss on unmatched swaps related primarily to fair value movements on mortgage pipeline swaps prior to them being matched against completed mortgages, and was caused by a reduction in the interest rate outlook on the SONIA forward curve in the fourth quarter. Conversely, the net gain recognised in the prior year reflected a step up in interest rate outlook on the SONIA yield curve largely in response to the actions announced in the September 2022 mini budget.

The Group economically hedges its committed pipeline of mortgages and this unrealised movement unwinds over the life of the swaps through hedge accounting inception adjustments.

Other operating income

Statutory other operating income of £3.9m (2022: £6.6m) mainly comprised CCFS' commissions and servicing fees, including those from servicing securitised loans that have been derecognised from the Group's balance sheet.

Administrative expenses

Statutory administrative expenses increased by 13% to £234.6m in 2023 (2022: £207.8m) largely due to balance sheet growth and the anticipated impact of inflation and planned investment in people and operations, including digital solutions enhancing our customer propositions.

The statutory management expense ratio was broadly flat at 82bps in 2023 (2022: 81bps) reflecting the Group's focus on cost discipline and efficiency.

The Group's statutory cost to income ratio increased to 36% (2022: 27%) primarily as a result of lower income following the adverse EIR adjustment and a net fair value loss on financial instruments compared with a gain in the prior year.

Impairment of financial assets

The Group recorded a statutory impairment charge of £48.8m in 2023 (2022: £29.8m) representing a statutory loan loss ratio of 20bps (2022: 13bps).

The updated forward-looking macroeconomic scenarios used in the Group's IFRS 9 models accounted for a £6.4m charge, while enhancements to models and post model adjustments resulted in a net release of £1.0m. Changes in the risk profile of borrowers as they transitioned through modelled IFRS 9 impairment stages and loan book growth amounted to a charge of £21.9m and an increase in provisions relating to accounts with arrears of three months or more amounted to a charge of £14.1m. The increase in individually assessed provisions and other items amounted to a charge of £7.4m.

As at 31 December 2023, the Group's balance sheet provisions were further reduced by write-offs of £33.6m, where loans were written off against the related provision when the underlying security was sold. This amount did not form part of the year end impairment charge as it was expensed to the profit and loss when the provisions were raised.

In the prior year, the impairment charge was largely due to the Group's adoption of more severe forward-looking macroeconomic scenarios in its IFRS 9 models and post model adjustments to account for the rising cost of living and borrowing concerns.

Integration costs

The Group ceased recognising expenses as integration costs on the third anniversary of combination with CCFS in October 2022.

In the prior year, £7.9m of integration costs largely related to redundancy costs and advice on the Group's future operating structure.

Dividend

The Board has recommended a final dividend of 21.8 pence per share for 2023, which together with the interim dividend of 10.2 pence per share, represents a total ordinary dividend of 32.0 pence per share. See the Appendix for the calculation of the 2023 final dividend.

The recommended final dividend is subject to approval at the AGM on 9 May 2024. The final dividend will be paid on 14 May 2024, with an ex-dividend date of 4 April 2024 and a record date of 5 April 2024.

Balance sheet growth

On a statutory basis, net loans and advances to customers grew by 9% to £25,765.0m in 2023 (31 December 2022: £23,612.7m), supported by originations of £4.7bn in the year and strong retention.

Total assets grew by 7% to £29,589.8m (31 December 2022: £27,566.7m) largely due to the growth in loans and advances to customers.

On a statutory basis, retail deposits increased by 12% to £22,126.6m as at 31 December 2023 from £19,755.8m in the prior year, as savers continued to choose the Group's consistently fair and attractively priced products.

Financial review continued

The Group complemented its retail deposits funding with drawings under the Bank of England's schemes. Drawings under the Term Funding Scheme for SMEs reduced to £3.3bn as at 31 December 2023 from £4.2bn in the prior year as the Group repaid £900m of the funding using retail deposits and wholesale funding in the second half of the year. Drawings under Indexed Long-Term Repo were £10.1m (31 December 2022: £300.9m).

Liquidity

OSB and CCFS operate under the Prudential Regulation Authority's liquidity regime and are managed separately for liquidity risk. Each Bank holds its own significant liquidity buffer of liquidity coverage ratio (LCR) eligible high-quality liquid assets (HQLA).

Each Bank operates within a target liquidity runway in excess of the minimum LCR regulatory requirement, which is based on internal stress testing. Each Bank has a range of contingent liquidity and funding options available for possible stress periods.

As at 31 December 2023, OSB had £1,155.7m and CCFS had £1,514.0m of HQLA (31 December 2022: £1,494.1m and £1,522.8m, respectively).

The Group also held portfolios of unencumbered prepositioned Bank of England level B and C eligible collateral in the Bank of England Single Collateral Pool.

As at 31 December 2023, OSB had an LCR of 208% and CCFS 139% (31 December 2022: 229% and 148%, respectively) and the Group LCR was 168% (31 December 2022: 185%), all significantly in excess of the regulatory minimum of 100% plus Individual Liquidity Guidance.

Capital

The Group's capital position remained strong, with a CET1 ratio of 16.1% and a total capital ratio of 19.5% as at the end of 2023 (31 December 2022: 18.3% and 19.7%, respectively). Both ratios reflected the impact of lower profitability in the year due to the adverse EIR adjustment, which reduced the CET1 ratio by 1.2%, loan book growth, foreseeable and paid dividends and the impact of the £150m share repurchase programme completed in 2023.

The Group had a leverage ratio of 7.5% as at 31 December 2023 (31 December 2022: 8.4%). The combined Group had a Pillar 2a requirement of 1.27% (2022: 1.27%) of risk-weighted assets (excluding a static integration add-on of £19.5m) as at 31 December 2023.

Cash flow statement

The Group's cash and cash equivalents decreased by £530.1m during the year to £2,514.0m as at 31 December 2023.

In 2023, loans and advances to customers increased by £2,200.5m, primarily funded by £2,370.8m of deposits from retail customers. The Group repaid £336.9m of cash collateral received on derivative exposures and received £38.8m of initial margin, reflecting a reduction in swap pricing in the fourth quarter. Cash used in financing activities of £654.1m included financing repaid: TFSME scheme repayments of £900m and repayments of the ILTR scheme of £290.8m. It also included interest on financing of £205.4m and distributions to shareholders of £185.0m of dividend payments and £152.4m of share repurchase which were partially offset by funding through securitisations, senior notes and subordinated liability issuances raising £1,138.7m. Cash used in investing activities was £301.2m.

Summary Consolidated Statement of Cash Flows

	Group 31-Dec-2023 £m	Group 31-Dec-2022 £m
Profit before tax	**374.3**	531.5
Net cash generated/(used in):		
Operating activities	**425.2**	428.5
Investing activities	**(301.2)**	63.2
Financing activities	**(654.1)**	(184.3)
Net (decrease)/increase in cash and cash equivalents	**(530.1)**	307.4
Cash and cash equivalents at the beginning of the year	**3,044.1**	2,736.7
Cash and cash equivalents at the end of the year	**2,514.0**	3,044.1

In 2022, loans and advances to customers increased by £2,563.1m, primarily funded by £2,229.4m of deposits from retail customers. The Group received £434.3m of cash collateral on derivative exposures and paid £137.5m of initial margin, reflecting new derivatives during the year. Cash used from financing activities of £184.3m included £300.9m drawings under the ILTR scheme offset by £193.6m repayment of debt securities, £102.0m share repurchases, £133.1m dividend payments and £45.3m interest on financing liabilities. Total drawings under the Bank of England's TFSME scheme remained unchanged at £4.2bn. Cash generated from investing activities was £63.2m.

1. See the reconciliation of statutory to underlying results on page 44.
2. See note 11 to the Consolidated Financial Statements.

Financial review continued

Review of the Group's performance presented on an underlying basis for 2023 and 2022

Summary Profit or Loss	Group 31-Dec-2023 £m	Group 31-Dec-2022 £m
Net interest income	**714.7**	769.1
Net fair value (loss)/gain on financial instruments	**(10.8)**	48.5
Other operating income	**3.9**	6.6
Administrative expenses	**(232.9)**	(204.0)
Provisions	**(0.4)**	1.6
Impairment of financial assets	**(48.5)**	(30.7)
Profit before tax	**426.0**	591.1
Profit after tax	**319.7**	448.7

Key ratios Δ		
Net interest margin	**251bps**	303bps
Cost to income ratio	**33%**	25%
Management expense ratio	**81bps**	80bps
Loan loss ratio	**20bps**	14bps
Return on equity	**16%**	24%
Basic earnings per share, pence	**75.0**	99.6

Extracts from the Statement of Financial Position	£m	£m
Loans and advances to customers	**25,739.6**	23,529.8
Retail deposits	**22,126.6**	19,755.2
Total assets	**29,565.6**	27,487.6

The Group's external auditor performed an independent reasonable assurance review of certain alternative performance measures as highlighted with the symbol Δ – see the Appendix for the auditor's assurance report

Underlying profit

The Group's underlying profit before tax decreased by 28% to £426.0m from £591.1m in 2022. The benefit of net loan book growth was more than offset by the total net adverse underlying effective interest rate (EIR) adjustment of £181.6m. The decrease in underlying profit before tax was also due to a net fair value loss on financial instruments compared to a gain in the prior year, higher administration costs and a higher impairment charge.

Underlying profit after tax was £319.7m, down 29% (2022: £448.7m), broadly in line with the decrease in profit before tax. The Group's effective tax rate on an underlying basis increased to 25.0% for the year due to higher corporation tax rates, partially offset by a lower proportion of the profits being subject to the bank surcharge (2022: 24.3%).

On an underlying basis, return on equity for 2023 reduced to 16% (2022: 24%), reflecting the reduction in profitability in the year.

The underlying basic earnings per share decreased to 75.0 pence (2022: 99.6 pence), in line with the decrease in profit after tax.

Net interest income

Underlying net interest income decreased by 7% to £714.7m in 2023 (2022: £769.1m), as the benefit of net loan book growth was more than offset by the total net adverse EIR adjustment of £181.6m on an underlying basis. The adverse EIR adjustment primarily related to the expectation that Precise Mortgages borrowers would spend less time on the higher reversion rate before refinancing based on observed customer behavioural trends.

Alternative performance measures

The Group presents alternative performance measures (APMs) in this Strategic report as Management believes they provide a more consistent basis for comparing the Group's performance between financial periods.

Underlying results and KPIs for 2023 and 2022 exclude integration costs and other acquisition-related items.

APMs reflect an important aspect of the way in which operating targets are defined and performance is monitored by the Board. However, any APMs in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well.

For more information on APMs and the reconciliation between APMs and the statutory equivalents, see the Appendix on pages 265-267

Financial review continued

The underlying net interest margin was 251bps compared with 303bps in the prior year, down 52bps, largely due to the adverse EIR adjustment and as the benefit of the lower cost of retail funding was offset by the impact of some lower margin lending due primarily to delays in mortgage pricing reflecting the rate rises and higher swap costs.

The total net adverse EIR adjustment accounted for 63bps of underlying NIM for the year ended 31 December 2023.

Net fair value loss on financial instruments

Underlying net fair value loss on financial instruments was £10.8m in 2023 (2022: £48.5m gain) and included a loss on unmatched swaps of £11.1m (2022: £57.1m gain) following a fall in swap prices in the fourth quarter and a gain of £2.0m (2022: £8.1m loss) in respect of the ineffective portion of hedges.

The Group also recorded a £4.3m loss (2022: £1.2m gain) from the amortisation of hedge accounting inception adjustments and a gain of £2.6m (2022: £1.7m loss) from other items.

The net loss on unmatched swaps related primarily to fair value movements on mortgage pipeline swaps prior to them being matched against completed mortgages, and was caused by a reduction in the interest rate outlook on the SONIA forward curve in the fourth quarter. Conversely the net gain recognised in the prior year reflected a step up in interest rate outlook on the SONIA yield curve largely in response to the actions announced in the September 2022 mini budget.

The Group economically hedges its committed pipeline of mortgages and this unrealised movement unwinds over the life of the swaps through hedge accounting inception adjustments.

Other operating income

On an underlying basis, other operating income was £3.9m in 2023 (2022: £6.6m) and mainly comprised CCFS' commissions and servicing fees, including those from servicing securitised loans that have been derecognised from the Group's balance sheet.

Administrative expenses

Underlying administrative expenses increased by 14% to £232.9m in 2023 (2022: £204.0m), largely due to balance sheet growth and the anticipated impact of inflation and planned investment in people and operations, including digital solutions enhancing our customer propositions.

The underlying management expense ratio remained broadly flat at 81bps in 2023 (2022: 80bps) reflecting the Group's focus on cost discipline and efficiency.

The Group's underlying cost to income ratio increased to 33% (2022: 25%) primarily as a result of lower income following the adverse EIR adjustment and a net fair value loss on financial instruments compared with a gain in the prior year.

Impairment of financial assets

The Group recorded an underlying impairment charge of £48.5m in 2023 (2022: £30.7m) representing an underlying loan loss ratio of 20bps (2022: 14bps).

The updated forward-looking macroeconomic scenarios used in the Group's IFRS 9 models accounted for a £6.4m charge, while enhancements to models and post model adjustments resulted in a net release of £1.0m. Changes in the risk profile of borrowers as they transitioned through modelled IFRS 9 impairment stages and loan book growth amounted to a charge of £21.9m and an increase in provisions relating to accounts with arrears of three months or more amounted to a charge of £14.1m. The increase in individually assessed provisions and other items amounted to a charge of £7.1m.

As at 31 December 2023, the Group's balance sheet provisions were further reduced by £33.6m, where loans were written off against the related provision when the underlying security was sold. This amount did not form part of the year end impairment charge as it was expensed to the profit and loss when the provisions were raised.

In the prior year, the impairment charge was largely due to the Group's adoption of more severe forward-looking macroeconomic scenarios in its IFRS 9 models and post model adjustments to account for the rising cost of living and borrowing concerns.

Balance sheet growth

On an underlying basis, net loans and advances to customers were £25,739.6m (31 December 2022: £23,529.8m) an increase of 9%, supported by gross originations of £4.7bn in the year.

Total underlying assets grew by 8% to £29,565.6m (31 December 2022: £27,487.6m), largely due to the growth in loans and advances to customers.

On an underlying basis, retail deposits increased by 12% to £22,126.6m (31 December 2022: £19,755.2m) as savers continued to choose the Group's consistently fair and attractively priced products.

Financial review continued

Reconciliation of statutory to underlying results

	FY 2023			FY 2022		
	Statutory results £m	Reverse acquisition-related items £m	**Underlying results £m**	Statutory results £m	Reverse integration costs and acquisition-related items £m	Underlying results £m
Net interest income	**658.6**	56.1[1]	**714.7**	709.9	59.2	769.1
Net fair value (loss)/gain on financial instruments	**(4.4)**	(6.4)[2]	**(10.8)**	58.9	(10.4)	48.5
Other operating income	**3.9**	–	**3.9**	6.6	–	6.6
Total income	**658.1**	49.7	**707.8**	775.4	48.8	824.2
Administrative expenses	**(234.6)**	1.7[3]	**(232.9)**	(207.8)	3.8	(204.0)
Provisions	**(0.4)**	–	**(0.4)**	1.6	–	1.6
Impairment of financial assets	**(48.8)**	0.3[4]	**(48.5)**	(29.8)	(0.9)	(30.7)
Integration costs	**–**	–	**–**	(7.9)	7.9[5]	–
Profit before tax	**374.3**	51.7	**426.0**	531.5	59.6	591.1
Profit after tax	**282.6**	37.1	**319.7**	410.0	38.7	448.7
Summary Balance Sheet						
Loans and advances to customers	**25,765.0**	(25.4)[6]	**25,739.6**	23,612.7	(82.9)	23,529.8
Other financial assets	**3,722.8**	1.3[7]	**3,724.1**	3,878.1	9.1	3,887.2
Other non-financial assets	**102.0**	(0.1)[8]	**101.9**	75.9	(5.3)	70.6
Total assets	**29,589.8**	(24.2)	**29,565.6**	27,566.7	(79.1)	27,487.6
Amounts owed to retail depositors	**22,126.6**	–	**22,126.6**	19,755.8	(0.6)[9]	19,755.2
Other financial liabilities	**5,272.0**	–	**5,272.0**	5,548.5	0.8[10]	5,549.3
Other non-financial liabilities	**46.7**	(6.3)[11]	**40.4**	61.4	(30.2)	31.2
Total liabilities	**27,445.3**	(6.3)	**27,439.0**	25,365.7	(30.0)	25,335.7
Net assets	**2,144.5**	(17.9)	**2,126.6**	2,201.0	(49.1)	2,151.9

1. Amortisation of the net fair value uplift to CCFS' mortgage loans and retail deposits on Combination.
2. Inception adjustment on CCFS' derivative assets and liabilities on Combination.
3. Amortisation of intangible assets recognised on Combination.
4. Adjustment to expected credit losses on CCFS loans on Combination.
5. Reversal of integration costs related to the Combination.
6. Recognition of a fair value uplift to CCFS' loan book less accumulated amortisation of the fair value uplift and a movement on credit provisions.
7. Fair value adjustment to hedged assets.
8. Adjustment to deferred tax asset and recognition of acquired intangibles on Combination.
9. Fair value adjustment to CCFS' retail deposits less accumulated amortisation.
10. Fair value adjustment to hedged liabilities.
11. Adjustment to deferred tax liability and other acquisition-related adjustments.

Risk review

The risk management framework continues to be effective in managing the Group's risk profile during a period of market volatility and uncertainty.

Executive summary

The Group's primary focus during 2023 has been to navigate the uncertainties and risks arising from macroeconomic headwinds, geopolitical uncertainties, continued cost of living and borrowing challenges and changing customer and competitor behaviours. Despite the heightened levels of uncertainty and change, the Group has broadly maintained its risk profile within the confines of the Board approved risk appetite.

The Group's financial performance was impacted by the adverse EIR adjustment which related to the expectation that Precise Mortgages borrowers would spend less time on the higher reversionary rate before refinancing based on observed customer behavioural trends. Over the course of the first half of 2023, the Group observed a step change in how long these customers were spending on the reversion rate, in particular the attrition rate of borrowers who historically stayed on the reversion rate for several months. Precise customers generally contractually revert to a margin over BBR at the end of their fixed rate term. As BBR continued to rise, customers saw steep increases in the BBR linked reversion rate, and as the Group continued to develop its Precise retention programme, customers were choosing to refinance earlier and spent less time on the higher reversion rate compared to previously observed behavioural trends. The Group has significantly enhanced its approach to modelling and monitoring customer repayment behaviours.

During 2023, the Group observed an increase in arrears levels driven by rising costs of borrowing and living, whilst the timelines for repossessing and selling properties continued to be elongated due to ongoing delays in the court hearing process, which also contributed to elevated levels of late-stage arrears balances. The Group observed lower levels of Buy-to-Let balances greater than three months in arrears, versus UK Finance trends, with year-on-year growth marginally lower than the UK Finance trend observed during the year. Residential mortgage arrears trends remained higher than UK Finance data, driven by a higher portfolio mix of near prime customers.

The Group continued to focus on supporting customers who experienced financial difficulties, as evidenced by the observed year-on-year increase in forbearance measures granted. The LTV profile of the existing loan book and accounts in arrears remains appropriate, providing loss protection if required. Arrears levels remain below expectations and prudent IFRS9 provision coverage levels have been maintained to cover for forecasted future losses.

The Group has established a robust framework of assessing the nature and drivers of its credit risk profile which are captured within its Expected Credit Loss (ECL) methodology. The Group has maintained a prudent level of credit provisions which are driven by forward looking macroeconomic forecasts. PMAs are primarily designed to capture the risk arising from the heightened cost of living and borrowing by moving some accounts to into Stage 2 even when the account is performing.

The Group remains cognisant of the impact of the cost of living and borrowing challenges on customers experiencing financial distress and customers with vulnerabilities. The Group have undertaken an extensive review and enhanced activities to further improve its approach to early assessment and management of customers subject to financial distress or vulnerabilities to ensure good outcomes. These enhancements are being made against the backdrop of Consumer Duty disciplines.

The Group's wider Enterprise Risk Management Framework (ERMF) ensures that principal risks are subject to common good practice standards across all phases of the risk life cycle, including identification, assessment, management, monitoring and reporting. The ERMF continuously evolves to reflect the Group's underlying risk profile. An example of this is the introduction of a focused approach to risk disciplines in the area of model and end-user computing, data and change risk management. The ERMF and its sub-components are subject to continuous review and independent assurance, as well as being leveraged to demonstrate effective compliance with prudential and conduct regulatory requirements.

Given the challenging and uncertain operating environment, the Group's performance against its Board approved risk appetite was subject to close scrutiny by the Board and management. In particular, the Group remains very focused on ensuring that underlying risk trends were actively monitored and that timely actions were taken to minimise risk and ensure that a sufficient level of financial contingency and buffers are held. This approach has ensured that the Group has maintained prudent levels of provisions, funding and capital buffers.

The Group made good progress against several important regulatory initiatives, including compliance with the Resolvability Assessment Framework (including meeting interim MREL requirements) and Consumer Duty. This has been achieved through collaborative engagement with its supervisory authorities, key functional areas and the Board. The Group successfully issued its first £300m of MREL qualifying debt securities plus £250m Tier 2 debt securities in 2023 followed by a further £400m of MREL qualifying debt securities in January 2024, following which, the Group met its interim MREL requirement, including regulatory buffers. These issuances were supported by a credit rating upgrade during the course of the year.

Risk review continued

The Group is required to comply with Bank of England policy with respect to the Resolvability Assessment Framework (RAF) which aims to ensure qualifying firms can be resolved in an orderly fashion. During 2023 the Group made continued progress in embedding and enhancing existing resolution capabilities.

The Group has undertaken an extensive review of Basel 3.1 consultation documents and assessed its impact whilst being cognisant that it is not yet finalised for UK adoption. Based on various permutations of how the new regulation will be adopted in the UK, the Group endeavoured to reflect its impact within its business and capital planning processes, including within its MREL issuance plans.

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

As the Group has embarked on an extensive programme of digitalisation for its systems architecture and underlying business processes, the Group has leveraged its risk and governance framework to ensure the programme of activities are subject to active identification, monitoring and escalation of risks. Active engagement with key stakeholders based on defined outcomes, plans and deliverables is central to the risk and governance disciplines. In particular, the Group is assessing the risks in the context of various change programmes, impact on business-as-usual activities and transition from development into production.

The Group continued to embed its approach to managing climate risk through the further development of its climate risk management framework. A dedicated ESG Technical Committee ensures that enhancements are delivered as required.

Priority areas for 2024

A heightened level of uncertainty remains around the UK economic outlook and the operating environment for 2024 and beyond. Therefore, continued close monitoring of the Group's risk profile and operating effectiveness remains a key priority for the Risk and Compliance function. Other priorities include:

- Continue to leverage the Group's Enterprise Risk Management Framework and existing capabilities to actively identify, assess and manage risks in line with approved risk appetite
- Leverage enhancements made across the Group's portfolio analytical capabilities, including utilising the Group's new stress testing capability and wider analytical tools to improve risk-based pricing, balance sheet management, capital planning and stress testing
- Continue to embed the operational risk framework across the Group and further enhance controls testing and assurance activity
- Continue to enhance and embed Resolvability Assessment Framework capabilities and carry out a fire drill to test those capabilities
- Provide assurance to ensure the FCA's Consumer Duty rules and requirements are further embedded as planned
- Provide oversight across the embedding of the Group's project to enhance the Group's arrears management processes
- Maintain oversight of capital management including the impact of MREL and Basel 3.1, including the implications for capital planning and asset pricing decisions
- Further embed IRB capabilities and disciplines within wider risk management processes
- Continue to provide second line oversight of the funding strategy and drive enhancements to sensitivity analysis around key liquidity drivers
- Continue to provide second line oversight of the Group's key change programmes, including the digitalisation of the Group.

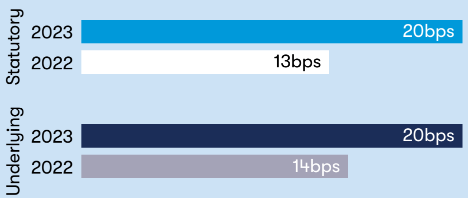
Risk review continued

Key risk performance indicators

Risk appetite is aligned to a select range of key performance indicators, which are used to assess performance against strategic, business, operational and regulatory objectives.

Actual performance against these indicators is continually assessed and reported.

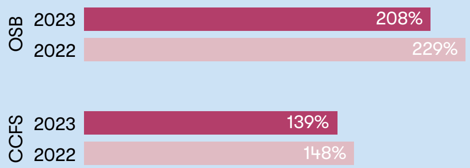
Loan loss ratio[A]



2023 performance

Statutory and underlying loan loss ratios increased in the year largely due to updated macroeconomic scenarios, changes in the risk profile of borrowers as they transitioned through modelled IFRS 9 impairment stages, loan book growth and an increase in balances in arrears of three months or more.

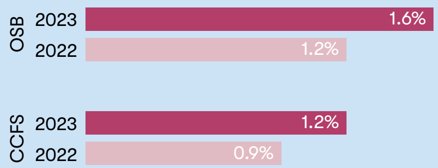
Liquidity coverage ratio



2023 performance

Liquidity ratios reduced during 2023, but remained well above internal and regulatory requirements. The reduction was driven by a reduction in High Quality Liquid Assets following managed reductions of Bank of England funding during the year.

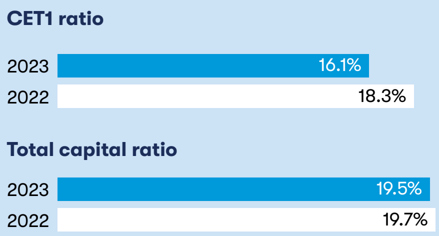
3+ months in arrears



2023 performance

The Group's ratio of balances which are greater than three months in arrears increased to 1.4% (2022: 1.1%) largely driven by the elevated cost of living and cost of borrowing. Across the OSB bank entity, arrears increased to 1.6% from 1.2% at the end of 2022 while for CCFS arrears increased to 1.2% from 0.9% at the end of 2022.

Capital ratios



2023 performance

The Group's capital position remained strong with a CET1 ratio of 16.1% and a total capital ratio of 19.5% as at the end of 2023 (31 December 2022: 18.3% and 19.7%, respectively). The capital ratios reduced due to lower profitability as a result of the adverse EIR adjustment, loan book growth, foreseeable and paid dividends and the impact of the £150m share repurchase programme completed in 2023.

Risk review continued

Enterprise Risk Management Framework

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

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

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

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

1 Risk principles and culture

The Group established a set of risk management and oversight principles that inform and guide all underlying risk management and assessment activities. These principles are informed by the Group's Purpose, Vision and Values.

2 Risk strategy and appetite

The Group established a clear business vision and strategy which is supported by an articulated risk vision and underlying principles. The Board is accountable for ensuring that the Group's ERMF is structured against the strategic vision and is delivered within agreed risk appetite thresholds.

3 Risk assessment and control

The Group is committed to building a safe and secure banking operation through an integrated and effective ERMF.

4 Risk analytics

The Group uses quantitative analysis and statistical modelling to help improve its business decisions.

5 Stress testing and scenario development

Stress testing is an important risk management tool, which is used to evaluate the potential effects of a specific event and/or movement in a set of variables to understand the impact on the Group's financial and operating performance. The Group has a stress testing framework which sets out the Group's approach.

6 Risk data and information technology

The maintenance of high-quality risk information, along with the Group's data enrichment and aggregation capabilities, are central to the Risk function's objectives being achieved.

7 Risk Management Framework's policies and procedures

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

8 Risk management information and reporting

The Group established a comprehensive suite of risk Management Information (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.

10 Use and embedding

Dissemination of key framework components across the Group to ensure that business activities and decision-making are undertaken in line with the Board expectations.

Enterprise Risk Management Framework (ERMF)

Key elements

Risk principles and culture	Risk strategy and appetite	Risk governance and function organisation	Risk assessment and control

Principal risks

Financial risks		Non-financial risks		
Credit risk	Market risk	Strategic and business risk	Operational risk	Financial crime risk
Liquidity and funding risk	Solvency risk	Reputational risk	Conduct risk	Compliance/regulatory risk

Capabilities

Risk framework and policies	Risk data and IT	Risk analytics	Risk management information	Stress testing

Risk regulatory submissions

ICAAP	ILAAP	Recovery plan/Z-templates

Risk review continued

Group organisational structure

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

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

Risk appetite

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

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

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

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

> **Risk appetite is a critical mechanism through which the Board and senior management identify adverse trends and respond to unexpected developments in a timely and considered manner.**
>
> **Hasan Kazmi,** Group Chief Risk Officer

Risk review continued

Structure of the Group

Board of Directors

Board Committees

- Board Capital and Funding Committee
- Group Remuneration and People Committee
- Group Nomination and Governance Committee
- Group Audit Committee
- Group Risk Committee
- Group Models and Ratings Committee
- CCFSL Board

Group Executive Committee

Management Committees

- Group Credit Committee
  - Transactional Credit Committee (TCC)
  - Heritable Transactional Credit Committee (HTCC)
- Operations Committee
- Portfolio Management Committee
- Models and Ratings Management Committee
- Group Risk Management Committee
  - Conduct Risk Management Committee
  - Operational Risk Management Committee
- Group Executive Disclosure Committee
- ESG Technical Committee Sub-Committee
- Regulatory Governance Committee
- Group Assets and Liabilities Committee (ALCO)
  - Interest Rate Risk in the Banking Book Working Group
  - Solvency Working Group
  - Savings Pricing Group
  - Liquidity Working Group

Business and Control Functions

First Line of Defence

Ensures that risks are identified, measured, monitored and reported in line with policy in an effective manner.

Key Brands
Finance and HR
Operations
IT and Change
Commercial
Sales and Marketing
Legal and Regulation
Credit Strategy

Second Line of Defence

Provides an independent review and challenge to the business and control functions to ensure that all aspects of the risk profile are managed in adherence to risk appetite and risk policies.

Risk and Compliance

Third Line of Defence

Provides independent assurance on the effectiveness of the ERMF, compliance with regulations, adherence to policies and effectiveness of controls.

Internal Audit

Executives

Chief Executive Officer

Chief Financial Officer
Deputy Chief Financial Officer
Group Chief Operating Officer
Group Chief Information Officer
Group General Counsel & Company Secretary
Group Commercial Director
Group Managing Director, Mortgages and Savings
Brand-Level Senior Management

Group Chief Risk Officer
Group Chief Credit & Compliance Officer

Group Chief Internal Auditor

Risk review continued

Management of climate change risk

There was further embedding of the Group's approach to climate risk during 2023, with the Climate Risk Management Framework and ESG governance structures now established.

The Group is exposed to the following climate related risks:

- **Physical risk –** relates to climate or weather-related events such as heatwaves, droughts, floods, storms, rising sea levels, coastal erosion and subsidence. These risks could result in financial losses with respect to the Group's own real estate and customer loan portfolios.
- **Transition risk –** arising from the effect of adjusting to a low-carbon economy and changes to appetite, strategy, policy or technology. These changes could result in a reassessment of property prices and increased credit exposures for banks and other lenders as the costs and opportunities arising from climate change become apparent. Reputational risk arises from a failure to meet changing and more demanding societal, investor and regulatory expectations.

Approach to analysing climate risk on the loan book

As part of the Internal Capital Adequacy Assessment Process (ICAAP), the Risk function engaged with a third party to provide detailed climate change assessments at a collateral level for the Group's loan portfolios. The data was in turn utilised to conduct profiling and financial risk assessments.

a) Climate scenarios considered

The standard metric for assessing climate change risk is the global greenhouse gas concentration as measured by Representative Concentration Pathway (RCP) levels. The four levels adopted by the Intergovernmental Panel for Climate Change for its fifth assessment report (AR5) in 2014 are:

Emissions scenario

Scenario	Change in temperature (°C) by 2100
RCP 2.6	1.6 (0.9–2.3)
RCP 4.5	2.4 (1.7–3.2)
RCP 6.0	2.8 (2.0–3.7)
RCP 8.5	4.3 (3.2–5.4)

Note: figures within the brackets above detail the range in temperatures. Single figures outside the brackets indicate the averages.

b) Climate risk perils considered

The following three physical perils of climate change were assessed:

- **Flood –** wetter winters and more concentrated rainfall events will increase flooding.
- **Subsidence –** drier summers will increase subsidence through the shrink or swell of clay.
- **Coastal erosion –** increased storm surge and rising sea levels will increase the rate of erosion.

For each of the physical perils and climate scenarios detailed above, a decade by decade prediction, from the current year to 2100, on the likelihood of each was provided.

For flood and subsidence, the likelihood took the form of a probability that a flood or subsidence event would occur over the next 10 years. For coastal erosion the distance of the property to the coastline is provided by scenario and decade.

All peril impacts are calculated at property level to a one-metre accuracy. This resolution is essential because flood and subsidence risk factors can vary considerably between neighbouring properties.

In addition to the physical perils, the current Energy Performance Certificate (EPC) of each property was considered to allow for an assessment of transitional risk due to policy change. EPC ratings are based on a Standard Assessment Procedure calculation which uses a government methodology to determine the energy performance of properties by considering factors such as construction materials, heating systems, insulation and air leakage.

Both the OSB and CCFS portfolios were profiled against each of the perils detailed under the least severe (RCP 2.6) and most severe (RCP 8.5) climate scenarios.

- **Flood risk**
  By the 2030s, at the Group level, the percentage of properties predicted to experience a flood is expected to increase from 0.51% in the least severe scenario to 0.55% in the most severe scenario. Both scenarios represent a low proportion of the Group's loan portfolios.
- **Subsidence**
  In the 2030s, at the Group level, the percentage of properties predicted to experience subsidence is expected to increase from 0.42% in the least severe scenario to 0.46% in the most severe scenario. The outcome of both scenarios represents a low proportion of the Group's loan portfolios.
- **Coastal erosion**
  There are two elements to coastal erosion risk. The first relates to the proximity of the property to the coast. The second depends on whether the area in which the property is located is likely to experience coastal erosion in the future.

  Both Banks have over 92% of their portfolios more than 1,000 metres from the coastline, indicating a low coastal erosion risk across the Group.

  The OSB bank entity and CCFS bank each have 31 properties within 100 metres of a coastline likely to experience erosion in the future.

c) Energy Performance Certificate profile

The EPC profile of both Bank entities follows a similar trend to the national average. At the Group level 0.2% of properties have an EPC of A, 14.2% have an EPC of B, 26.4% have an EPC of C, 45.7% have an EPC of D, 12.1% with an EPC of E and negligible percentages in F or G ratings. Over 95% of the properties supporting the Group's loan portfolios have the potential to have at least an EPC rating of C.

Risk review continued

Value at Risk assessment

The Value at Risk to each Bank, measured through change to Expected Credit Loss (ECL) and Standardised and IRB Risk Weighted Assets (RWAs), is assessed through the application of stress to collateral valuations as per the methodology outlined below. Impacts are assessed against the latest year end position.

Climate change scenarios

To get the full range of impacts, the most and least severe climate change stress scenarios were considered.

The most severe, RCP 8.5, assumes there will be no concerted effort at a global level to reduce greenhouse gas emissions. Under this scenario, the predicted increase in global temperature is 3.2–5.4°C by 2100.

The least severe scenario, RCP 2.6, assumes early action is taken to limit future greenhouse gas emissions. Under this scenario, the predicted increase in global temperature is 0.9–2.3°C by 2100.

Methodology – physical risks

For the physical risks, updated valuations are produced to reflect the impact of a flood, subsidence and coastal erosion risk.

Methodology – transitional risks

The Group's expectation is that, under the early action scenario (RCP 2.6), the government will require all properties to achieve a minimum EPC grade of C where possible. We considered this risk for Buy-to-Let accounts only.

d) Analysis outcome

The physical risks currently present an immaterial ECL or capital risk to the Group. The sensitivity to transitional risk is larger than that of physical risk, although still very small.

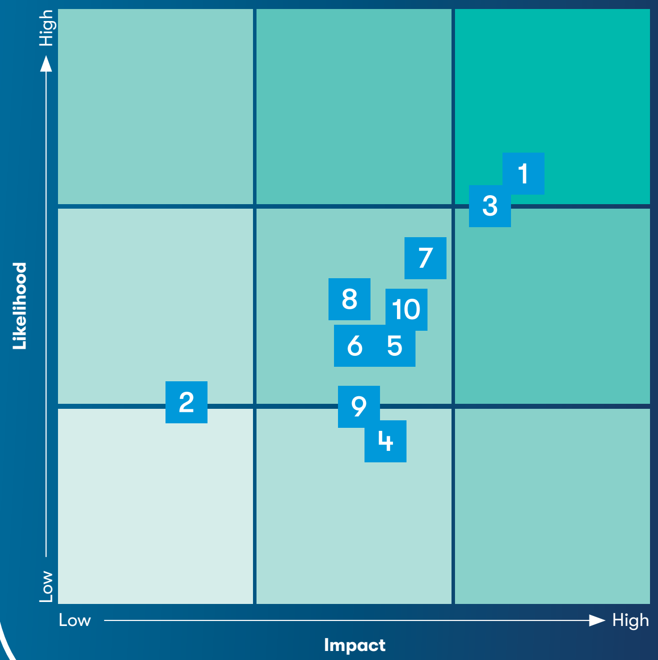
Principal risks and uncertainties

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

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

1 Strategic and business risk
2 Reputational risk
3 Credit risk
4 Market risk
5 Liquidity and funding risk
6 Solvency risk
7 Operational risk
8 Conduct risk
9 Compliance/regulatory risk
10 Financial crime risk

Current assessment of principal risks



Key:
Risk increased
Risk decreased
Risk unchanged

1 Strategic and business risk

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

Risk appetite statement

The Group's strategic and business risk appetite states that the Group does not intend to undertake any medium- to long-term strategic actions that would put at risk its vision of being a leading specialist lender, backed by strong and dependable savings franchises. The Group adopts a long-term sustainable business model which, while focused on specialist sub-sectors of the mortgage market, can adapt to growth objectives and external developments.

1.1 Performance against targets

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

Mitigation	Direction (Risk increased)
Regular monitoring by the Board and the Group Executive Committee of business and financial performance against the strategic agenda and risk appetite. The financial plan is subject to regular reforecasts. The Balanced Business Scorecard is the primary mechanism to support how the Board assesses management performance against key targets. Use of stress testing to flex core business planning assumptions to assess potential performance under stressed operating conditions.	The ongoing macroeconomic uncertainty and its potential impact on net interest income, affordability levels, house prices and expected credit losses continue to present risk to the Group's performance in 2024.

1.2 Economic environment

The economic environment in the UK is an important factor impacting the strategic and business risk profile. A macroeconomic downturn may impact the credit quality of the Group's existing loan portfolios and may influence future business strategy as the Group's new business proposition becomes less attractive due to lower returns.

Mitigation	Direction (Risk unchanged)
The Group's business model as a secured lender helps limit potential credit risk losses and supports performance through the economic cycle. The Group continues to utilise and enhance its stress testing capabilities to assess and minimise potential areas of macroeconomic vulnerability.	Macroeconomic uncertainty will continue into 2024 with an ongoing risk to the Group's credit risk profile, including the possibility of further falls in house prices, and an ongoing risk that changes to the macroeconomic environment result in changes to customer behaviours.

Principal risks and uncertainties continued

Key:
Risk increased
Risk decreased
Risk unchanged

1.3 Competition risk

The risk that new bank entrants and existing peer banks shift focus to the Group's market sub-segments, increasing the level of competition.

Mitigation	Direction (Risk unchanged)
The Group continues to develop products and services that meet the requirements of the markets in which it operates. The Group has a diversified suite of products and capabilities to utilise, together with significant financial resources, to support a response to changes in competition.	The current economic outlook may limit the number of competitors shifting their focus to the Group's key market sub-segments.

2 Reputational risk

The potential risk of the Group's reputation being affected due to factors such as unethical practices, adverse regulatory actions, customer or broker dissatisfaction and complaints or negative/adverse publicity. Reputational risk can arise from a variety of sources and is a second order risk – the crystallisation of any principal risk can lead to a reputational risk impact.

Risk appetite statement
The Group has a very low appetite for reputational risks. The Group will not conduct its business or engage with stakeholders in a manner that could materially adversely impact its reputation or franchise value. The Group recognises that reputational risk is a consequence of other risks materialising and in turn seeks to actively manage all risks within Board-approved risk appetite levels. The Group strives to protect and enhance its reputation at all times.

2.1 Deterioration of reputation

Potential loss of trust and confidence that our stakeholders place in us as a responsible and fair provider of financial services.

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

3 Credit risk

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
The Group seeks to maintain a high-quality lending portfolio that generates adequate returns under normal and stressed conditions. The portfolio is actively managed to operate within set criteria and limits based on profit volatility focusing on key sectors, recoverable values and affordability and exposure levels.

The Group aims to continue to generate sufficient income and control credit losses to a level such that it remains profitable even when subjected to a credit portfolio stress of a 1 in 20 intensity stress scenario.

3.1 Individual borrower defaults

Borrowers may encounter idiosyncratic problems in repaying their loans, for example loss of a job or execution problems with a development project. While in most cases of default the Group's lending is secured, some borrowers may fail to maintain the value of the security, which may result in a loss being incurred.

Mitigation	Direction (Risk increased)
Across both OSB and CCFS, a robust underwriting assessment is undertaken to ensure that a customer has the ability and propensity to repay and sufficient security is available to support the new loan requested. At CCFS, an automated scorecard approach is taken, whilst OSB utilises a bespoke manual underwriting approach, supplemented by bespoke application scorecards to inform the lending decision. Should there be problems with a loan, the Financial Support function works with customers who are unable to meet their loan service obligations to reach a satisfactory conclusion while adhering to the principle of treating customers fairly. Our strategic focus on lending to professional landlords means that properties are likely to be well-managed, with income from a diversified portfolio mitigating the impact of rental voids or maintenance costs. Lending to owner-occupiers is subject to a detailed affordability assessment, including the borrower's ability to continue payments if interest rates increase. Lending on commercial property is based more on security and is scrutinised by the Group's independent Real Estate team as well as by external valuers. Development finance lending is extended only after a deep investigation of the borrower's track record and stress testing the economics of the specific project.	The drivers of borrower default risk have shifted with higher inflation and higher interest rates impacting affordability for accounts and increasing the risk of borrower default.

Principal risks and uncertainties continued

Key:
Risk increased | Risk decreased | Risk unchanged

3.2 Macroeconomic downturn

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

Mitigation	Direction (Risk increased)
The Group works within portfolio limits on LTV, affordability, name, sector and geographic concentration that are approved by the Group Risk Committee and the Board. These are reviewed on a semi-annual basis. In addition, stress testing is performed to ensure that the Group maintains sufficient capital to absorb losses in an economic downturn and continues to meet its regulatory requirements.	The uncertain economic outlook and the ongoing geopolitical risk due to the conflict in Ukraine resulted in high inflation and increases in interest rates could drive higher levels of customer defaults, rising impairment levels and falling residential and commercial collateral values.

3.3 Wholesale credit risk

The Group has wholesale exposures both through call accounts used for transactional and liquidity purposes and through derivative exposures used for hedging.

Mitigation	Direction (Risk unchanged)
The Group transacts only with high-quality wholesale counterparties. Derivative exposures include collateral agreements to mitigate credit exposures.	The Group's wholesale credit risk exposure remains limited to high-quality counterparties, overnight exposures to clearing banks and swap counterparties.

4 Market risk

Potential loss due to changes in market prices or values.

Risk appetite statement

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

4.1 Interest rate risk

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

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

4.2 Basis risk

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

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

Principal risks and uncertainties continued

Key:
Risk increased
Risk decreased
Risk unchanged

5 Liquidity and funding risk

The risk that the Group, although solvent, does not have sufficient financial resources to enable it to meet its obligations as they fall due.

Risk appetite statement

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

5.1 Retail funding stress

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

Mitigation

The Group's funding strategy is focused on a highly stable retail deposit franchise. The Group's large number of depositors provides diversification, where a high proportion of balances are covered by the FSCS protection scheme, largely mitigating the risk of a retail run.

In addition, the Group performs in-depth liquidity stress testing and maintains a liquid asset portfolio sufficient to meet obligations under stress. The Group holds prudential liquidity buffers to manage funding requirements under normal and stressed conditions.

The Group has further diversified its retail channels by the use of deposit aggregators.

The Group proactively manages its savings proposition through both the Liquidity Working Group and the Group Assets and Liabilities Committee. Finally, the Group has prepositioned mortgage collateral and securitised notes with the Bank of England, which allows it to consider alternative funding sources to ensure that it is not solely reliant on retail savings. The Group also has a mature Retail Mortgage Backed Security (RMBS) programme.

Direction (Risk decreased)

The Group's funding levels and mix remained strong throughout the year.

In 2023, OSB and CCFS were able to attract significant flows of new deposits and depositors, despite the volatile interest rate environment and a competitive savings market. Both banks were able to proactively manage retail flows around peak maturity periods without any reliance on unplanned wholesale actions.

5.2 Wholesale funding stress

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

Mitigation

The Group continuously monitors wholesale funding markets and is experienced in taking proactive management actions where required.

The Group completed one securitisation deal and two capital issuances in 2023 and has a range of wholesale funding options, including Bank of England facilities, for which collateral has been prepositioned.

Direction (Risk unchanged)

The Group's range of wholesale funding options available, including repo or sale of retained notes or collateral upgrade trades remained broadly unchanged.

5.3 Refinancing of TFSME

Term Funding Scheme for Small and Medium-sized Enterprises (TFSME) borrowing by the Group reduced to £3.3bn at the end of 2023 from £4.2bn in 2022, with £900m of funding repaid during the year. The Group has a refinancing concentration scheduled for October 2025.

Mitigation

The Group has other wholesale options available to it, including securitisation programmes and repo or sale of held notes, as well as retail funding through its strong franchises, to replace the TFSME borrowing gradually over the next 18 months ahead of the maturity of this funding.

Direction (Risk decreased)

TFSME borrowing decreased during the year; however, the current funding plan to refinance TFSME requires securitisation issuance which is dependant on the ongoing operation of capital markets. These markets have remained open during 2023 despite volatility seen in 2022; however, additional refinancing options are being considered.

Principal risks and uncertainties continued

Key:
Risk increased
Risk decreased
Risk unchanged

6 Solvency risk

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

The Group seeks to ensure that it is able to meet its Board-level capital buffer requirements under a severe but plausible stress scenario. The solvency risk appetite is informed by the Group's prudential requirements and strategic and financial objectives. The Group manages its capital resources in a manner which avoids excessive leverage and allows flexibility in raising capital.

6.1 Deterioration of capital ratios

Key risks to solvency arise from balance sheet growth and unexpected losses which can result in the Group's capital requirements increasing, or capital resources being depleted, such that it no longer meets the solvency ratios as mandated by the PRA and Board risk appetite.

The Group is required to meet its interim MREL requirement from July 2024 which ensures the Group must consider its total loss absorbing capacity requirement in addition to its existing capital requirements.

The regulatory capital regime is subject to change and could lead to increases in the level and quality of capital that the Group needs to hold to meet regulatory requirements. In particular, we await confirmation of the final rules in relation to the implementation of Basel 3.1 standards.

Mitigation

The Group operates from a strong capital position and has a consistent record of strong profitability.

The Group actively monitors its capital requirements and resources against financial forecasts, including MREL requirements, and undertakes stress testing analysis to subject its solvency ratios to extreme but plausible scenarios.

The Group also holds prudent levels of capital buffers based on CRD IV requirements and expected balance sheet growth.

The Group engages actively with regulators, industry bodies and advisers to keep abreast of potential changes and provides feedback through the consultation process.

Following the issuance of £400m of MREL qualifying debt securities in January 2024, the Group met its interim MREL requirement including regulatory buffers.

Direction (Risk unchanged)

The stable credit profile and ongoing profitability mean that the Group's capital resources remain strong.

Risks remain around adverse credit profile performance resulting from higher inflation and higher interest rates.

7 Operational risk

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

Risk appetite statement

The Group's operational processes, systems and controls are designed to minimise disruption to customers, damage to the Group's reputation and any detrimental impact on financial performance. The Group actively promotes the continuous evolution of its operating environment through the identification, evaluation and mitigation of risks, whilst recognising that the complete elimination of operational risk is not possible.

7.1 IT security (including cyber risk)

The risks resulting from a failure to protect the Group's systems and the data within them. This includes both internal and external threats.

Mitigation

The Group operates with a suite of detective controls to ensure services between the business and its customers operate securely with potential threats identified and mitigated as part of its IT risk and control assessment. This is further supported by documented and tested procedures intended to ensure the effective response to a security breach.

The Group programme of IT and cyber improvements continued with the aim of enhancing its protection against IT security threats, deploying a series of tools designed to identify and prevent network/system intrusions.

Direction (Risk unchanged)

The Group has processes in place to allow it to operate effectively when employees work from home and manage the cyber risks related to working remotely.

Whilst IT security risks continue to evolve, work continues to enhance the level of maturity of the Group's controls and defences, supported by dedicated IT security experts.

The Group has an ongoing programme of penetration testing in place to drive enhancements by identifying potential areas of risk.

7.2 Data quality

The risks resulting from data of a poor quality being captured or data not being maintained to a good standard.

Mitigation

The Group has a suite of data governance policies and procedures along with dedicated resources to ensure the quality of data is maintained at an appropriate standard.

Direction (Risk unchanged)

Progress was made in 2023 to embed Group-wide governance frameworks with further work planned for 2024 to move closer to the Group's target end state, including further enhancements to the Group's risk appetite metrics and key risk indicators.

Principal risks and uncertainties continued

Key:
Risk increased
Risk decreased
Risk unchanged

7.3 Change management

The risks resulting from unsuccessful change management implementations, including the failure to respond effectively to release-related incidents.

Mitigation	Direction (Risk increased)
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.	The Group continued to adopt an ambitious change agenda, which was monitored and managed well in 2023. The Group made progress on its digitalisation journey, which will enable it to meet the future needs of customers, brokers and wider stakeholders, whilst delivering further operational efficiencies.

7.4 IT failure

The risks resulting from a major IT application or infrastructure failure impacting access to the Group's IT systems.

Mitigation	Direction (Risk unchanged)
The Group continues to invest in improving the resilience of its core infrastructure. It has identified its prioritised business services and the infrastructure that is required to support them. Tests are performed regularly to validate the Group's ability to recover from an incident. The Group has established a site in Hyderabad to ensure that, in the event of an operational incident in Bangalore, services can be maintained.	Whilst progress was made in reducing both the likelihood and impact of an IT failure, the risks remain, in particular due to the hybrid working arrangement.

8 Conduct risk

The risk that the Group's culture, organisation, behaviours and actions result in poor outcomes and detriment for customers and/or damage to consumer trust and integrity of the markets in which it operates.

Risk appetite statement

The Group has a very low appetite to assume risks which may result in either poor or unfair customer outcomes and/or cause disruptions in the market segments in which it operates. The Group aims to avoid causing detriment or harm to its customers and operates to the highest standards of conduct. The Group will treat its customers, third-party partners, investors and regulators with respect, fairness and transparency. The Group will proactively look to identify where its products and services could lead to poor outcomes or harm to its customers and will take appropriate action to mitigate this. Where customer harm occurs, the Group will ensure that effective solutions are implemented to address the root cause and a fair outcome is achieved.

8.1 Conduct risk

The risk that the Group fails to meet its expectations with respect to conduct risk.

Mitigation	Direction (Risk increased)
The Group's culture is clearly defined and monitored through its Purpose, Vision and Values driven behaviours. The Group has a strategic commitment to provide simple, customer-centric products. In addition, a Product Governance framework is established to oversee that products are designed and maintained to deliver good customer outcomes throughout the product lifecycle. The Group has an embedded Conduct Risk Management Framework which clearly defines roles and responsibilities for conduct risk management and oversight across the Group's three lines of defence.	During 2023, as a result of the cost of living and cost of borrowing crisis and changing customer and competitor behaviours, the Group's operations experienced high volumes of customer contact. Throughout 2023, the Group continued to review and evolve its approach to supporting customers, particularly those that are vulnerable and experiencing financial difficulty, to ensure they continue to receive the level of tailored support needed to deliver good customer outcomes. Conduct losses have remained stable with no breaches of risk appetite reported during the last 12 months.

Principal risks and uncertainties continued

Key:
Risk increased | Risk decreased | Risk unchanged

9 Regulatory risk

The risk of failure to effectively identify, interpret, implement and adhere to all regulatory or legislative requirements that impact the Group.

Risk appetite statement

The Group views ongoing conformance with regulatory rules and standards across all the jurisdictions in which it operates as a critical facet of its risk culture. The Group has a very low appetite to assume regulatory risk, which could result in poor customer outcomes, customer detriment, regulatory sanctions, financial loss or damage to its reputation. The Group will proactively monitor for and will not tolerate any systemic failure to comply with applicable laws, regulations or codes of conduct relevant to its business.

The Group acknowledges that regulatory rules and standards are subject to interpretation and subsequent translation into internal policies and procedures. The Group interprets requirements to ensure adherence with the intended purpose and spirit of the regulation whilst being cognisant of commercial considerations and good customer outcomes. To minimise regulatory risk, the Group proactively engages with its regulators in a transparent manner, participates in industry forums and seeks external advice to validate its interpretations, where appropriate.

9.1 Prudential regulatory changes

The Group continues to see a high volume of key compliance regulatory changes that impact its business activities. These include consumer duty requirements and increased Resolvability Assessment Framework requirements.

Mitigation	Direction (Risk unchanged)
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 continued to have a high level of interaction with UK regulators and continues to identify and respond effectively to all regulatory changes.

9.2 Conduct regulation

Regulatory changes focused on the conduct of business could force changes in the way the Group carries out business and impose substantial compliance costs.

This includes the risk that product design, pricing, underwriting, arrears and forbearance and vulnerable customer policies are misaligned to regulatory expectations which result in customer harm, particularly those experiencing financial hardship or vulnerable customers, with the potential for reputational damage, redress and other regulatory actions.

Mitigation	Direction (Risk increased)
The Group has a programme of regulatory horizon scanning linking into a formal regulatory change management programme. In addition, the focus on simple products and customer-oriented culture means that current practice may not have to change significantly to meet any new conduct regulations. The Group implemented the FCA's Consumer Duty requirements within the required timelines. All Group entities utilise underwriting, arrears and forbearance and vulnerable customer policies, which are designed to comply with regulatory principles, rules and expectations. These policies articulate the Group's commitment to ensuring that all customers, including those who are vulnerable or experiencing financial hardship, are treated fairly, consistently and in a way that considers their individual needs and circumstances. The Group does not tolerate any systematic failure to deliver fair customer outcomes. On an isolated basis, incidents can result in customer harm due to human and/or operational failures. Where such incidents occur, they are thoroughly investigated, and the appropriate remedial actions are taken to address any customer harm and prevent recurrence.	The retail banking sector continues to be subject to heightened levels of regulatory focus and change, particularly in relation to conduct and customer outcomes. The Group actively assesses its approach and exposure to meeting current and emerging regulatory frameworks and remains cognisant of the potential risk of legacy decisions being subject to future supervisory focus and attention. The Group continues to proactively interact with regulatory bodies to take part in thematic reviews and information requests, as required. Identifying, monitoring and supporting vulnerable customers continues to be a key area of focus. The Group continues to review its approach to supporting customers experiencing financial difficulty to ensure they continue to receive the level of tailored support needed to deliver good customer outcomes.

Principal risks and uncertainties continued

Key:
Risk increased · Risk decreased · Risk unchanged

10 Financial crime risk

The risk of financial or reputational loss resulting from inadequate systems and controls to mitigate the risks from financial crime.

Risk appetite statement

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

10.1 Financial crime risk

The risk of financial or reputational loss resulting from a failure to implement systems and controls to manage the risk from money laundering, terrorist financing, sanctions, bribery, corruption and cyber-crime.

Mitigation

The Group operates in a low-risk environment providing relatively simple products to UK domiciled customers serviced through UK registered bank accounts. The Group has an established screening programme that is deployed at the point of origination and on a regular basis throughout the customer lifecycle. Where applicable, enhanced due diligence is applied to ensure that any increase in risk is appropriately managed and any activity remains within risk appetite.

The Group has a horizon scanning programme that identifies changes to money laundering regulations and any other financial crime related legislation to ensure that we comply with all regulatory obligations.

The Group screens its customers on a regular basis against sanctions listings acting swiftly to react to any updates released in relation to the financial sanctions regime. Given the Group's customer target market, it has negligible exposure to any of the affected jurisdictions and no exposure to any specific individual or entity contained within revised sanctions listings.

The Group's programme of cyber improvements continued with the aim of enhancing its protection against IT security threats, deploying a series of tools designed to identify and prevent network/system intrusions.

Direction (Risk unchanged)

The Group continues to focus primarily on the UK market with accounts serviced from UK bank accounts.

IT security risks continue to evolve and the level of maturity of the Group's controls and defences continues to be enhanced whilst being supported by dedicated IT security experts.

10.2 Fraud risk

The risk of financial loss resulting from fraudulent action by a person either internal or external.

Mitigation

The Group continues to invest in a range of systems and controls that are deployed across its product range to detect and prevent exposure to fraud throughout the customer lifecycle. At the point of origination, all new applications are subject to a range of controls to identify and mitigate the risk of fraud. Customer behavioural and transactional activity is closely monitored to identify potential suspicious behaviours or trends that may be indicative of fraud.

All controls are supported by documented fraud related policies and procedures that are managed by experienced employees in a dedicated Financial Crime function.

The Group continually monitors its detection capability with periodic reviews of the rules and parameters within its systems and control framework to ensure that these remain fit for purpose and aligned to mitigate any emerging risks.

Direction (Risk increased)

The Group remains cognisant of the external fraud environment in which it operates and, in particular, the rise in the number of customers falling victims to elaborate scams. Whilst the Group's product functionality restricts the level of direct exposure to these types of events, the Group continues to look at options where it can educate and support its customers and help prevent them from becoming victims of this growing threat.

Principal risks and uncertainties continued

Key:
Risk increased
Risk decreased
Risk unchanged

Emerging risks

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

Political and macro-economic uncertainty

Description	Mitigation
The Group's lending activity is predominantly focused in the United Kingdom (with a legacy book of mortgages in the Channel Islands) and, as such, will be impacted by any risks emerging from changes in the UK's macroeconomic environment. Higher inflation and changing interest rates pose risks to the Group's loan portfolio performance.	The Group has mature and robust monitoring processes and through various stress testing activities (i.e. ad hoc, risk appetite and ICAAP) understands how the Group performs over a variety of macroeconomic stress scenarios and has developed a suite of early warning indicators, which are closely monitored to identify changes in the economic environment. The Board and management review detailed portfolio reports to identify any changes in the Group's risk profile.

Climate change

Description	Mitigation
Regulatory expectations and industry best practices continue to evolve and further work is required to enhance the Group's approach to managing climate risk. Climate change risks include: • Physical risks which relate to specific weather events, such as storms and flooding, or to longer-term shifts in the climate, such as rising sea levels. These risks could include adverse movements in the value of certain properties that are in coastal and low-lying areas or located in areas prone to increased subsidence and heave. • Transitional risks may arise from the adjustment towards a low-carbon economy, such as tightening energy efficiency standards for domestic and commercial buildings. These risks could include a potential adverse movement in the value of properties requiring substantial updates to meet future energy performance requirements. • Reputational risk arising from a failure to meet changing societal, investor or regulatory demands.	During 2023, the Group further embedded its approach to climate risk management, which included enhancing its Task Force on Climate-Related Financial Disclosures (TCFD). The Group's Chief Risk Officer has designated senior management responsibility for the management of climate change risk.

Model risk

Description	Mitigation
The risk of financial loss, adverse regulatory outcomes, reputational damage or customer detriment resulting from deficiencies in the development, application or ongoing operation of models and ratings systems. The Group also notes changes in industry best practice with respect to model risk management including the PRA's Supervisory Statement, 'Model risk management principles for banks', containing proposed expectations regarding banks' management of model risk.	The Group has IRB compliant model risk management capabilities in place. The Group conducted an initial self-assessment against the new rules and has plans in place to ensure alignment even though compliance is not compulsory. The Group has extended model risk management disciplines across End User Developed Applications. The Group has well-established model risk governance arrangements in place, with Board and Executive Committees in place to ensure robust oversight of the Group's model risk profile.

Regulatory change

Description	Mitigation
The Group remains subject to high levels of regulatory oversight and an extensive and broad ranging regulatory change agenda, including meeting the requirements of Basel 3.1 regulation. The Group is therefore required to respond to prudential and conduct-related regulatory changes, taking part in thematic reviews, as required. There is also residual uncertainty in relation to the regulatory landscape post the United Kingdom's exit from the European Union.	The Group has established horizon scanning capabilities, coupled with dedicated prudential and conduct regulatory experts in place to ensure the Group manages future regulatory changes effectively. The Group also has strong relationships with regulatory bodies and, through membership of UK Finance, inputs into upcoming regulatory consultations.

Risk review continued

Risk profile performance overview

Credit risk

During 2023 the Bank of England continued to increase interest rates to moderate the ongoing elevated levels of inflation experienced across the United Kingdom, which in turn adversely impacted borrower and underlying tenant affordability levels. Increased borrowing costs resulted in subdued property purchase activity and consequent loan demand. Unemployment levels were also adversely impacted but remained at low levels. The Group's prudent risk appetite and disciplined approach to credit risk management supported robust credit profile performance during the year.

The Group observed strong demand for its loan products and delivered organic originations of £4.7bn during the year (2022: £5.8bn), despite subdued demand in the wider mortgage market. Strong levels of lending were observed across the Group's core Buy-to-Let and residential first charge products, with the Group's renewed focus on bridging and semi commercial and commercial mortgage lending resulting in higher origination levels versus 2022.

The Group actively manages three key credit risk pillars including; i) the customer's propensity to repay and (ii) the customer or tenant's ability to maintain payments and (iii) the underlying collateral or security provided to support the requested lending and its ability to absorb adverse movements in values, providing loss protection should a repayment default event occur.

The credit score profile of new lending remained broadly stable throughout the year, indicating that onboarded customers had strong ability and propensity to make payments in the future.

Buy-to-Let interest coverage ratios for new lending were impacted by the rising cost of borrowing during the year but remained strong at 176% for OSB and 154% for CCFS (2022: 207% OSB and 191% CCFS), demonstrating a healthy surplus in rental income versus the required monthly repayment amount.

Strong origination and customer retention performance resulted in underlying and statutory net loan book growth of 9% in the year to £25.7bn and £25.8bn respectively (31 December 2022: £23.5bn and £23.6bn), with the portfolio mix of lending broadly comparable year-on-year.

Credit scoring metrics for existing loan balances remained robust, with modest increases in future probability of default and affordability scores observed as more customers migrated into arrears and customers' credit profiles were adversely impacted by the increasing costs of living and borrowing.

The Group remains a fully secured lender with prudent lending policies and criteria coupled with property value appreciation in prior periods, ensuring that existing lending was well positioned to absorb observed reductions in property values during 2023. Weighted average LTV levels increased to 63% OSB and 65% CCFS respectively as of 31 December 2023 (31 December 2022: OSB 58% and CCFS 63%). The weighted average LTV profile remained prudent for the Group at 64%, an increase from 60% at the end of 2022. The Group maintains a low level of high LTV accounts with the percentage of loans above 90% LTV at 4% for OSB Buy-to-Let and at 2% for OSB residential (31 December 2022: 3% for Buy-to-Let and 1% for residential).

During 2023 the Group observed an increase in arrears levels with balances over three months in arrears increasing to 1.4% of the loan book as at 31 December 2023 (31 December 2022: 1.1%). For OSB bank, arrears increased to 1.6% from 1.2% at the end of 2022 while for CCFS arrears increased to 1.2% from 0.9% at the end of 2022. The increased arrears were largely driven by the rising cost of living and cost of borrowing, as accounts reverted onto higher product interest rates and customers absorbed the rising costs of day-to-day living.

At the Group level Buy-to-Let arrears levels remained lower than UK Finance Buy-to-Let arrears trends, with year-on-year growth broadly inline. The growth in greater than three months in arrears residential mortgage balances remained higher than UK Finance, with arrears growth marginally higher than UK Finance trends, reflecting the higher proportion of near prime lending versus the predominantly prime residential mortgage lending captured within the UK Finance data.

The timelines for repossessing and selling properties continued to be impacted by ongoing delays in the court hearing process.

The Group actively monitors performance against a set of internal risk appetite and early warning indicators together with wider benchmarked external data provided by third parties, including UK Finance. During 2023 the Group's arrears performance operated inside of forecasted estimates, and prudent IFRS 9 provision coverage levels continued to be held to cover for forecasted future losses.

During 2023 the Group observed a marked increase in the number of forbearance measures requested by customers experiencing financial difficulty, with 1,552 requests supported during 2023 versus 854 in the prior year. Again, this was driven by the rising costs of living and borrowing. The balance of these forbearance measures granted as of 31 December 2023 totalled £235m versus £88m as of 31 December 2022. The most common solutions provided were payment deferral, interest only switch, interest rate reduction and term extension. The largest provision of forbearance was to residential first charge mortgage holders.

Expected Credit Losses (ECL)

Balance sheet expected credit losses increased from £130.0m to £145.8m as at 31 December 2023. The full year statutory impairment charge of £48.8m represented a loan loss ratio of 20bps (2022: £29.8m charge, 13bps loan loss ratio, respectively).

A summary of the key impairment charge drivers for 2023 included:

a. Macroeconomic outlook – the Group regularly updates the collateral values of properties which act as security against the loans extended to customers and, in 2023, the Group observed a reduction in property values. The Group continued to receive regular macroeconomic scenario updates from its advisers, which were reviewed and discussed by management and the Board, along with the probability weightings applied to each scenario. As a result, the cumulative impact of updated collateral values and revised scenarios was a charge of £6.4m.

b. Model and staging enhancements – enhancements were made to the Group's models to ensure that estimates continued to reflect actual credit performance. Prior to each reporting period the Group's

Risk review continued

Coverage ratios table

As at 31 December 2023	Gross carrying amount £m	Expected credit losses £m	Coverage ratio %
Stage 1	**20,576.8**	**22.4**	**0.11%**
Stage 2	**4,537.9**	**54.3**	**1.20%**
Stage 3 (+ POCI)	**782.4**	**69.1**	**8.83%**
Total	**25,897.1**	**145.8**	**0.56%**

As at 31 December 2022	Gross carrying amount £m	Expected credit losses £m	Coverage ratio %
Stage 1	18,722.3	7.2	0.04%
Stage 2	4,417.1	50.9	1.15%
Stage 3 (+ POCI)	588.7	71.9	12.21%
Total	**23,728.1**	**130.0**	**0.55%**

Significant Increase in Credit Risk (SICR) logic which determines whether accounts not in arrears should be moved to stage 2 is reviewed. These model adjustments made to reflect recent behaviour had a cumulative charge of £2.1m.

c. Post model adjustments – the Group continued to utilise post model adjustments (PMAs) to ensure risks not captured by the Group's models were assessed and appropriate provisions continued to be held. PMAs are primarily designed to capture the risk arising from the heightened cost of living and borrowing by moving some accounts to into Stage 2 even when the account is performing. PMA adjustments made within the reporting period resulted in an impairment release of £3.1m driven by updated views on the cost of living and borrowing as inflation levels continued to decrease and interest rates were forecast to have peaked.

d. Arrears flow – growth in stage 3 balances resulted in a charge of £14.1m which in part was driven by (i) accounts waiting to clear the twelve-month probation period (ii) cross contingent defaults, where a borrower has multiple facilities and, once a minimum proportion of exposure in default has been exceeded, all accounts are brought into default and (iii) late stage arrears levels continuing to be elevated due to ongoing challenges with the process of repossessing and selling properties.

e. Changes in risk profile – as the Group's loan book continued to grow, provisions were raised against the incremental stage 1 balances resulting in a £7.8m impairment charge. Other changes to the Group's credit profile, including new accounts entering stage 2, resulted in a further charge of £14.1m.

f. Individually assessed provisions – the Group's specialist real estate management and financial support teams maintain watchlists of loans where objective evidence of impairment exists over a given exposure. For these specific loans, a detailed assessment of the collateral and circumstances of the arrears are assessed. When required, an individual impairment provision will be raised using this updated information which replaces any modelled provisions held. During 2023, the Group raised a number of additional individual provisions against a small number of counterparties which in aggregate resulted in an impairment charge of £7.4m.

g. Write off and recoveries – write-offs were elevated in 2023 due to the write-off of the funding line receivable associated with the 2020 fraud case, following the successful sale of the remaining security in line with our write-off policy. Write-offs did not form part of the impairment charge for the year, as they were expensed to the profit and loss in the periods when the provisions were raised.

Impairment coverage levels were broadly flat compared to 31 December 2022, with cost of living and cost of borrowing further embedded within the Group's framework and models. The reduction in stage 3 coverage ratios was driven by the write off of previously reported fraudulent activity cases which were fully provisioned.

The Group's Risk function conducted top-down analysis, assessing portfolio-specific risks, which confirmed the appropriateness of provision levels after taking into account the post model adjustments.

Macroeconomic scenarios

The measurement of ECL under the IFRS 9 approach is complex and requires a high level of judgement. The approach includes the estimation of probability of default (PD), loss given default (LGD) and likely exposure at default (EAD). An assessment of the maximum contractual period over which the Group is exposed to the credit risk of the asset is also undertaken.

IFRS 9 requires firms to calculate ECL provisions simulating the effect of a range of possible economic outcomes, calculated on a probability-weighted basis. This requires firms to formulate forward-looking macroeconomic forecasts and incorporate them into their ECL calculations.

I. How macroeconomic variables and scenarios are selected

As part of the IFRS 9 modelling process, the relationship between macroeconomic drivers and arrears, default rates and collateral values is established. The Group adopted an approach which utilises four macroeconomic scenarios. These scenarios are provided by an industry-leading economics advisory firm, that advises management and the Board.

A base case forecast is provided, together with a plausible upside scenario. Two downside scenarios are also provided (downside and a severe downside).

ii. How macroeconomic scenarios are utilised within ECL calculations

Probability of default estimates are either scaled up or down based on the macroeconomic scenarios utilised.

Loss given default estimates are principally impacted by property price forecasts, which are utilised within loss estimates should an account be possessed and sold.

Risk review continued

Details relating to the scenarios utilised to set the 31 December 2023 IFRS 9 provision levels are provided in the table below.

Forecast macroeconomic variables over a five-year period

			Scenario %				
Scenario	Probability weighting (%)	Economic measure	Year end 2023	Year end 2024	Year end 2025	Year end 2026	Year end 2027
Base case	40	GDP	0.4	0.4	1.5	2.3	1.5
		Unemployment	4.4	4.6	4.2	3.9	3.8
		House price growth	-2.5	-7.0	-0.8	5.7	7.0
		CPI	4.6	2.1	1.6	1.2	1.8
		Bank Base Rate	5.3	4.9	3.8	2.8	1.8
Upside	30	GDP	0.4	3.1	2.5	2.9	1.6
		Unemployment	4.4	4.2	3.9	3.8	3.7
		House price growth	-2.5	-4.7	1.3	7.1	6.8
		CPI	4.6	3.4	2.2	1.2	1.7
		Bank Base Rate	5.3	6.0	5.1	4.1	3.1
Downside	20	GDP	0.4	-3.2	0.6	1.9	1.6
		Unemployment	4.4	6.3	7.0	7.0	6.7
		House price growth	-2.5	-12.3	-5.6	3.4	7.3
		CPI	4.6	0.5	0.9	1.1	1.7
		Bank Base Rate	5.3	3.6	2.6	1.6	1.3
Severe downside	10	GDP	0.4	-6.3	-0.3	1.4	1.6
		Unemployment	4.4	6.7	7.5	7.6	7.3
		House price growth	-2.5	-16.4	-9.9	1.1	7.7
		CPI	4.6	-0.1	0.5	1.3	1.2
		Bank Base Rate	5.3	2.6	1.5	0.5	0.5

Exposure at default estimates are not impacted by the macroeconomic scenarios utilised.

Each of the above components are then directly utilised within the ECL calculation process.

iii. Macroeconomic scenario governance
The Group has a robust governance process to oversee macroeconomic scenarios and probability weightings used within ECL calculations.

On a periodic basis, the Group's Risk function and economic adviser provide the Group Risk and Audit Committees with an overview of recent economic performance, together with updated base, upside and two downside scenarios. The Risk function conducts a review of the scenarios comparing them to other economic forecasts, which results in a proposed course of action which, once approved, is implemented.

iv. Changes made during 2023
Throughout 2023, the scenario suite was monitored and updated as UK political and geopolitical developments occurred.

The Group's Risk and Audit Committees focused on assessing whether specific risks had been captured within externally provided forward-looking forecasts. Of particular focus were the risks relating to rising costs of living and the subsequent rising interest rates used to control inflation levels. The Group undertook a detailed analysis to assess the portfolio risks and consider whether these were adequately accounted for in the IFRS 9 models and frameworks and identified a number of areas requiring post model adjustments, most notably to account for the increased credit risk from the heightened cost of living and cost of borrowing resulting in elevated levels of accounts in stage 2.

The Board reflected on the ongoing appropriateness of probabilities attached to the suite of IFRS 9 scenarios as the macroeconomic outlook evolved throughout the year. Scenarios remain symmetrical, where the upside and downside scenarios carry equal weightings, and the base case has the highest probability.

Forbearance

Where a borrower experiences financial difficulty which impacts their ability to service their financial commitments under the loan agreement, forbearance may be used to achieve an outcome which is mutually beneficial for both the borrower and the Group.

Borrowers who are experiencing financial difficulties, either pre-arrears or in arrears, enter a consultative process to ascertain the underlying reasons and to establish the best course of action to enable the borrower to develop credible repayment plans to see them through the period of financial stress.

The specific tools available to assist customers vary by product and the customers' circumstances. The various options considered for customers are as follows:

- temporary switch to interest only: a temporary account change to assist customers through periods of financial difficulty where the contractual monthly payment is reduced to the amount of interest owed in the month for the duration of the account change. Any arrears existing at the commencement of the arrangement are retained
- interest rate reduction: the Group may, in certain circumstances, where the borrower meets the required eligibility criteria, transfer the mortgage to a lower contractual rate. Where this is a formal contractual change, the borrower will be requested to obtain independent financial advice as part of the process

Risk review continued

- 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 capital and interest accruals during the payment holiday period are repaid from the end of the payment holiday over the remaining term. 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 monthly payment
- reduced monthly payments: a temporary arrangement for customers in financial distress. For example, a short-term arrangement to pay less than the contractual monthly payment. Arrears continue to accrue based on the contractual monthly 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 appropriate, the Group will consider writing-off part of the debt. This may occur where the borrower has an agreed sale and there is 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 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 payment, which will repay arrears over a period of time
- Promise to pay: where an arrangement is made with the borrower to defer payment or pay a lump sum at a later date
- Bridging loans which are more than 30 days past their maturity date. Repayment is rescheduled to receive a balloon or bullet payment at the end of the term extension, where the institution can duly demonstrate future cash-flow availability

The Group aims to proactively identify and manage forborne accounts, utilising external credit reference bureau information to analyse probability of default and customer indebtedness trends over time, feeding pre-arrears watch-list reports. Watch-list cases are in turn carefully monitored and managed as appropriate.

Fair value of collateral methodology

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

Solvency risk

The Group maintains an appropriate level and quality of capital to support its prudential requirements with sufficient contingency to withstand a severe but plausible stress scenario. The solvency risk appetite is based on a stacking approach, whereby the various capital requirements (Pillar 1, Pillar 2A, CRD IV buffers, Board and management buffers) are incrementally aggregated as a percentage of available capital (CET1 and total capital).

The Group's interim MREL requirements will apply from July 2024 and total loss absorbing capacity will be subject to a Board approved risk appetite. All solvency planning and reporting will consider this new loss absorbing capacity requirement along with the Group's existing capital requirements.

Solvency risk is a function of balance sheet growth, profitability, access to capital markets and regulatory changes. The Group actively monitors all key drivers of solvency risk and takes prompt action to maintain its solvency ratios at acceptable levels. The Board and management also assess solvency when reviewing the Group's business plans and inorganic growth opportunities. The Group's CET1 and total capital ratios reduced to 16.1% and 19.5%, respectively as at 31 December 2023 (31 December 2022: 18.3% and 19.7%, respectively) but remained significantly above risk appetite. The Group's leverage ratio was 7.5% as at 31 December 2023 (31 December 2022: 8.4%).

Liquidity and 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 bank-specific events. OSB's 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 has high retention levels with existing customers. In addition, the Group is able to access a wide range of wholesale funding options, including securitisation issuances and the use of retained notes from both Banks as collateral for Bank of England facilities and repurchase agreements with third parties.

In 2023, both Banks actively managed their respective liquidity and funding profiles within the confines of their risk appetites as set out in the Group's ILAAP.

Retail funding rates increased throughout the year due to further increases in the Bank of England base rate. There were delays in the market passing base rate rises on to savers in full and the cost of new retail funding also benefitted from widening swap spreads in the first half, although retail savings spreads normalised in the second half.

Swap rate increases in 2023 also led to the Group receiving a high level of variation margin collateral on the Group's interest rate swaps during the year. The Group increased internal buffers to ensure that sufficient funds were held at the Bank of England to meet any swap margin calls that may arise if swap rates reduce. By the end of 2023, a significant proportion of the swap collateral movement had reversed.

Each Bank's risk appetite is based on internal stress tests that cover a range of scenarios and time periods and therefore are a more severe measure of resilience to a liquidity event than the standalone liquidity coverage ratio (LCR). As at 31 December 2023, OSB had a liquidity coverage ratio of 208% (2022: 229%) and CCFS 139% (2022: 148%), and the Group LCR was 168% (2022: 185%), all significantly above regulatory requirements.

Risk review continued

Market risk

The Group is exposed to adverse movements in interest rates, foreign exchange rates and counterparty exposures. The Group accepts interest rate risk and basis risk as a consequence of structural mismatches between fixed rate mortgage lending, sight and fixed-term savings and the maintenance of a portfolio of high-quality liquid assets. Interest rate exposure is mitigated on a continuous basis through portfolio diversification, reserve allocation and the use of financial derivatives, within limits set by the Group ALCO and approved by the Board.

The Group's balance sheet is predominantly GBP denominated. The Group has some minor foreign exchange risk from funding its OSBI subsidiary. This is minimised by pre-funding a number of months in advance and regularly monitoring GBP/INR rates. Wholesale counterparty risk is measured on a daily basis and constrained by counterparty risk limits.

Operational risk

The operational risk management framework has been designed to ensure a robust approach to the identification, measurement and mitigation of operational risks, utilising a combination of both qualitative and quantitative evaluations. 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. Where risks continue to exist, there are established processes to provide the appropriate levels of governance and oversight, together with an alignment to the level of risk appetite stated by the Board.

A strong culture of transparency and escalation has been cultivated throughout the organisation, with the Operational Risk function having a Group-wide remit, ensuring a risk management model that is well-embedded and consistently applied. In addition, a community of Risk Champions representing each business line and location has been identified, together with dedicated first line risk and controls teams in some key areas of the business. Both the dedicated first line risk and control teams and the Risk Champions ensure that operational risk identification and assessment processes are established across the Group in a consistent manner.

A hybrid working model has been adopted across the Group, with the exception being front-line customer-facing colleagues. With a 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, work continues to enhance the level of maturity of the Group's controls and defences, supported by dedicated IT security experts. The Group's ongoing penetration testing continues to drive enhancements by identifying potential areas of risk.

Regulatory and compliance risk

The Group is committed to the highest standards of regulatory conduct and aims to minimise breaches, financial costs and reputational damage associated with non-compliance.

The Group has an established Compliance function which actively identifies, assesses and monitors adherence with current regulation and the impact of emerging regulation.

In order to minimise regulatory risk, the Group maintains a proactive relationship with key regulators, engages with industry bodies such as UK Finance and seeks external expert advice. The Group also assesses the impact of forthcoming regulation on itself and the markets in which it operates and undertakes robust assurance assessments from within the Risk and Compliance functions.

Conduct risk

The Group considers its culture and behaviour in ensuring the fair treatment of customers and in maintaining the integrity of the market sub-segments in which it operates to be a fundamental part of its strategy and a key driver to sustainable profitability and growth. The Group does not tolerate any systemic failure to deliver good customer outcomes.

On an isolated basis, incidents can result in customer harm due to human or operational failures. Where such incidents occur, they are thoroughly investigated and the appropriate remedial actions are taken to address any customer harm and to prevent recurrence.

The Group considers effective conduct risk management to be a product of the positive behaviour of all employees, influenced by a customer-centric culture throughout the organisation and therefore continues to promote a strong sense of awareness and accountability.

Throughout 2023, the Group continued to review and evolve its approach to supporting customers, particularly those that are vulnerable and experiencing financial difficulty, to ensure they continue to receive the level of tailored support needed to deliver good customer outcomes. The Group implemented the FCA's Consumer Duty requirements within the required timelines.

Conduct losses have remained stable with no breaches of risk appetite reported during the last 12 months.

Financial crime risk

The Group provides relatively simple products to UK domiciled customers serviced through a UK-registered bank account. The Group has an established screening programme that is deployed at the point of origination and on a regular basis throughout the customer lifecycle. The Group continues to invest in a range of systems and controls that are deployed across its product range in order to detect and prevent the exposure to fraud through the customer lifecycle. All new-to-business applications are subject to a range of controls to identify and mitigate fraud. Customer activity is monitored in order to detect suspicious activity or behaviour that may be indicative of fraud.

Strategic and business risk

The Board has clearly articulated the Group's strategic vision and business objectives supported by performance targets. The Group does not intend to undertake any medium- to long-term strategic actions, which would put the Group's strategic or financial objectives at risk.

To deliver against its strategic objectives and business plan, the Group has adopted a sustainable business model based on a focused approach to core niche market sub-segments where its experience and capabilities give it a clear competitive advantage.

The Group remains focused on delivering against its core strategic and financial objectives, against a highly competitive and uncertain backdrop.

Reputational risk

Reputational risk can arise from a variety of sources and is a second order risk. The crystallisation of another principal risk can lead to a reputational risk impact. The Group monitors reputational risk through tracking media coverage, customer satisfaction scores, the Group's share price and Net Promoter Scores.

Viability statement

This statement is made to comply with Provision 31 of the 2018 UK Corporate Governance Code which requires the Board to assess the viability of the Group over a stated time horizon.

The Group's long-term direction is informed by business and strategic plans which are set on an annual basis and are reviewed and refreshed quarterly. The operating and financial plans consider, among other matters, the Board's risk appetite, the macroeconomic outlook, market opportunity, the competitive landscape, and sensitivity of the financial plans to volumes, margin pressures and any changes in capital requirements.

In making the assessment, the Board has considered all principal and emerging risks, including climate risk where the risk is likely to emerge outside of the viability assessment horizon. The impacts of climate risk have been assessed as part of the Internal Capital Adequacy Assessment Process (ICAAP), which concluded that at present the associated financial risks are not material for the Group.

The Group prepares financial forecasts over a five-year time horizon, with the Board and management focusing on the projections over the first three years. Key events which will impact the Group's capital adequacy such as the introduction of Basel 3.1, the impact of the implementation of the Group's Minimum Requirements for Own Funds and Eligible Liabilities (MREL) and the impact of the peak stress point of macroeconomic forecasts all fall within a three-year time horizon. Post consideration of these factors, the Board considers a viability assessment horizon of three years to remain appropriate.

The Banks within the Group are authorised by the PRA and regulated by the FCA and the PRA. The Group has a robust set of policies, procedures and systems to undertake a comprehensive assessment of all the principal risks and uncertainties to which it is exposed on a current and forward-looking basis.

The Group identifies, assesses, manages and monitors its risk profile based on the disciplines outlined within the Group Enterprise Risk Management Framework, in particular through leveraging its risk appetite framework (as described in the Risk review). Potential changes in the aggregated risk profile are assessed across the business planning horizon by subjecting the operating and financial plans to severe but plausible macroeconomic and idiosyncratic stress scenarios.

The viability of the Group is assessed at both the Group and the underlying regulated bank levels, through leveraging the risk management frameworks and stress testing capabilities of both regulated banks.

Stress testing is an integral risk management discipline, used to assess the financial and operational resilience of the Group. The Group has developed bespoke stress testing capabilities to assess the impact of extreme but plausible scenarios in the context of its principal risks impacting the primary strategic, financial and regulatory objectives. Stress test scenarios are identified in the context of the Group's operating model, identified risks, and the business and economic outlook. The Group actively engages external experts to inform the process by which it develops business and economic stress scenarios.

A broad range of stress scenarios are analysed considering the potential impacts to changes in HPI, unemployment, inflation and interest rates over a range of severities. Stresses are applied to lending volumes, capital requirements, liquidity and funding mix, interest margins and credit and operational losses. Stress testing also supports key regulatory submissions such as the ICAAP, ILAAP and the Group Recovery Plan. ICAAP stress testing assesses capital resources and requirements over a five-year period.

The Group has identified a broad suite of credible management actions, which can be implemented to manage and mitigate the impact of stress scenarios. These management actions are assessed under a range of scenarios varying in severity and duration. Management actions are evaluated based on speed of implementation, second order consequences and dependency on market conditions and counterparties.

Management actions are used to inform capital, liquidity and recovery planning under stress conditions.

In assessing the Group's long term viability, the Directors have assumed that the Group will be able to issue MREL-eligible debt instruments to meet its MREL requirements. The Board assessed the uncertainty around the quantum and phasing of MREL issuance resulting from the ongoing Basel 3.1 consultation.

The Group successfully issued its first £300m of MREL qualifying debt securities plus £250m Tier 2 debt securities in 2023 followed by a further issuance of £400m of MREL qualifying debt securities in January 2024, following which, the Group met its interim MREL requirement, including regulatory buffers.

In addition, the Group identifies a range of catastrophic scenarios, which could result in the failure of its current business model. Business model failure scenarios (Reverse Stress Tests or RSTs) are primarily used to inform the Board of the outer limits of the Group's risk profile. RSTs play an important role in helping the Board and Executives to assess the available recovery options to revive a failing business model.

The Group has established a comprehensive operational resilience framework to actively assess the vulnerabilities and recoverability of its critical services. The Group also conducts regular business continuity and disaster recovery exercises.

The ongoing monitoring of all principal risks and uncertainties that could impact the operating and financial plan, together with the use of stress testing to ensure that the Group could survive a severe but plausible stress, enables the Board to assess the viability of the business model over a three-year period.

Viability Statement continued

The Group has maintained strong capital and funding profiles with a view to ensuring continued financial resilience. However, the Group remains fully cognisant of the uncertain macroeconomic environment and ensures that stress testing activities consider a range of potential scenarios.

The Board has also considered the potential implications of the current macroeconomic uncertainty in its assessment of the financial and operational viability of the Group and has a reasonable belief that the Group retains adequate levels of financial resources (capital and liquidity) and operational contingency.

In line with prior years, in the viability assessment process the Board considered the latest macroeconomic forward-looking scenarios utilised for business planning and the Group's IFRS 9 calculations which consider macroeconomic risks such as rising levels of unemployment, inflation, interest rate rises and movements in house prices. Utilising analysis which identifies scenarios which would result in the Group becoming unviable, the Board considered the plausibility of these scenarios materialising. Forecasts and capital stress tests considered the impact of IFRS 9 transitional arrangements unwinding, the Group's go-forward MREL phasing in, whilst incorporating the Group's simulation of the impact of Basel 3.1 implementation.

The potential impact of the macroeconomic environment on the Group's operations is subject to continuous monitoring through the Group's management committees, capital and liquidity, operational resilience and business continuity planning working groups, with appropriate escalation to the Board and supervisory authorities.

The Group has progressively enhanced its approach to assessing the viability of its strategy and business operating model, in particular the Group has enhanced its capabilities by:

- creating a new Group-wide stress testing tool which simulates the performance of the loan book through macroeconomic stresses including impacts on balances, income, losses and RWAs
- increasing the diversification of its funding profile, supported by an enhanced assessment of funding and liquidity risk profiles
- enhancing the assessment of operational resilience through the ongoing review of priority business functions, including supporting infrastructure and dependencies through a simulated business continuity exercise.

The current financial forecasts, risk profile characteristics and stress test analysis, the Group's capital, funding and operational capabilities support the Directors' assessment that they have a reasonable expectation that the Group will remain viable over the three-year horizon and will be able to continue to operate and meet its liabilities as they fall due over this period.

Sustainability report

Doing the right thing for our customers, colleagues, communities and the planet.

Just Transition

We are committed to environmental stewardship, supporting the transition to a low carbon economy, and achieving net zero across our value chain by 2050[1].

1. Ambition includes Scope 1 and 2 emissions, relevant Scope 3 categories including category 15 - investments.

People

We are committed to having a positive human and social impact on the lives of the customers, colleagues and communities we work with and affect.

Stewardship

We are committed to operating responsibly, ethically and transparently, delivering sustainable value to all our stakeholders.

Sustainability

Introduction

2023 marked a year of progress, embedding our ESG principles and embracing our commitment to building a sustainable future for our customers, colleagues and communities.

Throughout the year, we have focused on how we can begin reducing the environmental impact of our own operational footprint and how we can support the decarbonisation of the UK housing stock we finance, whilst developing our first Climate Transition Plan (**https://www.osb.co.uk/sustainability/our-environment**). The plan outlines actionable steps that we can take to mitigate our environmental impact and support a transition to a low carbon economy.

We published interim (2030) emissions reduction targets for mortgage lending and operations, aiming to reduce the emissions intensity of our mortgage lending by 25% in accordance with the Net Zero Banking Alliance (NZBA) guidelines, and reducing Scope 1 and Scope 2 emissions to net zero. We launched our Landlord Leaders Community to unite those with influence to help drive positive change, deliver collective progress and a fair and equitable transition to Net Zero.

In 2023, progress was made in delivering our social impact with both our colleagues and local communities through extending our volunteering programme, strengthening our ties with our key charity partners, and doubling our CSR commitment within our Indian operation.

Following the appointment of a Diversity, Equity and Inclusion (DE&I) specialist, we created our first DE&I Strategy and launched initiatives including employee engagement networks and leadership pathways, with the networks enabling us to enhance our ESG Governance structure.

Enhancing our approach to stewardship, we implemented Consumer Duty across the Group, became a signatory of the UN Global Compact and continued to link ESG performance to Executive compensation.

The following sections offer a detailed account of our strategic sustainability commitments, progress and plans for building upon our success.

41%
EPC rating of C or better

11%
reduction in energy consumption per m^2

99%
of electricity from renewable sources

46%
of UK employees engaged in community activities

88%
increase in donations to Children's Hospice through our dedicated savings account

7th
consecutive year OSB India confirmed as a Great Place to Work

33%
women in senior management

60th
of top 100 companies in Best Companies Survey

4,998
volunteering hours undertaken

Greenhouse gas emissions[1]

Scope 1
171.44tCO_2e
2022: 153.87

Scope 2
1.39tCO_2e
2022: 0.00

Scope 3 Financed emissions – mortgages
314,413tCO_2e
2022: 363,680

1. For further definition and details see Just Transition section on pages 72-78.

Sustainability continued

ESG Strategic Pillars

We continued identifying and evaluating non-financial risks and opportunities through our annual materiality assessment and ESG lifecycle review.

Our approach enables us to prioritise significant areas where stakeholder value can be generated and where we can support the United Nations Sustainable Development Goals (SDGs), thereby advancing our Purpose and ESG commitments through the following strategic pillars:

ESG Strategic Pillar	Just Transition	People	Stewardship
	A fair and equitable transition to a low carbon economy	Delivering on the needs of people now and into the future	Acting responsibly to deliver sustainable value

Our Strategic Commitments

Customers: The Group's approach will ensure that the social mobility of our customers is not compromised through our product decisions.

Provide thought leadership, education, awareness and products that enable, incentivise and reward our customers to embrace the transition to a low carbon housing economy.

Communities: A strategic and coordinated programme will be defined and delivered, supporting our communities and wider social economic environment, through collaboration, partnerships and volunteering, with focus on the UK and Indian housing projects.

Supply and Value Chain: We will encourage and support our supply and value chain with their transition to an ESG strategy that aligns with the Group's ambitions.

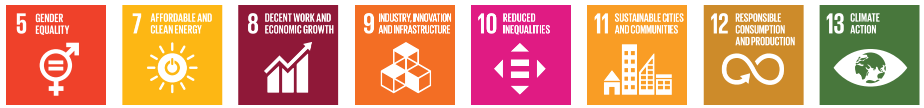
Colleagues: We will retain, recruit and train the best talent, enabling all employees to maximise their potential and seek to embed a diverse and inclusive culture that the Group is proud of.

Net zero Commitment: The Group's environmental ambitions and transition plan aligns to the Paris Accord on climate change, achieving carbon net zero across our operational emissions by 2030 and our total emissions by 2050.

Technology: The Group seeks to use technology solutions that align to our net zero ambitions.

Operating Framework Governance: The Group will embrace and operate within the ESG Operating Framework to ensure that our ESG Strategy is embedded within the Group.

Aligning to UN SDGs



Sustainability continued

Strategic Pillar – Just Transition

As we advance towards a net zero future, the concept of a just transition stands as the cornerstone of our approach.

A just transition is one that is fair and inclusive for all as the economy becomes increasingly green, creating opportunities that leave no one behind.

Recognising the interconnectedness of ESG considerations, we believe it is crucial to deliver a fair and equitable transition that addresses and balances stakeholders' diverse needs within the residential property and private rented sectors. Homeowners, tenants, property investors, and the broader community are integral to this transition.

Over the past year, we made steady progress towards our commitment to a net zero future, closely engaging with the residential property market and the private rented sector by:

- initiating and delivering transition products that result in an energy efficiency improvement for our customers' mortgaged property. Our refurbishment Buy to Let products offer reduced rates where works include improving energy efficiency or achieving an EPC C or better
- laying the groundwork for a sustainable transition, through our Landlord Leaders thought leadership programme (see across)
- collaborating and partnering with Sero, piloting property specific pathway to zero reports with a sample set of 30 landlord customers, and
- collaborating with industry partners to help support this transition, connecting our customers to the retrofit services they need and reducing emissions

We also started the process to reduce, or facilitate the reduction of, our own Scope 1 and Scope 2 emissions by:

- removing gas boilers from our office location in Chatham, moving heating to an electric source
- further improving our Building Management Systems controls and settings including the installation of sub-metering to our main office locations in Chatham and Wolverhampton, and
- including the Group's net zero commitment and transition away from gas in the design requirements of the newly acquired office location in Wolverhampton

Our efforts have focused on ensuring an inclusive transition, aiming to minimise disruptions whilst promoting the adoption of environmentally conscious practices.

We recognise that we can't do this on our own but we will continue to focus on what we can do, which includes further developing the data analytics that supports product development, launching new products that will contribute to a transition of UK housing stock, and collaborating with industry leaders through our representation at UK Finance, the Net Zero Banking Alliance (NZBA) and Partnership for Carbon Accounting Financials (PCAF).

Landlord Leaders

When we set our ESG Strategy, we were clear that thought leadership would be a critical action to help drive the positive change we aspire to.

As a leading Buy-to-Let lender, we started by considering the changing shape of the Private Rented Sector. At the end of 2022, we published our seminal Landlord Leaders thought leadership research, which demonstrated a continued advance towards professionalisation of the sector. That professionalisation heralds much to be applauded: tenant-centric business models, greater investment in sustainable housing upgrades, and setting a standard for what comes next. In fact, the research shows that many professional landlords are already investing in a future that policymakers are only considering.

We found that the move to professionalisation presented challenges to landlords with smaller property portfolios. For this group a world of increased red tape, unfavourable tax treatment, increased interest rates and inflation, and an uncertain political environment has led to many doubting whether it is viable to continue. We believe we have a role to play for both groups.

Acting on the research, we launched a package of measures including investigating product innovation, creating more educative support around tax in particular and bringing the industry together to help drive change beyond that which we alone can deliver.

We launched the Landlord Leaders Community in June 2023, convening a founding group of over 30 members and leaders across industry, policy and finance together with small landlords, creating a shared mission for change. Agreeing action is needed around four key pillars: Education and Training, Communication, Collaboration, and Positive Industry Perception – we have started to devise a plan for what is needed to support a thriving Private Rented Sector.

Find out more on our website /
www.landlordleaders.osb.co.uk

We came together again later in the year to discuss the tenant experience, learning together through our latest thought leadership research: 'A Future Tenant Standard'. It finds that for tenants, the positives of location and quality of housing are strong, but that many still yearn to own their own home. It also shows that the need for professionalisation within the industry is critical to its future success, with many tenants experiencing lapses in appropriate care and support either from their landlord or their agent. Overall, it concluded that relationship is key – with the most positive experiences reported by tenants who know and trust their landlord.

The Community which meets in person has met twice and will now meet quarterly.

Neil Richardson
Chief Sustainability Officer

Sustainability continued

Strategic Pillar – Just Transition

Transition plan

To support building a sustainable future, we developed our initial Climate Transition Plan (**https://www.osb.co.uk/sustainability/our-environment**) setting out our assessment and response to climate change in the context of our business model and activities, our impact on the environment and our ability to control or influence change.

The plan also sets out the dependencies upon which we are reliant, including customer awareness and sentiment, cost and availability of technology, innovation and, perhaps most importantly, clear, bold and supportive government policy.

There are five pillars to our plan that create a responsible and proportionate strategy, contributing to real economy decarbonisation as well as reducing our footprint, with clear synergies between the transition on climate and the professionalisation of the private rented sector that has been a focus of our Landlord Leaders Community (**https://landlordleaders.osb.co.uk**) initiative:

1. Thought leadership, education and awareness
2. Connecting our customers to services that support their transition
3. Providing access to energy improvement products through our lending proposition
4. Greening our offices and branches
5. Embedding climate thinking into our business

Stakeholder expectations in relation to transition planning are developing and we expect to iterate our Transition Plan regularly to respond to evolving needs and expectations, alongside our own maturing processes.

It is important to support our ambitions and targets with authentic and transparent disclosure of the actions we are planning to take and the impact we believe they may have. We recognise that our first Transition Plan is published in advance of the Group aligning its disclosures to emerging frameworks and guidance such as those from the Transition Plan Taskforce or International Sustainability Standards Board. Our next iteration will seek to align with the forthcoming sector-specific banking guidance published by the Transition Plan Taskforce.

Environmental target setting

The Group is a member of the Net Zero Banking Alliance. During 2023, we established and disclosed our interim reduction targets for financed emissions (**https://www.osb.co.uk/sustainability/our-environment**). Our ambition is to reduce the emissions intensity of our mortgage lending 25% by 2030.

We are committed to setting science-based targets in line with our NZBA and Science Based Targets Initiative (SBTi) commitments and will validate our emissions reduction targets with the SBTi. We await the release of the SBTi Financial Institutions Net Zero standard for clarification on requirements and interoperability alongside our NZBA targets.

We estimate that 97% of our total emissions[1] inventory is from the indirect emissions related to the services we provide to our customers in the form of lending (see emissions on pages 77-78). The impact of those emissions contributes towards climate change, and reducing our impact and transitioning our business activities towards a low-carbon economy is at the heart of our environmental strategy.

Our direct emissions are far smaller and within our direct control, and form the basis of our ambitious 2030 net zero target for scope 1 emissions[2]. More detailed information can be found in our Climate Transition Plan (**https://www.osb.co.uk/sustainability/our-environment**)

Financed emissions

As a sub-sector specialist lender, over 97% of the Group's 2023 lending account balances were in the form of mortgages secured against owner occupier, Buy-to-Let residential, and semi-commercial and commercial property, where our initial targets have been established.

Our attributed financed emissions (see page 78) from the lending portfolio are calculated using the Partnership for Carbon Accounting Financials (PCAF) methodology, allowing us to monitor and report progress. PCAF average data quality score was 3.1 ◆ (2022: 3.2). Financed emissions intensity per m2 (kgsCO_2e per m2) is the metric used to measure and report progress against our 2030 interim target.

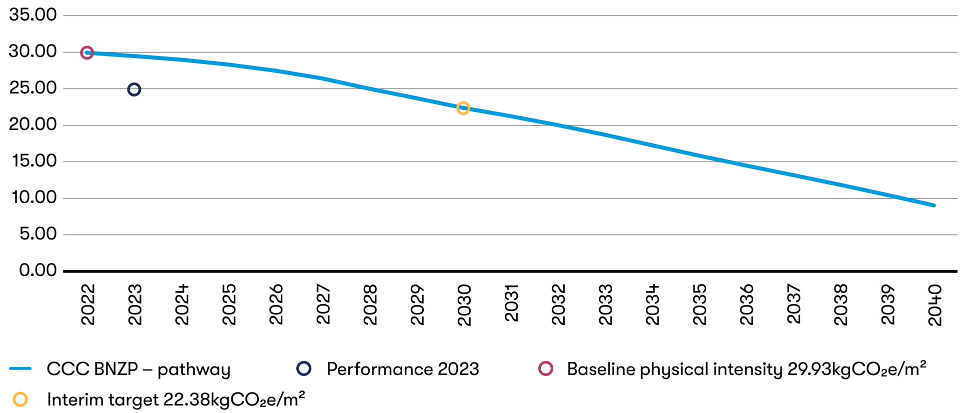
2023 saw a 13% reduction in financed emissions (tCO_2e) and a 17% reduction in emissions intensity (kgCO_2e/m2). This is predominantly due to improved data quality and the exclusion of erroneous data extracted from the EPC public register.

Financed emissions estimates rely on externally sourced data. The emissions of the buildings were sourced, where available, from Energy Performance Certificates (EPCs) which estimate the carbon emissions of a property. In 2023 83% of properties were matched to a valid EPC, 17% were modelled or estimated based on postcode or national averages, and the remaining less than 1% allocated a D rating.

There are inherent limitations in using EPCs to calculate financed emissions, such as the time lag for external data sources to be updated, the age of certificates and the methodology failing to prioritise carbon neutral over fossil-fuel-based technologies.

Mortgages – Financed emissions

Physical intensity (kgCO_2e/m^2)



1. Based on the Group's 2022 emissions estimates for Scope 1, Scope 2, Scope 3 category 1, 2, 3, 5, 6, 7, 8 and 15
2. Scope 1 & 2 (Scope 2 market-based methodology)

Sustainability continued

Strategic Pillar – Just Transition

Scope 1 and Scope 2 emissions

Our Energy Policy is aligned to our net-zero commitment and target, and sets out how we will consider emissions reduction, energy efficiency and the responsible consumption of energy in our decision making and behaviours.

It outlines our commitment to comply with statutory legislation in respect of energy efficiency, and to establish commitments to responsible procurement and consumption. It provides a framework for setting objectives and targets to continually measure and improve energy performance and prevent energy waste. Regular meetings between Property Services and the Sustainability functions seek ways to reduce energy use and maximise efficiency.

We recognise that the path to net-zero for our office buildings and branches will not be linear. Some enabling actions such as the acquisition of a new building may, in the short-term, increase energy consumption and emissions, as was the case in 2023.

Electricity and gas

The Group's Scope 2 emissions[1] using the market-based methodology were 1.39 tCO_2e for 2023 reflecting that 99% of the electricity purchased was from renewable tariffs. 16,958 kWh of energy consumned was from non-renewable tariffs, as contracts were migrated following the purchase of new buildings. Scope 2 emissions are those associated with the purchase of electricity.

Using the location-based methodology, reflecting the average emissions intensity of grids on which electricity consumption occurs, use increased 15% from 2022. This was predominantly due to the acquisition of a new office building in Wolverhampton.

Consumption of natural gas increased by 116,008 kWh (+16%) from 2022. As above this was mainly due to the new office location that used 188,167 kWh of gas, 22% of total gas use. Without the inclusion of the new location gas consumption reduced by 11% (80,485kWh) versus 2022.

Both absolute and intensity metrics are used to measure and report progress against our 2030 target for Scope 1 and Scope 2 emissions (tCO_2e per m^2 and per full time equivalent).

Additional Scope 3 emissions

Our emissions hot spot analysis identified that category 15 - investments are the most significant source of emissions for the Group, with the remaining scope 3 categories identified as relevant[1] contributing only c.3%.

Given the breadth and depth of other indirect emissions (categories 1-14 of Scope 3), we continue to take a structured approach to how we understand, measure and take action.

It is our intention to disclose categories 1 and 2 in the future as data and calculation processes mature.

Although these emissions are not significant, they contribute to our emissions footprint and will need to be addressed. We expect that in time and as our strategy evolves, it will include targets and initiatives to reduce these emissions.

1. Conducted in 2022 – Scope 3 categories 1, 2, 3, 5, 6, 7 and 8 based on size, influence, risk, stakeholder interest and outsourcing.

We have set an interim target for financed emissions, aiming to reduce the emissions intensity[2] of our mortgage lending by 25% by 2030.

2. $kgCO^2/m^2$.

We are committed to delivering net zero Scope 1 and Scope 2 GHG emissions[3] by 2030 from a 2022 base year.

3. Target is calculated using a market based methodology.

Sustainability continued

Strategic Pillar – Just Transition

Environmental policy

Our Environmental policy embodies the Group's commitment to meeting or exceeding all relevant environmental obligations, reducing our impact and achieving our ambition of net zero greenhouse gas emissions (GHG) no later than 2050.

The policy is supported by our Environmental Management System (EMS) which is certified to ISO14001:2015 and covers our UK corporate real estate and, in 2023, extended to the Kent Reliance branch network.

The EMS ensures the Group knows where it impacts the environment and that effective controls are in place to manage risk and drive improvement, covering topics such as legislation, energy use, waste management and water use.

Water

Water is used for sanitation purposes only and is used responsibly. In 2023 7,180m^3 were used.

Waste

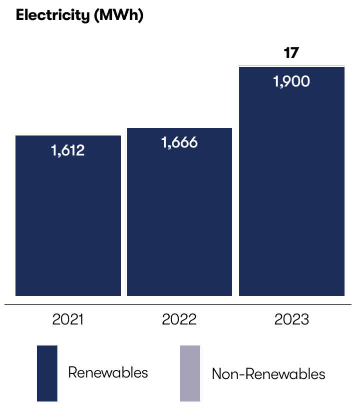
The Group is responsible for waste contracts in some of our office locations. Contracts are in place to divert waste from landfill following the waste hierarchy, with non-recyclable materials being sent to an energy from waste facility. In 2023, 280 tonnes of waste were generated. Recycling and waste segregation stations are provided in all offices and branch locations.

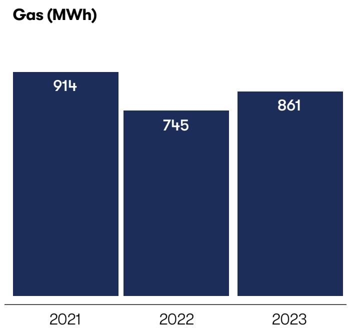
Carbon mitigation

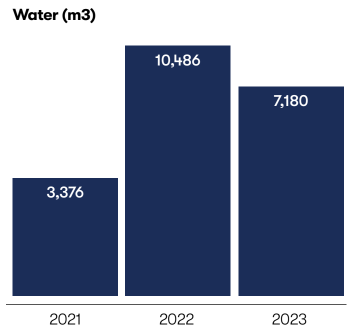
We continue to use verified carbon mitigation schemes from the voluntary carbon market to offset the emissions directly related to our business activities[1]. A responsible offsetting strategy was developed that uses the Oxford Principles for Net Zero Aligned Carbon Offsetting as a foundation.

Nature

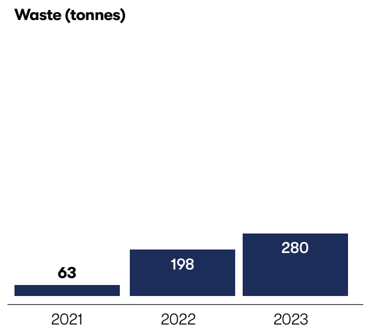
With the introduction of the voluntary Taskforce on Nature-related Financial Disclosures (TNFD) framework, the Group is at the early stages of understanding the UK Government's approach towards TNFD and evaluating how the systems will evolve further to consider the extent to which our activities impact nature and biodiversity.







Consumption data is based on estimates taken from invoices



1. Offsetting covers Scope 1, Scope 2 (market-based) and UK Scope 3 (business travel, waste from operations, energy related activities not reported in Scope 1 and 2 and OSBI operations (purchased electricity – market-based), gas oil, fugitive emissions, employee commuting and upstream leased assets for the year ended 31 December 2023.

Sustainability continued

Strategic Pillar – Just Transition

Greenhouse gas emissions

The Group applies the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard for all GHG accounting across Scopes 1, 2 and 3.

We believe that gaining a complete view of our Greenhouse Gas emissions (GHG) inventory is the best way to control or influence emissions. In addition to the emissions sources disclosed in 2022, additional scope 3 categories (7 and 8) are included in this year's report evidencing our ongoing commitment to increasing the scope and accuracy of emissions measurement.

We have reported on all of the emissions sources required under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 – commonly referred to as Streamlined Energy and Carbon Reporting.

Under the Streamlined Energy and Carbon Reporting regulations, we report annually on greenhouse gas emissions from Scope 1 and 2 Electricity, Gas and Transport, with all greenhouse gases reported in tonnes of carbon dioxide equivalent (CO_2e).

When converting consumption data to carbon emissions, factors from the UK Government Emissions Conversion Factors for Company Reporting from the Department for Energy Security and Net Zero and Department for Business, Energy & Industrial Strategy are used.

The Group's 2023 Greenhouse gas emissions basis for reporting is publicly available on our corporate website: **https://www.osb.co.uk/sustainability/our-environment/**

Verification and assurance

Deloitte LLP provided independent limited assurance over the following metrics and ESG information for the year ending 31 December 2023 ◆ [1]:

Greenhouse Gas (GHG) emissions

- Total direct (Scope 1) - tCO_2e
- Total indirect (Scope 2) emissions – Market-based - tCO_2e
- Total indirect (Scope 2) emissions – Location-based - tCO_2e
- Total Scope 3 Category 15 Investment emissions

GHG intensity

- Scope 1 and 2 metric tonnes of CO_2e per full-time employee (FTE)
- Scope 1 and 2 metric tonnes of CO_2e per £m turnover
- Scope 3 - Financed emissions $kgsCO_2e/m^2$

PCAF data quality score

TCFD

- The description of activities undertaken to meet the recommendations of the TCFD

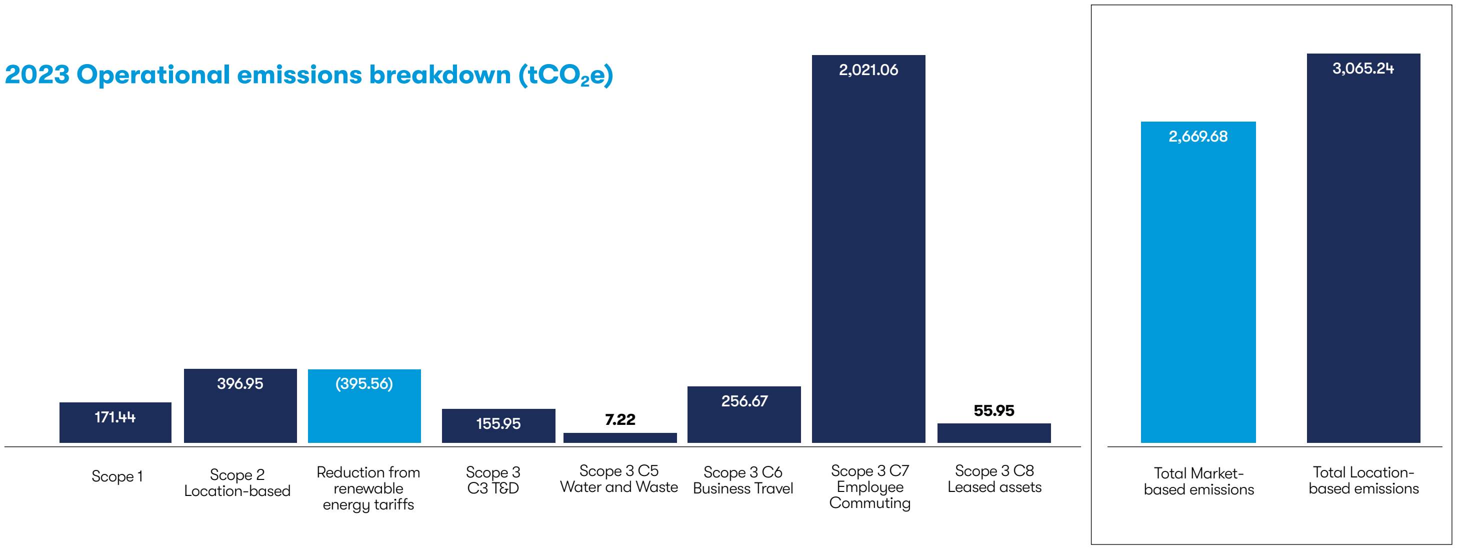
Deloitte's assurance statement can be found on page 262.

1. Under the International Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000 (Revised)) and the International Standard on Assurance Engagements 3410 Assurance Engagements on Greenhouse Gas Statements (ISAE 3410).

Scope 3 emissions for categories: 3, 5, 6, 7 and 8 were verified by Interface NRM, an independent UKAS and ASI accredited Certification Body, operating in accordance with ISO 14064-3:2019. Validation was conducted in accordance with ISO 14064-1: 2018 - Specification with guidance at the organisational level for quantification and reporting of greenhouse gas emissions and removals.

The Graph below shows a breakdown of emissions currently measured, excluding financed emissions, and the impact of purchasing electricity from renewable energy tariffs in relation to both Scope 2 emissions, and total emissions.

2023 Operational emissions breakdown (tCO_2e)



Sustainability continued

Greenhouse gas emissions continued

Greenhouse gas (GHG)emissions

Direct and indirect GHG emissions (Scopes 1, 2 and 3)	Further description	Specific fuels where applicable	2021	2022	2023
Amounts in metric tonnes CO_2 equivalent					
Scope 1					
Stationary combustion	Combustion of fuel on site	Natural gas, diesel for generators	167.39	138.22	157.10
Fugitive emissions	Leaks and other irregular releases of gases or vapours from a pressurised containment: air-conditioning units		0.00	15.65	14.34
Total Scope 1 direct emissions			**167.39**	**153.87**	**171.44** ◆
Scope 2					
Purchased electricity					
Total Scope 2 location-based		Electricity	**342.23**	**322.13**	**396.95** ◆
Total Scope 2 market-based		Electricity	**0.00**	**0.00**	**1.39** ◆
Scope 3					
Business travel	Rail, bus, taxi, hotel stays, air travel	Unknown vehicle fuel	78.87	193.00	256.67
Employee commuting	Rail, bus, taxi	Unknown vehicle fuel	–[1]	–[1]	2,021.06
Fuel and energy-related activities (not included in Scope 1 or 2)	Well-to-tank (WTT) emissions for fuel use, upstream emissions for non-renewable electricity generation, and transmission and distribution losses in the electricity network		31.20	136.71	155.95
Water	Water use		0.50	0.78	1.27
Waste	Waste from operations		1.35	4.20	5.95
Leased assets	Combustion of fuel on site, fugitive emissions, electricity – market-based		–[2]	–[2]	55.95
Total indirect Scope 3 emissions (Category 3, 5, 6, 7 and 8)		Unknown, vehicle fuel, water, waste energy related activities	**111.91**	**334.69**	**2,496.85**
Total operational emissions (location-based)			**621.53**	**810.69**	**3,065.24**
Total operational emissions (market-based)			**279.30**	**488.56**	**2,669.68**

1. 2023 is the first year of calculating emissions from employee commuting.
2. 2023 is the first year of calculating emissions from leased assets.

Sustainability continued

Greenhouse gas emissions continued

Direct and indirect GHG emissions (Scopes 1, 2 and 3)	Further description	Specific fuels where applicable	2021	2022	2023
Total indirect Scope 3 – Financed emissions (Category 15)	Category 15 Investments (financed emissions). Calculated by multiplying an attribution factor (outstanding amount of loan divided by the property value at origination) by the emissions associated with the property taken from the EPC. Calculated for Buy-to-Let and residential lending	Gas and electricity for heating, hot water and lighting only	278,854.00	363,680.00	**314,413.00** ◆
Total GHG emissions (location-based)	All measured emissions for the year		**279,475.53**	**364,490.69**	**317,479.24**

GHG intensity

GHG intensity ratio	Description	2021	2022	2023
Full Time Equivalent (FTE) employees (UK)	FTE is a unit of measurement equal to one full-time employee	1,164	1,237	1,427
Annual turnover	£m	629.0	775.4	658.1
Scope 1 and Scope 2 location-based	Metric tonnes of CO_2 equivalent per FTE	0.44	0.38	**0.40** ◆
Scope 1 and Scope 2 location-based	Metric tonnes of CO_2 equivalent per £m total income	0.81	0.61	**0.86** ◆
Scope 3 Financed emissions – physical emissions intensity	kgs of CO_2 equivalent per square metre[1]	24.81	29.9	**24.9** ◆

Energy consumption

Energy usage kWh		2021	2022	2023
Electricity		1,611,783.00	1,665,812.80	1,916,950.94
Gas		913,890.00	744,504.18	860,512.00
Total kWh	Electricity, natural gas	**2,525,673.00**	**2,410,316.98**	**2,777,462.94**

1. Financed emissions physical intensity ratio is calculated by multiplying the total estimated attributable financed emissions in tCO_2e for 2023 (314,413 tCO_2e) by 1,000 to give kgC02e (314,413,000 kgC02e). This is divided by the total floor area in m^2 of the properties taken from the Energy Performance Certificate (12,630,301m^2). Estimated absolute financed emissions were 504,476 tCO_2e for 2023. Financed emissions estimates are for the mortgage portfolio as the largest asset class. It does not cover non-modelled book or securitised loans.

Sustainability continued

Strategic Pillar – People

Customers

The Group's lending products seek to have a positive social impact, helping support the UK mortgage market for those customers underserved by the High Street lenders.

We will achieve this by supporting property landlords to ensure there is a functioning and professionalised private rented sector, offering affordable lending products for Shared Ownership and near prime customers, helping bridge the home-ownership gap, and supporting small independent commercial property occupiers that serve local communities and neighbourhoods.

The Group, through its Heritable Development Finance residential lending business also offers small and medium-sized residential property developers products that support house-builders that provide affordable family housing outside central London, as well as helping the UK meet its housing demands.

The Group's strategy to be the number one specialist for our customers means that we offer valued products, tools and services that support them achieving their saving and borrowing aspirations. We achieve this through the provision of online and telephone channels for our savings customers, in addition to our nine Kent Reliance branches in the South East of England. Our mortgage products are distributed by intermediaries, (other than the Heritable brand which is direct to developer) across England, Wales and Scotland, with whom we maintain strong relationships.

The Group places a particular importance on meeting the specialist needs of the customer which means a focus on efficient and supported onboarding for new customers alongside retaining balances and maintaining long term, customer relationships.

In 2023, as base rates continued to rise, we offered our savers attractively priced products and opened more than 210,000 new accounts. The retention rates amongst our savers remained high with 91% (2022: 94%) of customers with maturing fixed rate bonds and ISAs with Kent Reliance and 85% (2022: 88%) with Charter Savings Bank choosing to take another product with the same brand.

Posh Pads

Posh Pads provides high-end residential student accommodation in Southampton and Portsmouth. The business enjoys a prominent brand profile based on decades of experience and innovation with an ethos of providing students with the most desirable, comfortable and stylish accommodation complemented by a rapid-response maintenance service.

Posh Pads refinanced its property portfolio with OSB Group during the latter part of 2023, in a time of inflationary pressures and significant increases in borrowing costs.

Established in 1993, **Posh Pads** is a long-term investor and interest rate fluctuations over time are accepted as a recurring factor of its operation.

In response to the recent higher cost of finance, the business has increased its focus on cash generation and ensuring maximum efficiency when investing in the portfolio. A planned increase in rental yield in the next 12 months will help to mitigate increased loan costs, while investment in the portfolio has become more targeted and the schedule of larger-scale projects modestly reduced.

Sustainability continued

Strategic Pillar – People

Customers continued

Our savers are keen advocates of the Group's products and service, which was reflected in strong Net Promoter Scores (NPS), at +71 for Kent Reliance (2022: +64) and +62 for Charter Savings Bank (2022: +61).

Our savings products also received industry recognition: Charter Savings Bank won Best Overall Savings Provider for the sixth year running from Personal Finance Awards, and ISA Provider of the Year from Moneyfacts Consumer Awards. Moneynet Personal Finance Awards named Kent Reliance as Best Fixed Rate Savings Provider.

The rapidly rising base rate, that was reflected in mortgage pricing, represented a potential headwind for our borrowers approaching the end of their fixed rate mortgage term. Whilst higher rates upon renewal exerted pressure on Buy-to-Let landlords' profitability, this was somewhat offset by the benefit of strong growth in rental income of 17% over the preceding five years (to December 2023, ONS) and 19% house price appreciation over the same period (to November 2023, ONS). The Group supported its borrowers through the transition to higher rates by introducing a wider range of product options for new and existing borrowers and providing confidence to intermediaries that product rates would be secured once an application was received.

The Group measures customer experience through near-real-time transaction surveys across all stages of the customer journey. In 2023, 3,385 survey responses from intermediaries, almost 12,575 responses from borrowers, and over 66,985 responses from savers were analysed to inform us about customer service issues and were used in creating and implementing solutions to enhance our customers' experience.

Analysis of survey responses identified two key areas for improvement:

- there was a strong correlation between NPS and operational pressures due to demand peaks, and
- Precise borrowers and intermediaries wanted better communication and product options when initial rates matured

In response, we undertook activities that included bolstering operational support and proactively managing product withdrawals differently to smooth demand curves.

As a result of the survey, we offer Precise borrowers product options when their initial rate ends, providing both intermediary and borrower with improved confidence and a more proactive and engaging experience.

In addition, further improvements throughout the year were made to the underwriting process, our intermediary management structure, our websites and customer communications, all of which have contributed to the overall improvement in the 2023 NPS score.

Our intermediary management teams worked closely with the broker community, discussing cases and helping to deliver rapid and reliable decisions for our borrowers.

In 2023, the Group's representatives participated in over 250 physical and virtual events with brokers to understand their evolving requirements and to keep up to date with industry developments. We used this understanding to continue to improve our customer propositions and the Group's efforts were recognised in the improved broker NPS of +57 for both OSB and CCFS in 2023 (2022: OSB +37 and CCFS +39).

The Group's mortgage proposition continued to win industry awards with Kent Reliance for Intermediaries winning Best Specialist Lender from L&G Mortgage Club Awards, Precise Mortgages awarded Best Specialist Lender from TMA Club and the Group recognised as Best Specialist Bank at the Bridging and Commercial Awards.

Our efforts to create a fairer and more sustainable Private Rented Sector through our independent Landlord Leaders initiative gathered pace as we launched the Landlord Leaders Community. In December, we published the second Landlord Leaders research report, providing insight into the world of private tenants: their demographics, motivations and renting experiences.

Sustainability continued

Strategic Pillar – People continued

Colleagues

The skills, expertise and commitment of our colleagues are fundamental to the achievement of our strategic goals.

In 2023, we continued to invest in training, development and employee engagement activities to ensure that we provide a compelling and attractive proposition both for our existing employees and for candidates considering joining the Group.

Employee engagement and culture

In November 2023, it was confirmed that the Group achieved 60th place in the 2023 Best Companies survey on the Top 100 list of large companies (between 200 and 1,999 people), as well as 10th place on the financial services sector list.

The 2024 Best Companies to Work For survey was undertaken in December 2023 and saw an impressive 86.4% of UK employees submit responses. Our overall 2024 survey result was 0.3% higher than the previous year and saw the Group retain an overall '2 Star' rating, with Best Companies defining this as an outstanding level of employee engagement.

The Group additionally achieved 30th place on Glassdoor's 2024 Best Places to Work list in the UK with a 4.4 rating based on reviews submitted by current and former UK employees.

OSB India participated in a separate employee engagement survey in December, run by the Great Place to Work Institute. It was officially certified as a 'Great Place to Work' for the seventh consecutive year, reflecting the strong brand and culture that exists throughout our teams in Bangalore and Hyderabad.

Throughout the Group, our values (Stronger Together, Take Ownership, Aim High, Respect Others and Stewardship) and the related behavioural expectations provide an opportunity for line managers to assess and provide behavioural feedback within appraisal processes and consider related learning development activities. The values are also aligned to established award programmes and a range of ongoing communications.

2023 saw the creation of the Group's People and Culture Strategy, which was published internally and communicated through a series of briefing sessions attended by over 500 UK and OSB India employees. The Strategy detailed approaches and initiatives to be progressed over the longer term to support the wider achievement of business strategy, the transition to a digitalised working environment and the achievement of our People Vision of becoming recognised as an employer of choice. To further support the implementation of the approaches and initiatives detailed within the Strategy, the Group recruited a Group Head of People Transformation.

The Group's Workforce Advisory Forum (Our Voice) continued to meet regularly in 2023, including employee representatives from all geographical locations, including OSB India. The aim of the forum is to further enhance the level of engagement that the Group Executive Committee and the Board have with the wider workforce. To achieve this, in addition to employee representatives, the forum is attended by Non-Executive Directors and Group Executive Committee members to ensure that they can hear directly from the employees and share feedback (positive or negative) on important matters.

Remuneration and benefits

We believe in rewarding our employees fairly and transparently, enabling them to share in the success of the business. Details of the Group's remuneration policies can be found in the Remuneration Report on pages 147 - 177.

Group vacancies filled by the Talent Acquisition team

1,068

2022: over 908

Employee promotions across UK and India

295

2022: 318

Sustainability continued

Strategic Pillar – People continued

Colleagues continued

As an accredited Living Wage employer, we ensure that all UK employees and regularly contracted third party staff earn at least the published Real Living Wage. In 2023, the Group provided support to all UK employees beneath the senior management level through cost of living payments totalling £1,200, with these payments not being pro-rated to reflect either tenure or contractual working hours.

We continue to encourage our employees to hold shares in the Group for the long term through our Sharesave Scheme, which is offered annually to all UK employees. The Sharesave Scheme allows employees to save a fixed amount of between £5 and £500 per month over a three-year period and to use these savings at the end of the qualifying period to buy shares at a fixed option price. Over 650 employees joined the 2023 Sharesave scheme and, considering the schemes launched in previous years, over 800 UK employees were Sharesave Scheme members as at the end of 2023.

2023 saw the Group further enhance its benefit offering through the introduction of fully funded access to our BUPA Menopause Plan, providing personalised treatment and support for all UK employees going through the menopause, regardless of age.

In addition, a comprehensive review of all family and health related benefits was undertaken with enhancements to paid Maternity and Adoption Leave, Paternity Leave, Emergency and Dependent Leave, Miscarriage Leave and Fertility Leave being communicated to UK employees along with new policies and support relating to paid Neonatal Leave and Carer Leave.

Training and development

The People Development team, based in both the UK and India, concentrates on providing learning and development opportunities for all employees, using a mix of internal and externally sourced content, delivered through a range of media, including workshop and digital formats.

1,370 separate internal workshops were delivered by the People Development team and the recorded number of training hours averaged almost 4,750 hours per month, significantly exceeding the amount of internal training delivered during the previous year and representing over 10 workshop training hours per UK employee and over 50 hours per OSB India employee.

Continued focus was applied to our Fit to Practice Scheme, requiring line managers to undertake regular activities in terms of one to one meetings, performance observations and quality assessments. The scheme also required managers to play a proactive role in identifying development needs and providing developmental feedback to continually progress the competence levels of their direct reports. The average activity completion rate exceeded 95% for over 2,000 in-scope employees.

Monthly mandatory regulatory training requirements were completed and we launched an additional mandatory e-learning module relating to Consumer Duty, with a supporting workshop on this topic being attended by over 870 employees. Additional focus on enhancing customer experience was demonstrated by way of bespoke Vulnerable Customer training delivered to almost 500 customer facing and support staff. It was further supported by the recruitment of 2 dedicated communications coaches within OSB India.

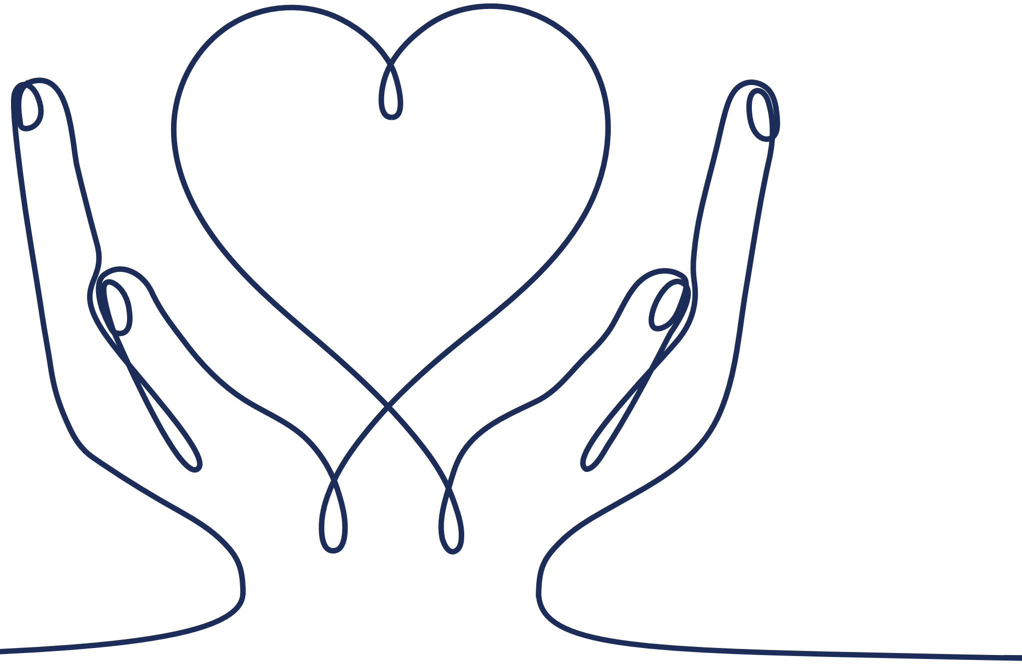
We are also committed to supporting employees undertaking professional development and in 2023 61 UK employees received financial support to pursue professional qualifications.

Employee recognition and awards

The Group recognised the significant tenure of 198 UK employees who reached a 5, 10, 15 or 20 year milestone of employment through our Long Service Award programme, with there now being 8 current UK employees who have over 20 years' continuous service. Within OSB India, 60 employees reached a 5 or 10 year service anniversary in 2023 and are one of over 150 OSB India employees with 5 or more years' service, or over 40 with over 10 years.

Each quarter, all employees within the Group, are invited to nominate their colleagues as part of our Galaxy Award Scheme. Nominations are sought for five separate categories, linking directly to each of our Values with individual winners and runners-up for each category determined by a detailed process. Over 250 nominations were submitted, with the details of all nominees published on the Group's intranet along with details of the quarterly award winners and their nomination rationale.

Additionally, our 'Thank You' facility provided an opportunity for employees to publicly recognise the contributions of their colleagues with approaching 2,800 thank you messages posted on the intranet.



Sustainability continued

Strategic Pillar – People continued

Colleagues continued

Retention and progression

We have a genuine desire to retain, support and develop our employees. Over 175 UK employees were promoted to a more senior grade (2022: 240), along with 120 employees within OSB India (2022: 75).

We advertise vacancies internally to provide career development opportunities for existing employees with 28% of UK vacancies filled by way of internal appointments and over 5% of vacancies at OSB India being filled by existing employees.

At 9%, the UK regretted attrition rate[1] was far lower than the 2022 rate of 13% with the OSB India regretted attrition rate reducing significantly from 24% in 2022 to 12%, comparing favourably with rates within the local sector and demonstrating both a strong culture and a compelling employee proposition.

2023 saw a continued focus on leadership development and our People Development team delivered three bespoke programmes. We saw 39 employees join our Future Supervisors and Managers Programme, 61 current managers commence the Essential Managers Programme and, among our more senior managers, six individuals joined our Stellar Leadership Programme.

We continued our journey to become a truly diverse and inclusive organisation, committed to providing equal opportunities through recruitment, training and development for all employees.

We continued to support mental health and well-being through the provision of advice and workshops for employees and line managers. We are pleased to have increased our network of trained UK Mental Health First Aiders to 48 as well as introducing a network of 28 trained Mental Health First Aiders within OSB India.

The Group published its Gender Pay Gap Report in line with legislation that applies to all UK companies with more than 250 employees. The full publication is available on the Group's website (**https://www.osb.co.uk/sustainability/our-colleagues**) and shows that OSB Group's mean gender pay gap as at the snapshot date of 5 April 2023 was 36.1%, reducing from the 2022 reported figure of 38.1%. Fundamentally, the gaps relate to the structure of our workforce and reflect the fact that we have more men than women in senior roles and more female employees undertaking clerical roles.

Whilst it is pleasing to see continued progress across the Group, we are committed to reducing these gaps further.

1. Employees electing to leave the Group by way of resignation, excluding those retiring or resigning due to formal performance or absence process.

Sustainability continued

Strategic Pillar – People continued

Colleagues continued

We recognise the need to improve our gender balance and we made strong progress against our published commitment that we made as a signatory of HM Treasury's Women in Finance Charter. Our target of 33% of senior management positions[1] within the UK to be undertaken by female employees was achieved by the end of 2023, in line with our published commitment and noting that there were periods during 2023 when 33% was exceeded. Enhancing gender diversity will remain an area of ongoing focus, through a renewed Women in Finance Charter commitment of 40% of UK senior management positions[1] to be undertaken by female employees by the end of 2026.

To support the ongoing progression of our female employees, our People Development function, in partnership with an external provider, created our Women in Leadership Programme with a group of 24 employees and a further 7 senior female managers joining a separate and more senior version of the programme.

2023 saw an increased level of focus applied to enhancing ethnicity diversity, particularly in respect of the senior management population. The Group increased its end of 2022 position of just over 10% of senior managers not identifying as white to 14% at the end of 2023. Moving forward, and in line with the Parker Review requirement for all FTSE 350 companies, focus will also be applied to the narrower population of Executive Committee members and senior managers who report directly to Executive Committee members and to increasing the ethnicity diversity of this population from an end of 2023 figure of just over 12.5% to an end of 2027 position of 14%.

Diversity and inclusion

We recognise the benefits that diversity brings to the business. 2023 saw a significant uplift in diversity, equity and inclusion (DE&I) activity across the Group, with an increased level of employee communications and events enhancing awareness and celebrating our differences. These events were often aligned with the dates of national events such as Pride, Black History Month, National Inclusion Week and International Women's Day, with related activities being coordinated by the internal Our Diversity Network made up of passionate volunteers.

Additionally, an Inclusivity Survey was completed by over 800 employees and the Group partnered with Inclusive Employers in order to undertake a comprehensive external foundation assessment of our approach to DE&I. These initiatives assisted in the identification of areas where further improvements can be made. A similar external assessment was undertaken in OSB India through Avtar, which also enabled the identification of key actions to be progressed moving forwards.

Anti-discrimination training was delivered through an e-learning module in November, with this being a mandatory requirement for all line managers. All other colleagues were provided with access to the module with approaching 1,200 additional employees taking the opportunity to complete this.

We continued to capture diversity data about our UK colleagues within the Group's HR system and c.80% of colleagues submitted some or all of their data across the broad range of diversity categories, enabling us to build an increasingly clear picture of the diverse nature of our UK workforce and areas which are under-represented.

Just over 9% of our UK employees work under a formal flexible working arrangement relating to part-time hours and over 100 additional employees compress their full-time working hours.

At the end of 2023, around 56% of our UK workforce was female as were 47% of employees who joined during the year. In OSB India, females constituted just over 40% of all employees, with around 45% of starters being female. In addition, 27% of our Group Executive Committee were female.

The Group achieved all required targets in respect of Board Diversity given that as of 31st December 2023, 50% of the OSB Board members were female, of which two females hold the senior Board positions of CFO and Senior Independent Director. Additionally, two members of the Board are from a minority ethnic background.

For the CEO and CFO, gender and ethnicity data is collated within the Group's HR system, in a manner consistent with all UK employees. Both Board members who confirmed their ethnically diverse status have self-reported this to the Group HR Director within responses required by the Parker Review (FTSE 350 Ethnic Diversity Submission for 2023).

1. Employees at grades A (Executive Director) to grade E (including function heads with senior direct reports or employees at specialist roles of a senior nature).

Sustainability continued

Strategic Pillar – People continued

Colleagues continued

	Male	Female
Number of Board Directors (OSB Group)	4	4
Number of Directors of subsidiaries	12	1
Number of senior managers (not Directors)[1]	156	77
All other employees[1]	1,070	1,141

1. Includes OSB, OSB India and CCFS. Senior managers are employees within the Grade A to E population

Board Diversity

Gender	Number	Minority Ethnic Background
Men	4	1
Women	4	1

Recruitment

Our Talent Acquisition teams ensure that across all locations, internal recruitment specialists provide bespoke support in attracting high quality candidates for vacant positions and, through robust and inclusive interview and selection processes, assist in making strong recruitment decisions.

During 2023, our Talent Acquisition teams filled 1,068 employed vacancies, which resulted in the Group welcoming almost 340 new UK colleagues and over 400 new employees in India, with 160 roles filled by internal candidates and the remainder working their notice periods prior to joining us. The Group had 2,459 employees at the end of 2023, a 22% increase from the previous year.

A key focus for our Talent Acquisition team was again placed on proactively identifying potential candidates directly and through improved use of our website and external job boards. One third of UK vacancies were filled on a direct recruitment basis, delivering a saving in excess of £1.4m on agency recruitment fees. Within OSB India, almost half of all the vacancies filled were because of direct recruitment activity.

OSB India

OSB India, which is a wholly owned subsidiary of the Group, is based in Bangalore and Hyderabad and at the end of 2023 had 928 employees. OSB India supports the Group across various functions including Support Services, Operations, IT, Finance and Human Resources, and is a holder of ISO 27001: 2013 certification, demonstrating high standards of information security.

OSB India's business continuity site in Hyderabad was converted to a fully-fledged operational site in late 2021. By the end of 2023, it had grown from 140 colleagues at the end of 2022 to a population of 234.

In compliance with the Modern Slavery Act, OSB India does not support excessive overtime and all employees in India are encouraged to work in accordance with local legislation. Colleagues are provided with a range of benefits which include 22 days of annual leave, 12 days' sick leave and cafeteria services.

Sustainability continued

Strategic Pillar – People

Communities

An employee-led activation of our Community Impact Strategy.

Over 46% of UK colleagues engaged in community-focused activities through volunteering and fundraising.

Charity partners

In 2023, we worked closely with two key charities, leveraging our strong relationships to align our colleague and community plans to amplify our impact for two key themes: youth wellbeing and homelessness.

Depaul, our Corporate Charity partner, helps young people live fulfilling, independent lives away from the dangers of homelessness.

Demelza, our longer-term charity partner, supported in part by our dedicated Demelza Children's Savings Account, provides end-of-life care to children and support for their families.

Depaul benefitted by:

£82,985

Demelza benefitted by:

£74,628

Total benefit to all charities/organisations:

over £288k

2022: over £220k

OSB India

OSB India operates to India's mandated requirements in terms of Corporate Social Responsibility.

Whilst the legislation requires companies to spend 2% of their net profit on social development, OSB India has doubled that and delivered support to vulnerable people and causes in their local communities in 2023.

Our OSB India teams have helped provide education to orphanages and government schools, and healthcare equipment to hospitals in economically disadvantaged communities.

Sponsorship

We use sponsorship, delivered through our Kent Reliance and Charter Savings Bank brands, to connect with local communities, and support those who are underserved, underprivileged and overlooked in society.

We think of these sponsorships as partnerships where we work together to bring the most value to our communities, our colleagues who volunteer their time, and to our customers, who recognise the value in saving or borrowing with an ethical company.

The Blisters of Mercy team receiving their winners' medals from Depaul's Chrissie Reed

Depaul Nightstop Step Challenge

To officially kick off our partnership with Depaul, we announced the launch of our Nightstop Step Challenge.

Depaul's core mission is to end homelessness; they do this by providing a variety of important services to young people who are experiencing homelessness, or at risk of becoming homeless. One such service is Nightstop.

With over 30 locations across the UK, Nightstop volunteers open their homes to young homeless people facing a night on the street or sleeping in an unsafe space.

It is a unique project that relies on community hosts to provide safe, welcoming places for young people in crisis.

We called on colleagues to join us on a virtual walking tour across the UK.

Starting in Ynys Mon, and ending in Aberdeen, we went on a 1,300 mile journey of discovery, via key Nightstop locations.

Over four weeks, 61 teams competed to see who could take the most steps and reach the furthest Nightstop. By the end, over 76 million steps had been taken equating to 37,977 miles walked.

And importantly, over £4,000 (including our fund-matching donation) was raised by our teams and donated to help Depaul continue their important work.

The Nightstop Step Challenge has been a hugely successful initiative that has benefited both our employees and charity partner, Depaul UK. I thoroughly enjoyed seeing the progress updates and acts of team engagement (and competitiveness) throughout the challenge all of which raised a significant sum of money.

Neil Richardson,
Chief Sustainability Officer

Sustainability continued

Strategic Pillar – People

Communities continued

Volunteering

In 2023, we doubled the amount of volunteering hours available to our employees, which was utilised by a large section of the Group.

Good Causes Fund

Our Good Causes Fund welcomes applications from our employees for a charity, a cause, or local community initiative to receive a donation of up to £500.

Match funding

We match all money raised by our employees on a pound for pound basis (up to a maximum of £1,000) for events that support Depaul, our corporate charity partner, and match up to £250 per event per individual that raises funds for other UK charities and good causes.

Total Volunteer Hours:

4,998

129% increase on 2022

Good Causes Fund payout:

£40,250

target exceeded by 70%

Total match funding:

£41,079

Jon Hall (Group Managing Director, Mortgages & Savings) and Christina Fasoli (Branch Manager) at the end of their 183 mile cycle ride from Paris to Sittingbourne in Kent

Cycling duo raise £10,000 for Demelza Children's Hospice

To show their support and raise valuable funds for the Demelza Children's Hospice, two of our colleagues completed a gruelling 3 day, 183 mile challenge of cycling from the Eiffel Tower in Paris to the Demelza hospice in Sittingbourne, Kent.

The pair raised over £6,000 by the time they arrived in Kent which, with Demelza being a key partner, the Group topped up to reach their £10,000 target.

OSB does so much for Demelza, we are incredibly lucky to have their support. The staff get involved at all levels – volunteering to help at events, getting us tickets for days out for Demelza families and so much more.

Jon and Christina have taken on this epic challenge to raise money for us and we could not be more grateful. We cherish the relationship that we have with OSB and their staff.

Louise Earl, Corporate Partnerships Account Manager at Demelza

Having spent time helping at the hospice in Sittingbourne and seeing the amazing work the Demelza team do, I was keen to do more to help, and my experience there helped me throughout the cycling challenge! The support has been amazing and updates on donations really helped us push on.

Christina Fasoli,
Canterbury Branch Manager

This has been a huge challenge for us both and crossing the finishing line along with the other cyclists was really moving. Powered by a great deal of adrenaline, news of the donations coming in and some extra help from energy gels, we've completed 183 miles for this amazing charity who do wonderful work across the southeast of England. Thanks to everyone who has donated and supported us on this journey!

Jon Hall, Group Managing Director, Mortgages & Savings

Sustainability continued

Strategic Pillar – Stewardship

ESG Governance

At OSB Group, we have a strong approach to stewardship, with a commitment to operating responsibly, ethically, transparently, and delivering sustainable value for all of our stakeholders.

ESG Governance is crucial in the context of stewardship, helping support the integration of ESG into strategic decision making and ensuring that our operation aligns with sustainable practices, social responsibility and ethical conduct.

The Board recognises its responsibility for providing oversight of the ESG Strategy (see Three Lines of Defence table) and for setting the vision on how we conduct business, enhance stakeholder value and fulfil our regulatory obligations.

A Board-approved ESG Strategy continues to support the proportionate management of ESG risk and delivery of our strategic opportunities and initiatives targeted to positively impact our stakeholders.

The Board oversaw the development, review and approval of the following key areas of governance in 2023:

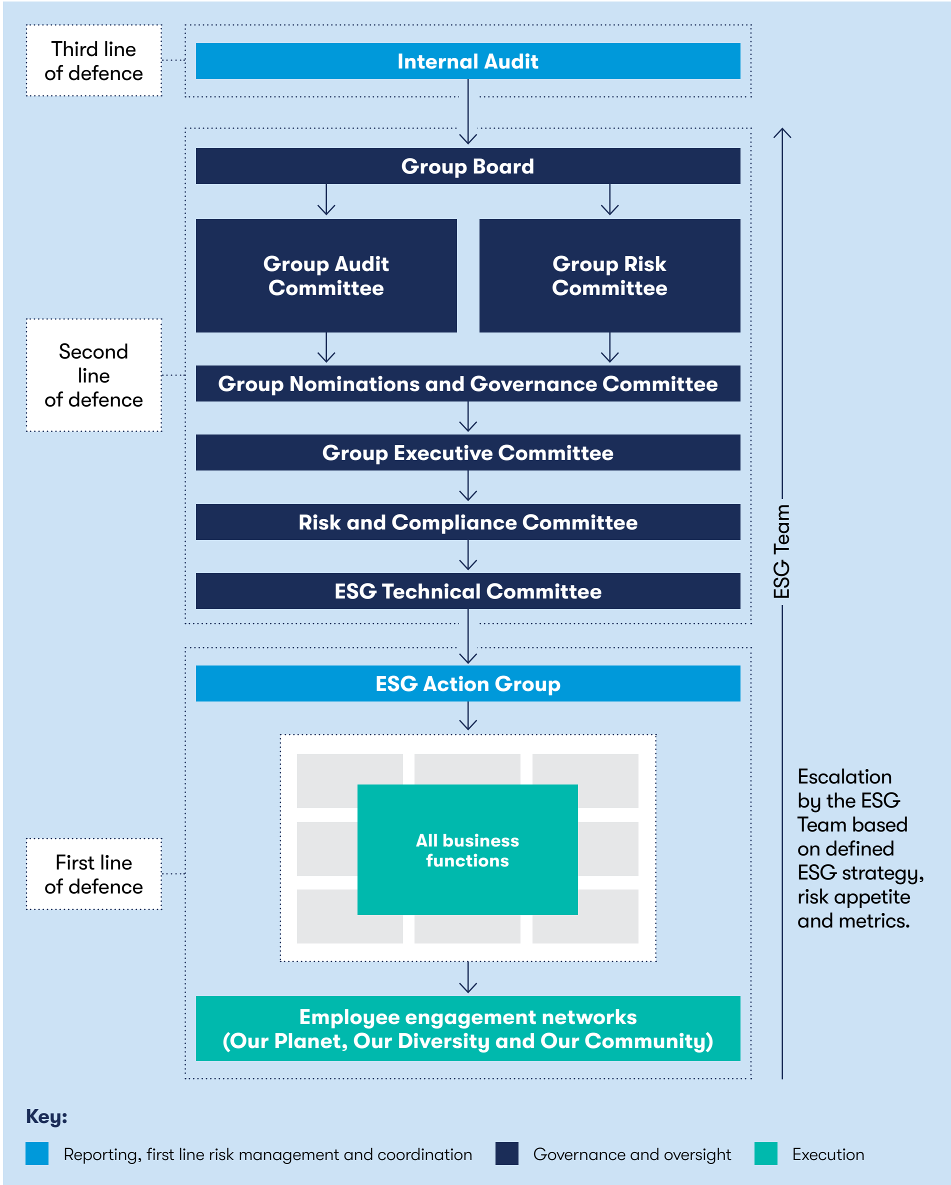
- ESG Operating Framework
- Materiality assessment
- ESG risk and opportunity analysis (non-financial)
- ESG balanced scorecard measuring performance against internal ESG targets
- ESG performance linked to Executive and senior management remuneration (see Remuneration Report on pages 147 -177)
- Climate Risk Management Framework
- ESG metrics policy
- Net-zero Banking Alliance intermediate targets for financed emissions
- Diversity, equality and inclusion strategy, community impact strategy, and people and culture strategy.

The Group supplemented its existing ESG governance structures by establishing the following:

ESG Action Group
This supports the delivery of the ESG strategy and ensures that the Group is prepared to meet all relevant legal and regulatory requirements pertaining to ESG and reports into the ESG Technical Committee.

Three Employee Engagement Networks: Our Planet, Our Diversity and Our Community
These networks aim to promote awareness and engagement, provide platforms for shared experience, and encourage Group-wide communications and initiatives.

Three Lines of Defence (ESG)



Sustainability continued

Strategic Pillar – Stewardship

Customers

Consumer Duty

In 2023, the Group implemented the FCA's Consumer Duty regulation to enhance consumer protection by promoting fair treatment, transparency and accountability. We seek to prioritise consumer interest, providing clear and understandable information, offering suitable products and services and addressing customers' needs fairly and promptly.

The main policies which govern how we transact with customers are detailed in the following sections.

Lending policy

The Lending policy establishes responsible lending parameters aligned with our credit risk appetite and set criteria. Approval for policy changes rests with the Group Credit Committee, escalating material changes to the Group Risk Committee. Credit Quality Assurance acts as a second line of defence, monitoring policy adherence through risk-based sampling.

Control mechanisms, including system parameters and underwriting processes, prevent breaches of lending parameters. Our affordability approach reflects recent cost of living changes, ensuring an updated assessment of a customer's creditworthiness.

Group Complaint Handling policy

The Group Complaint Handling policy aligns with regulatory expectations, emphasising a customer-centric approach. We investigate complaints diligently and impartially, supported by adequately trained employees. The process ensures accessibility for all customers, including those in vulnerable circumstances, offering a tailored service and equal opportunities to raise concerns.

Complaint performance data is integrated into management information for Management Committees and the Board, supporting informed decision-making.

Group Customer Vulnerability policy

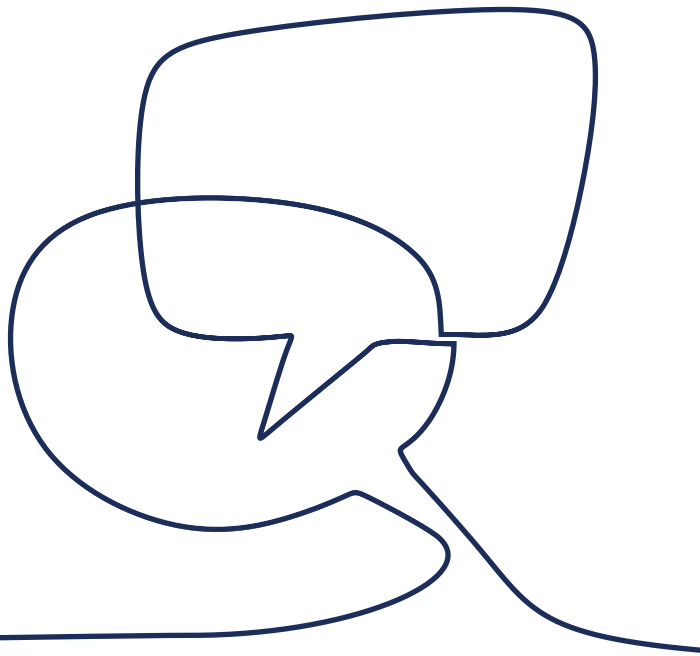
Our Group Customer Vulnerability policy establishes standards and an approach for identifying and supporting vulnerable customers, ensuring consistently fair outcomes throughout the Group.

Regular reviews by the Vulnerable Customer Review Committee involve case studies, monitoring best practices across diverse customer journeys and sharing insights with various customer-facing and second line functions.

Group Arrears Management and Forbearance policy

The Group Arrears Management and Forbearance policy prioritises fair treatment of customers facing financial difficulties, proactively engaging with those showing signs of potential distress.

Monitoring arrears rates occurs monthly through the Group Credit Committee, ensuring senior management oversight of trends and mitigating credit risk associated with potential losses from ineffective customer account management. Reviewing the forbearance and collection toolkit ensures adequate support for customers facing financial strain due to increased mortgage payments.



Sustainability continued

Strategic Pillar – Stewardship

Ethical practices

In 2023, the Group became a signatory of the UN Global Compact to further demonstrate our commitment to sustainability and to uphold the principles related to human rights, labour, environment and anti-corruption.

The Vendor Management team identified a core number of suppliers who we believe carry an elevated level of inherent risk. The team engaged with them to understand how they manage key areas such as the risk of modern slavery, human rights and human resource management, health and safety, as well as environmental management.

The main policies which support our approach to stewardship are as follows:

Modern Slavery Statement and Code of Ethics

Our Modern Slavery Statement and Vendor Code of Conduct and Ethics articulate our actions to combat modern slavery and human trafficking risks within our operations and supply chains.

The UK Vendor Code of Conduct and Ethics (UK VCCE) is distributed at new vendor engagements and annually to existing vendors, encompassing provisions on our values, diversity and inclusion, human rights and breach reporting procedures.

To address the highest modern slavery risks in our supply chain, Indian operations, and employment processes, our Vendor Management team rigorously tests key controls within the Vendor Management Risk Assessment Matrix.

Robust breach reporting procedures are in place, with no reportable incidents in this financial year.

Group Vendor Management and Outsourcing policy

Our Group Vendor Management and Outsourcing policy establishes essential requirements, enabling efficient management of third-party relationships whilst ensuring compliance with regulatory obligations. It provides a framework for diligent engagement and due diligence in overseeing potential and contracted third parties.

The monthly Vendor Management Committee ensures compliance with the policy and assesses the performance of key third parties. Regular reporting to the Group Risk Committee and annual updates to the Board provide assurance. Recognising the significance of robust relationships with third parties and potential reputational risks, we actively monitor their adherence to our standards to fulfil our obligations to stakeholders.

The Vendor Management Team engage with vendors identified as carrying an increased inherent ESG risk through surveys.

The surveys seek to determine awareness of ESG issues and the controls in place to manage them.

Group Whistleblowing policy

Our Group Whistleblowing policy aims to foster an environment where all employees and concerned parties feel encouraged to report any serious wrongdoing promptly.

Whistleblowing cases are handled with fairness and consistency, prioritising the protection of individual whistleblowers. Regular Whistleblowing Reports are presented to the Group Audit Committee, and an Annual Whistleblowing Report is provided to the Board. There is a designated Non-Executive Director whistleblowing champion.

Group Anti-Bribery and Corruption policy

Our Anti-Bribery and Corruption policy dictates our commitment to conducting business honestly and ethically, maintaining a zero-tolerance stance against bribery and corruption. It serves as a guideline for employees, contractors, and third-party service providers to ensure ethical conduct in compliance with local laws across our operational jurisdictions.

This policy is an integral part of our Group Financial Crime Risk Management Framework, subject to an annual review and approval by the Group Audit Committee. Mandatory anti-bribery and corruption training is part of the broader financial crime training for all employees, whilst its requirements are integrated into our Vendor management and outsourcing policy.

Sustainability continued

Strategic Pillar – Stewardship

Conflicts of Interest policy

Our Conflicts of Interest policy prioritises identifying and managing conflicts whilst striving to prevent them where feasible. It undergoes an annual review by the Group Executive Committee and is integrated into mandatory financial crime training for all employees, and is woven into our Vendor Management and Outsourcing Policy, ensuring a comprehensive approach.

Group Compliance function oversees the conflicts of interest register, reviewed quarterly by the Group Conduct Risk Management Committee and annually by the Group Nomination and Governance Committee for Executives and Directors.

No material issues or breaches of this policy occurred in 2023.

Fraud policy

Our Fraud policy ensures compliance with legal requirements, establishing controls to mitigate fraud risk. It fosters a zero-tolerance approach to fraud whilst acknowledging its possibility in business operations.

Mandatory fraud awareness training is part of our annual financial crime training for employees.

A dedicated Group financial crime team investigates potential fraud incidents and takes recovery actions, when necessary, with various committees regularly monitoring and reviewing fraud reporting.

Anti-money Laundering and Counter Terrorist and Financing policy

The Group's Anti-money Laundering and Counter Terrorist Financing policy outlines the responsibilities of senior management, the Money Laundering and Reporting Officer (MLRO) and all colleagues. It mandates integrity from every individual, with zero tolerance for breaches of anti-money laundering or counter terrorist financing legislation.

Mandatory anti-money laundering and counter terrorist financing training for all employees aligns with our broader financial crime risk management approach.

Acknowledging inherent risk exposure as a financial services provider, senior management reviews key risk and performance indicators, providing management information for visibility into our exposure to financial crime.

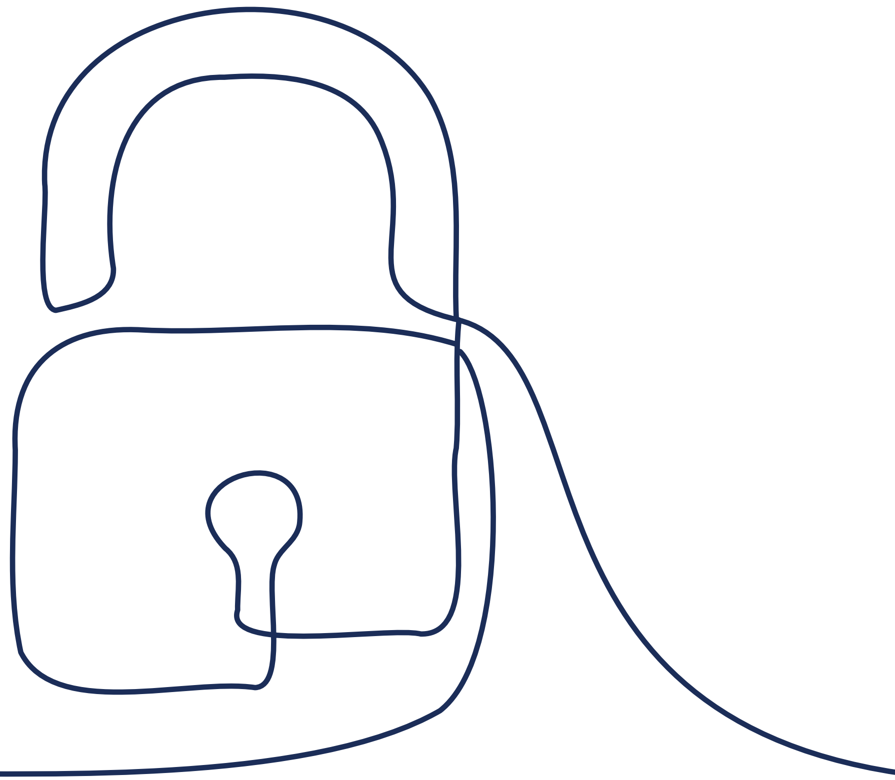
Group Health and Safety policy

Our Group Health and Safety policy delineates our approach and statutory responsibilities, ensuring compliance with legislation to safeguard employees, customers and all impacted by our operations. It prioritises providing a secure environment for everyone involved.

We uphold a stringent stance on compliance, regularly testing a range of controls to ensure their efficiency, all subject to independent oversight. The health and safety working group convenes biannually to review policy objectives, reporting any pertinent issues to operational risk.

An accountable Executive oversees the Health and Safety policy, annually reviewed by an external adviser before Board approval. Monthly dashboards shared with the Board, along with an annual health and safety report, present pertinent statistics.

Risk assessments across the Group are completed annually, complemented by mandatory health and safety training for all employees. Continuous updates on the Group intranet aim to bolster health and safety awareness, mitigating potential injury risks to employees and customers in the workplace.



Sustainability continued

Strategic Pillar – Stewardship

Tax

We recognise that our tax contributions make an important social and economic impact, benefiting the communities we operate in by delivering valuable public services and building infrastructure that allows communities to thrive.

The Group is proud to make a significant UK tax contribution each year and in 2023, the Group contributed £170.3m (2022: 204.6m).

	2023		2022	
Taxes paid	£m	£m	£m	£m
Corporation Tax	92.6		111.9	
Bank surcharge	10.2		30.2	
Irrecoverable VAT	22.1		16.7	
Employer's NIC	10.8		9.5	
Other	2.3		2.2	
Total taxes paid		**138.0**		170.5
Taxes collected				
Income tax	23.2		25.0	
Employee's NIC	5.3		6.0	
VAT	3.8		3.1	
Total taxes collected		**32.3**		34.1
Total tax contribution		**170.3**		204.6

The Group is open and honest in all dealings with tax authorities in both the UK and India. In the UK, we have signed up to the Banking Code of Conduct and follow both the spirit and the letter of tax law. Our tax strategy can be found at www.osb.co.uk/sustainability/tax-strategy.

All of our subsidiaries (including those incorporated in Guernsey and Jersey) are tax resident in the UK, with the exception of OSB India Private Limited which is tax resident in India and pays all appropriate taxes in India.

We do not use tax havens for tax avoidance or any other purposes.

Group Operational Resilience policy

Our Group Operational Resilience policy outlines the approach and expectations of the Group in establishing and enhancing resilience levels, recognising operational resilience as a focal point.

The policy details the Group's adherence to relevant UK regulatory requirements (e.g. the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA)) and alignment with industry standards. This includes the March 2021 published FCA and PRA policies on operational resilience, mandating firms to adopt a proactive approach to preventing service disruption and ensuring robust planning and testing for effective response to disruptive incidents.

Group Data Protection policy

Our Group Data Protection policy establishes adequate policies and procedures for compliance with the UK General Data Protection Regulation (GDPR) and the Data Protection Act 2018. It delineates necessary steps for processing personal data.

Respecting and safeguarding the privacy and security of personal information is fundamental, and we consider robust privacy practices integral to corporate governance and accountability.

The Group Data Protection Officer reports biannually to the Group Executive Committee and the Board, ensuring compliance with legal requirements and the Data protection policy.

Sustainability continued

Strategic Pillar – Stewardship

Cyber security

Cyber risk is one of our top considerations.

The Group's cyber resilience programme is delivered and governed through a joint effort between the traditional three lines of defence with reporting to governance committees as well as at the Group Board. A dedicated Chief Information Security Officer (CISO) function and supporting teams ensures the Group has the necessary subject matter expertise and remit to drive cyber improvements and risk reduction.

The OSB Group cyber programme is based on established cyber risk and controls frameworks (National Institute of Standards and Technology, Microsoft cloud security benchmark, Center for Internet Security) and managed through a continuous improvement schedule of activities to provide effective counter-measures, monitoring and incident response against current and emerging threats.

This is further supported by membership within the FS-ISAC industry (**https://www.fsisac.com/**) consortium to provide critical cyber intelligence and a cyber insurance policy from leading insurers following their assessment of the Group's cyber security.

The Group also undertakes periodic security testing and independent reviews by specialised and CBEST-accredited third parties to assess the effectiveness of its cyber resilience operational and technical capabilities required for regulated financial services organisations.

OSB Group cyber security strategic objectives

OSB Group Information Security has adopted a centralised security model to support the Group with targeted investments that deliver the necessary security services, operating model, policies and standards to align with the Group's risk appetite.

	Strategic capabilities	Key objectives
CISO	1 Security engineering and operations	• Provide informed and reliable project support and security administration • Ensure sustainable risk reduction through effective security capabilities • Deliver information security initiatives
	2 Cyber readiness	• Proactively identify and assess relevant cyber threats to protect the Group and its brands • Enable the Group to protect its assets and securely deliver its services through proactive monitoring and incident response plans to minimise business disruptions
	3 Information Security governance and compliance	• Enable proactive identification, assessment, monitoring, reporting and mitigation of IT risks • Monitor and manage IT controls to ensure effectiveness • Align the Group with regulatory requirements

Task Force on Climate-Related Financial Disclosures

Listing Rule 9.8.6R (8) requires that the Group provides climate-related financial disclosures consistent with the recommendations set out by the Task Force on Climate-related Financial Disclosures (TCFD).

The Board confirms that it has disclosed sufficient information to comply with TCFD and Companies Act 2006 requirements as amended by the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022. The Group will continue to enhance these disclosures over time in line with regulatory expectations and emerging best practice.

The Group remains committed to playing a leading role in addressing climate change and achieving our ambition of net zero emissions across our broader business activities by 2050.

Through the Group's membership and involvement in several initiatives including the Net Zero Banking Alliance (NZBA), we continued to support the wider efforts of the financial services industry to minimise the impact it has on climate change.

Throughout the year, the Group focused on planning how we can reduce the environmental impact of our own operational footprint and how we can support the decarbonisation of the UK housing stock we finance, whilst developing our first Climate Transition Plan.

The Board is conscious that regulatory expectations and industry best practices continue to evolve and further work is required to enhance our climate risk operating model.

The disclosures below were drafted to be consistent with TCFD recommendations and provide transparent reporting to assist our stakeholders in understanding the impact of climate change on the Group. The current assessment indicates a low climate risk impact to the business, however we remain cognisant that climate risks may evolve over time.

In the table below, we describe the progress made against each TCFD pillar during 2023 and the actions planned for 2024.

Task Force on Climate-Related Financial Disclosures continued

Governance

Achievements	Opportunities for 2024	Further details
1) Board oversight of climate-related risks and opportunities:		
• All Committee and Board papers continued to provide an environmental impact assessment to allow the Directors to consider any climate-related risk impacts or implications to the Group's stated climate ambitions. Climate risk and Environmental, Social and Governance (ESG) matters are key considerations to the Group's strategy for which the Board assumes responsibility. • In addition to its direct oversight, the Board delegates responsibility for the Group's climate-related risk appetite, risk monitoring, provisioning and capital and liquidity management to the Group Risk Committee. The setting of climate risk appetite limits is a key tool utilised to ensure that the Group's risk profile continues to be managed to an acceptable level, whilst the Group's climate risk Internal Capital Adequacy Assessment Process (ICAAP) ensures that the Group continues to hold sufficient capital to address climate specific risks to which it may be exposed. • During 2023, the Group Audit Committee continued to monitor the Group's compliance with TCFD requirements and the commitments made as a member of the NZBA. • During 2023 Kal Atwal (Non-Executive Director) assumed responsibility for overseeing ESG matters on behalf of the Board, taking over the role previously held by Sarah Hedger (Non-Executive Director). • The Board considers and approves emission reduction goals and targets in line with the Group's net zero by 2050 commitment. • The Group Remuneration and People Committee integrated greenhouse gas (GHG) emission reduction targets into the Balanced Business Scorecard (BBS) with performance against these targets presented to the Board on a regular basis (see metrics and targets for further details). • During 2023 the Group Executive Committee met on monthly basis, receiving emissions performance information and ad hoc papers from the ESG Technical Committee on a periodic basis as required.	• Deliver further enhancements to the Group's climate-related internal expertise to ensure effective oversight of climate-related risks. • Further develop the Group's climate risk strategy and monitor its adherence by setting and monitoring climate-related risk performance targets. • Deliver further enhancements to the Group's climate financial risk appetite framework, which will result in enhanced monitoring of the Group's climate risk profile. • Provide training as part of the Group's Climate Transition Plan.	See Corporate Governance Report pages 105-135 and the Sustainability Report page 88.
2) Management's role in assessing and managing climate-related risks and opportunities:		
• The ESG Technical Committee is a Management Committee who report into the Group Executive Committee. During 2023 the Committee met on at least a bi-monthly basis, ensuring effective identification and management of climate-related risks and goals. The Committee's output is summarised and shared annually with the Board for consideration. • During 2023 the Group established a Climate Transition Working Group, to act as the forum that oversees the implementation of the Group's Climate Transition Plan and production of required disclosures, whilst providing regular updates to the ESG Technical Committee on progress against planned objectives. • Climate risk continues to be recognised as an enterprise risk and forms part of the Group's overarching Enterprise Risk Management Framework (ERMF), with a dedicated Group Climate Risk Management Framework which articulates how the Group identifies, monitors, and manages climate risks. This framework was enhanced and further embedded during 2023. • The Chief Sustainability Officer is responsible for ensuring the Group's strategy is aligned and consistent with the various climate-related initiatives across the Group as well as ensuring that the Group is well positioned to meet its ESG reporting objectives. • Annual GHG intensity reduction targets (Scope 1 and Scope 2) continue to be included in the personal objectives of the CEO and CFO as well as the BBS. Integrating targets into remuneration is expected to reduce the Group's emissions over time aligned to the Group's net zero commitment. • A review of existing risk management frameworks across principal risk areas was conducted to ensure that climate risk is appropriately embedded and monitored.	• Further embed climate risk considerations within the Group's other sub-risk management frameworks, where required. • Progress towards reducing the Group's direct emissions targets. • Continue to monitor and manage performance against established emission reduction targets for financed (mortgages) and operational emissions.	None.

Task Force on Climate-Related Financial Disclosures continued

Strategy

Achievements	Opportunities for 2024	Further details
3) Climate-related risks and opportunities identified over the short, medium, and long-term:		
The Group determined the following as relevant and/or material risks to be reviewed annually: Time periods considered are defined as short term 0-5 years, medium term 5-10 years and long term greater than 10 years. The short-term time horizon aligns to the Group's planning and ICAAP stress testing assessment periods. The long-term time horizon has been utilised within scenario analysis to assess climate risks which may occur over a longer time frame. The medium-term horizon therefore, relates to risks and opportunities which are inside our long-term assessment horizon, but sit outside of our short-term assessment period. The Group's lending is to individuals and small and medium enterprises in the UK, where the specific climate risks and opportunities are assessed. The Group's operational sites in both the UK and India (OSBI) are exposed to similar climate risks. Currently, the Group does not deem it necessary to describe risks and opportunities by geography. The Group provides lending in the UK primarily against residential and commercial properties, with low exposure to non-property collateral backed funding lines or asset finance lending which is typically secured against hard assets, and therefore does not have significant credit exposure to carbon related assets. **Risks** **Lending** **Physical risk (long term)** ***Changes in precipitation patterns and extreme variability in weather patterns, rising mean temperatures and rising sea levels*** The Group primarily lends on residential assets, either for owner occupation or for investment by professional landlords. The Group undertook the annual scenario analysis of its portfolio using best-case and worse-case scenarios to determine the level of exposure to climate-related risks. The key physical risks used for scenario analysis are flooding, subsidence and coastal erosion in the long-term (> 10 years), which considers the behavioural and contractual life of the Group's primary lending types. **Transition risk (short term)** ***Policy and legal – mandates on and regulation of existing products and services*** Energy Performance Certificate (EPC) rating requirements are considered a key transitional risk in the short term (0-5 years). The Group's current exposure to transition risk as a proportion of the total lending is relatively small. ***Uncertainty in market proposition*** Commissioned research indicated varying levels of awareness amongst borrowers around climate change, mitigation, support available and understanding of EPC ratings. There is a potential risk that landlords might be leaving or not entering the market if climate risks make investment less attractive. ***Policy and legal –*** exposure to litigation. ***Reputational –*** increased concern or negative feedback from the Group's stakeholders. **Operations** **Physical risk (long term)** Increased severity of extreme weather events such as cyclones and floods. The Group's operations in the UK and OSBI could be impacted by an increased number or severity of extreme weather events. Increased costs may be incurred during the period in which operational processes are recovered. **Transition risk (long term)** ***Increased pricing of GHG emissions, enhanced emissions-reporting obligations*** The Group offsets its Scope 1, Scope 2 and some Scope 3 categories (seen note below) on an annual basis, whilst it aims to reduce total emissions. It is expected that the cost of offsets from the voluntary carbon market will increase significantly towards 2030. In addition, it is reasonable to anticipate that the government may introduce policy mechanisms to penalise fossil fuel use in support of the government's net zero ambitions. Note: offsetting covers Scope1, Scope 2 (market-based) and UK Scope 3 (business travel, waste from operations, energy related activities not reported in Scope 1 and 2 and OSBi operations (purchased electricity – market based), gas oil, fugitive emissions, employee community and upstream leased assets) for the year ended 31 December 2023.	• Further expand the Group's scenario analysis to a wider range of transition risks. • Launch further climate-friendly products, utilising the full range of the Group's brands, whilst being cognisant of any conduct risks. • Consider the Group's climate financial risks within the Group's planning processes.	See analysis on pages 51 and 102.

Task Force on Climate-Related Financial Disclosures continued

Strategy continued

Achievements	Opportunities for 2024	Further details
3) Climate-related risks and opportunities identified over the short, medium, and long-term: continued		
Opportunities **Lending** **Products and services (short term)** • increased revenue through demand for lower emissions products and services. • improved competitive position to reflect shifting consumer preferences, resulting in increased revenues. • green financing and lending products have the ability to finance retrofit new build projects that increase carbon efficiency or reduce the carbon footprint of investments contributing to real economy decarbonisation, and the Group's ambitions and commitments. • The Group undertook and commissioned research in the mortgage market in late 2022 to fully understand broker and customer perceptions, attitudes and knowledge in this area, and will regularly refresh the research to identify solutions that allow the market to meet the government's climate change commitments. The research was utilised in 2023 to support development of the Group's transition plan. **Resilience (short term)** ***Increased revenue through new products and services*** Transition planning is a significant focus for regulators and continues to gain the attention of shareholders. Suitable planning supports the ongoing resilience of the Group as a specialist lender. **Operations** **Resource efficiency (short term)** ***Reduced operating costs (e.g. through efficiency gains and cost reduction)*** Increasing the Group's energy efficiency is an opportunity that will reduce the ongoing operating costs of electricity and natural gas, which are the key drivers of Scope 1 and Scope 2 emissions. Increased efficiency also provides a level of protection against the current uncertainty of energy security and pricing. **Energy source (short term)** ***Use of lower-emission sources of energy, use of supportive policy incentives*** The use of low or zero carbon technologies is likely to reduce operating costs associated with carbon intense energy sources over the medium to long-term and the need to fund offsetting. The Group will also be afforded a level of protection from fossil fuel price increases.	• Expand the Group's scenario analysis to a wider range of transition risks. • Identify climate-friendly products, using the full range of the Group's brands, whilst being cognisant of any conduct risks. • Provide further thought leadership and broker/borrower education and awareness. • Consider the Group's climate financial risks within the Group's planning processes.	None.

Task Force on Climate-Related Financial Disclosures continued

Strategy continued

Achievements	Opportunities for 2024	Further details
4) Impact of climate-related risks and opportunities on the Group's businesses, strategy, and financial planning:		
• Climate-related risks and opportunities are part of a wider ESG risk and opportunity analysis. The impact and importance of risks and opportunities are determined based upon a quantitative assessment where data is available, or a qualitative assessment of the potential for growth or cost management and the degree of importance to stakeholders. • During 2023, further progress was made in managing risks and developing potential areas of opportunity with respect to products and services, the supply/value chain mitigation activities and operations. The Group's current strategy and simple business model mean that risks and opportunities relating to investment in research and development, acquisitions and access to capital are deemed non-material and therefore were not areas of focus for 2023. • The Group developed its first Climate Transition Plan which sets out the roadmap and steps the firm intends to take in progressing towards its committed emission reduction targets. • In 2023, the Group re-measured its Scope 3 financed emissions using the Partnership for Carbon Accounting Financials (PCAF) methodology. The PCAF calculation covers the mortgage portfolio as the largest asset class. It does not cover non-mortgaged portfolios or securitised loans. • The Group's financial plans are set on an annual basis and are reviewed and refreshed quarterly. They consider, among other matters, the Board's risk appetite, macroeconomic outlook, market opportunity, the competitive landscape and sensitivity of the financial plans to volumes, margin pressures and any changes in capital requirements. For the 2023 financial plans, the Board considered all principal and emerging risks including climate risk, where the risk is likely to emerge, outside of the viability assessment horizon.	• Enhance the Group's approach to defining the impact of climate-related risks and opportunities beyond current scenario analysis of physical and transitional risks. • Identify and develop further opportunities in relation to products and services, the Group's supply chain where further improvements in the Group's climate risk profile can be delivered. • Continue to monitor and manage Scope 3 financed emissions against agreed targets. • Consider opportunities such as green funding, green savings, securitisation, climate risk underwriting criteria and ESG awareness campaigns to pursue the most impactful opportunities and support customers in their transition. • Formalise and include climate-related inputs into the financial planning process.	See Climate Transition Plan on the Group's website. See Sustainability Report pages 69-80 for further details. See Risk review on page 51 for further detail on the impact of the climate risk on the business.
5) Resilience of the Group's strategy taking into consideration climate-related scenario analysis:		
• The Group's ICAAP considers the resilience of its strategy and loan portfolios to climate risks such as floods, coastal erosion, subsidence, and minimum EPC ratings. The latest ICAAP assessment indicated that the Group has a low risk to climate change, and its strategy and business model performs resiliently across a number of climate scenarios. See Scenario Analysis section for more information.	• Further leverage the results of the Group's ICAAP climate risk assessment and risk appetite analysis to inform go forward climate risk management strategy.	See Risk review on page 51 for further detail on the Group's approach to analysing climate risk.

Task Force on Climate-Related Financial Disclosures continued

Risk Management

Achievements	Opportunities for 2024	Further details
6) Processes for identifying and assessing climate-related risks:		
• Climate-related horizon scanning is in place to monitor regulatory or legislative changes which could impact the Group which feeds into the assessment of transition risks. • The Group's risk function continues to assess climate risks against its key principle (traditional banking) risks and considers credit risk as the key risk which could be adversely impacted by future climate change. • Climate risk is also a consideration of the Group's wider assessment of ESG risks and opportunities which uses the outputs of scenario analysis to support the assessment of material ESG risks and opportunities, which further informs the ESG strategy. Within the context of ESG risk and opportunities, potential impact on growth or cost management and the degree of importance to stakeholder groups are assessed. Climate related topics are identified and considered from a wide range of global issues, industry, and sector specific considerations, such as regulatory and disclosure requirements and Group specific inputs such as our Purpose, Vision and Values and ESG Operating Framework and Strategy. The Group used the approaches and processes set out in the ERMF to identify and assess all risks including climate risk. • The enterprise risk register process allows the Group to consistently size, scope and reassess the relative significance of all risks including climate risk, considering the likelihood and potential impact of the risk emerging to provide an inherent risk rating. Risk mitigants are documented and constantly assessed and enhanced to ensure climate related risks are managed appropriately. • Scenario analysis is used as a valuable tool to understand and inform the potential impact of climate change on the Group's loan portfolios. It consisted of climate change portfolio analysis (covering both physical and transitional risks), including an assessment of EPC ratings in the UK.	• Further engagement to ensure customers are being supported in reducing their carbon footprint. • Further enhance climate risk management information with ongoing trend and scenario analysis • Embed climate risk into the Risk and Control Self-Assessment (RCSA) process, which will enable the identification of climate-related risks in a proactive manner and embed the right climate risk behaviours across the Group. • Provide further Board training to assist with the ongoing identification of climate-related risks.	See Risk review on page 51 and the Sustainability Report on pages 72-78 for more information.
7) Processes for managing climate-related risks:		
• The existing lending policies and criteria help to manage climate risk across the Group's loan portfolios i.e., setting out the EPC requirements for Buy-to-Let lending. Flood, subsidence, and coastal erosion risks are in part mitigated by independent property valuation, which forms part of the underwriting process. • Climate risk appetite statements and limits remain in place helping to inform the Group's strategy and facilitate monitoring of the Group's climate risk profile. • Climate-related horizon scanning is in place to monitor regulatory or legislative changes which could impact the Group and feeds into the assessment of transition risks. • Business continuity plans and disaster recovery plans were updated to reflect risks from extreme weather and establish appropriate plans to mitigate the associated risks. Threat risk assessments are conducted on both UK and Indian sites annually to support the robustness of business continuity plans. • On an annual basis, the Group conducts a complete review of its loan book from a climate perspective. This enables the Group to determine the potential impact of climate-related risks. • The Group enhanced its risk and opportunity analysis for ESG matters in 2023 which included climate risk, physical and transitional considerations, with the physical transition remaining a key focus. • The Group aligned its scenario analysis processes with UKCP18 climate change predictions for the UK that were issued by the Met Office in collaboration with other agencies.	• Continue to monitor the EPC profile of new originations and existing lending stock versus risk appetite and actively manage the profile as required.	None.

Task Force on Climate-Related Financial Disclosures continued

Risk Management continued

Achievements	Opportunities for 2024	Further details
8) Integrating climate-related risk processes into overall risk management:		
• Climate risk was further embedded into the Group-wide ERMF via the operation of the Climate Risk Management Framework. During 2023 climate risk was further embedded within several wider sub-risk frameworks. • The Group's three lines of defence model continued to work effectively with a focused internal audit of the Group's climate risk management arrangements, which were reported as being fit for purpose.	• Create and implement a climate (and wider ESG) training plan to ensure that all relevant employees receive appropriate training. • Identify key roles where further or expanded knowledge or competence is required to deliver on the Group's ambitions and commitments.	None.

Metrics and Targets

Achievements	Opportunities for 2024	Further details
9) Metrics used to assess climate-related risks and opportunities:		
The Group uses a variety of metrics to assess climate-related risks and opportunities and has considered all cross-industry metrics and has determined the below to be the most important (further information of historical performance is detailed within the Sustainability section). **Physical risk** • Properties within 1,000m of the coastline should the maximum emission scenario prevail, i.e. no climate action is taken and the worst-case scenario prevails. • Properties exposed to flood alert zones. • Properties with a 0.5% exposure to subsidence risk within a 10-year term in the maximum emission scenario. **Transition risk** • Portfolio EPC distribution at levels F and G. • GHG emissions are calculated using the GHG Protocol Corporate Standard and the Group's criteria for reporting. • Scope 3 financed emissions tonnes of carbon equivalent (tCO_2e)/m^2 using PCAF methodology. • Scope 1 and 2 (location-based and market-based) absolute emissions in tCO_2e by emissions source. • Scope 3 categories 1-8 in tCO_2e. • Scope 1 and Scope 2 (location based) tCO_2e as a proportion of full-time equivalent employees (FTE) per m^2 of corporate real estate under operational control.	• Consider additional metrics and targets as the Group continues its ESG journey and transition planning • Continue to manage the Group's climate risk profile (both physical and transition risks) in accordance with risk appetite thresholds and limits. • The Group will consider carbon pricing during the implementation of the Transition Plan.	See Sustainability Report on pages 72-78 for more detail on historic performance and future targets. For portfolio metrics see insights from our scenario analysis page 102.

Task Force on Climate-Related Financial Disclosures continued

Metrics and Targets continued

Achievements	Opportunities for 2024	Further details
10) Scope 1, 2 and 3 GHG emissions and the related risks:		
• Scope 1, 2 and 3 emissions have been disclosed (where relevant and available for Scope 3), emissions are calculated in line with the GHG Protocol Corporate Standard. Criteria for reporting GHG emissions can be found on the Group's website. • Intensity ratios were established and reported on: • Scope 1 and Scope 2 (location based) tCO_2e per FTE and per corporate real estate under operational control. • Scope 1 and Scope 2 (location based) tCO_2e per £m total income. • Scope 3 – financed emissions only –$kgCO_2e$ per m^2.	• Assess the risks and opportunities associated with the Group's Scope 1, 2 and 3 emissions in 2024 and manage accordingly.	See Sustainability Report on pages 72-78 for further information.
11) Targets used to manage climate-related risks and opportunities:		
• In 2022, the Group committed to achieve net zero GHG emissions by 2050 in line with the 2015 Paris Climate Accord. • An interim target for financed emissions was set in 2022. The Group's ambition is to reduce the intensity of emissions from mortgage lending by 25% versus the Group's 2022 baseline by 2030. • The Group's ambition is to reduce Scope 1 and 2 emissions (market based) to zero by 2030. • For further details on how climate-related risks and opportunities are linked to Executives and senior managers' remuneration, see Director's Remuneration Report on page 147.	• Track performance against the agreed Climate Transition Plan, taking management actions if required. • Include GHG Scope 1 and 2 emissions reduction targets in the Executive and senior managers' long term incentive plans. • Consider further enhancing metrics and targets as risk management and transition planning matures.	See Climate Transition Plan on the Group's website.

Task Force on Climate-Related Financial Disclosures continued

Insights from our scenario analysis: key drivers

OSB Group plc is a leading mortgage lender predominantly in the professional Buy-to-Let and specialist Residential market sub-segments secured against residential property. The Group also provides loans to limited companies and individuals secured against commercial and semi-commercial properties, residential development financing, funding lines to non-bank finance companies and asset finance lending.

At present the Group has identified the physical risks relating to flooding, subsidence and coastal erosion reducing the value of properties as well as the ability of borrowers to afford or refinance their mortgages, as the most material physical climate risks to be assessed and managed. The Group has also identified the transitional risks relating to changes in regulatory policy resulting in material levels of investment being required to ensure minimum EPC requirements are met. This spend for example, may be required to ensure Buy-to-Let properties are eligible to let, loan to value levels are not adversely impacted, void periods and defaults do not materialise which would result in loan losses and higher capital requirements. As such the Group considers the above risks as the most material and therefore focuses on their assessment, monitoring and management.

The climate risks relating to the Group's operational premises are considered less material than the physical and transitional risks to the properties which underpin the Group's loan portfolios.

Insights from our scenario analysis: impact on the Group

Physical risk

The Group's physical risk profile remained broadly stable during 2023, when compared to 2022.

The physical impact of climate change on our real estate portfolio across the UK is expected to be limited.

Sensitivity analysis completed using RCP scenarios on increases in global temperatures by 2100, compared the least severe scenario (RCP 2.6 – increase of 0.9°C to 2.3°C) to the most severe (RCP 8.5 – increase of 3.2°C to 5.4°C).

At a Group level, the analysis shows that the exposure to the probability of flood over the next decade increases by 0.04% from the best-case scenario to the worst-case scenario, only 0.46% of the Group's portfolio is in an area with a flood risk greater than 20%. For subsidence, the increase from best-case to worst-case increase is 0.05%, with the portfolio risk of subsidence being less than 0.5%. For coastal erosion, across the Group over 92.6% of the portfolio is more than 1,000 metres from the coastline. Of the properties within 1,000 meters, only 121 are in areas likely to experience coastal erosion.

Transitional risk

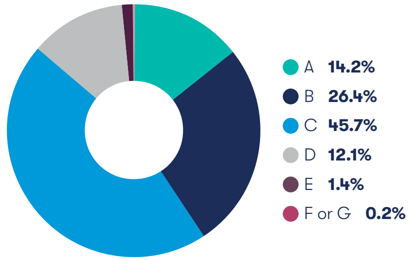
The Group observed marginal improvements in EPC ratings for existing stock assessed in both 2023 and 2022. In addition, enhancements in the climate data processes improved insight into the transitional risk profile.

At a Group level, c.41% of properties (2022: 40%) have an EPC rating of C or better, c.46% (2022: 45%) have an EPC rating of D, c.12% (2022: 13%) an EPC rating of E and c.1% (2022: 2%) have an EPC rating of F or G. Of the properties with an EPC rating of D or worse, c.92% (2022: 91%) have the potential to reach at least an EPC rating of C.

Adverse movements in the EPC rating distribution of the Group's loan portfolios and any potential change in government policy have the potential to result in larger future financial impact for the Group. To mitigate this risk, the Group actively monitors and assesses the possible financial risks associated with the EPC rating distribution of the Group's loan portfolios and horizon scans for any changes in regulatory or governmental policy.

During 2023, the Group ensured consistency between internal analysis covering the setting of climate risk appetite, ICAAP and other ad hoc analysis with data, scenarios and assumptions used to support the Group's financial disclosures. The Group's current risk appetite, ICAAP and IFRS9 climate risk assessments have all indicated that the Group is currently exposed to a low climate related financial risk, using the materiality assessment scale which supports other financial disclosures within the Group's Annual Report and Accounts.

EPC rating of the Group's portfolio



Non-financial and sustainability information statement

The requirements of sections 414CA and 414CB of the Companies Act 2006 relating to non-financial reporting are referenced in the table below and are cross referenced to relevant sections within the Annual Report to better understand the impact and stakeholder outcomes across our range of policies and guidance.

Reporting requirement	Policies, guidance and standards	Further information to understand impact and outcomes
Environmental	Environmental policy	See page 75
	TCFD – Climate-related disclosures	See pages 94 - 102
	Energy Policy	See page 74
	ESG Operating Framework	See page 71 and 88
	ESG Metrics policy	See page 88
Employees	Group Flexible Working policy	See page 84
	Group DE&I Inclusion policy	See page 84
	Group Health and Safety policy	See page 91
Social Matters	Group Data Protection policy	See page 92
	Tax	See page 92
	Lending policy	See page 89
	Group Complaint Handling policy	See page 89
	Group Customer Vulnerability policy	See page 89
	Group Arrears Management and Forbearance policy	See page 89
	Consumer Duty	See page 89
Human Rights	Modern Slavery Statement and Vendor Code of Ethics	See page 90
	Group Vendor Management and Outsourcing policy	See page 90

Reporting requirement	Policies, guidance and standards	Further information to understand impact and outcomes
Anti-Bribery and Corruption	Group Whistleblowing policy	See page 90
	Group Anti-Bribery Policy and Corruption policy	See page 90
	Conflicts of Interest policy	See page 91
	Fraud policy	See page 91
	Anti-Money Laundering and Counter Terrorist and Financing policy	See page 91
	Group Operational Resilience policy	See page 92
	Cyber Security	See page 93

Non-financial and sustainability information statement continued

Reporting requirement	Further information to understand impact and outcomes
Description of the business model and strategy	See pages 12-17
Policy embedding, due diligence and outcomes	See pages 70-103
Description of the principal risks and impact of business activity	See pages 53-61
Description of the non-financial key performance indicators	See pages 3 and 35
Climate-related financial disclosures	
Governance arrangements in relation to assessing and managing climate-related risks and opportunities	See pages 88 and 95
Risk management processes for identifying, assessing and managing climate-related risks	See pages 51-52 and 99-100
Climate-related risks and opportunities	See pages 96-97
Potential impacts on the business model and strategy	See page 61
Targets used to manage climate-related risks and opportunities and performance against those targets	See pages 73-78
Key performance indicators used to assess progress against targets	See pages 73-87

Governance

Corporate Governance Report

Our Board of Directors

N C Re

David Weymouth
Chair of the Board

Tenure
6 years 4 months

Skills, experience and qualifications
David was appointed as Chair of OSB in September 2017. He has over 40 years' experience across many sectors in financial services including serving as Global Chief Information Officer for Barclays Bank plc and Chief Operations Officer and Chief Risk Officer for RSA PLC. David has served as a non-executive director on a number of boards in the UK and US, this has included Chair of Fidelity Investments, Chair of Mizuho International PLC and senior independent director and Chair of Risk Committee at Royal London Mutual Insurance Society.

David has a wealth of experience in operations, technology, risk management and board level leadership.

Current external appointments
David is Chair of Pension Insurance Corporation PLC, Chair of Board Risk Committee at Marsh UK Limited and Chair of Remuneration Committee at Mizuho International PLC.

C

Andy Golding
Chief Executive Officer

Tenure
12 years 0 months

Skills, experience and qualifications
Andy was appointed Chief Executive Officer of OSB in December 2011. Prior to that he was Chief Executive Officer of Saffron Building Society for five years, and held senior positions at National Westminster Bank plc, John Charcol Limited and Bradford & Bingley plc. Andy served as a non-executive director for Kreditech Holding SSL GmbH and Northamptonshire Healthcare NHS Foundation Trust. He served as a member of the Building Societies Association's Council and the Financial Conduct Authority's Smaller Business Practitioner Panel. Andy is a highly regarded leader with a deep understanding of banking and over 30 years' experience in financial services.

Current external appointments
Andy is a director of the Building Societies Trust Limited.

M C

April Talintyre
Chief Financial Officer

Tenure
11 years 7 months

Skills, experience and qualifications
April was appointed as Chief Financial Officer and to the OSB Board in 2012. She was previously an Executive Director in the Rothesay Life pensions insurance business of Goldman Sachs Group and worked for Goldman Sachs International for over 16 years, including as an Executive Director in the Controllers Division in London and New York. April began her career at KPMG LLP in a general audit department. April has broad financial services experience and has been a member of the Institute of Chartered Accountants in England and Wales since 1992.

Current external appointments
None held.

N A Re Ri

Noël Harwerth
Senior Independent Director

Tenure
6 years 7 months

Skills, experience and qualifications
Noël was appointed to the Group Board and the position of Senior Independent Director in October 2019. She was appointed to the Board of CCFS in June 2017, assuming the role of Senior Independent Director from August 2017. She held several non-executive board roles with Sirius Minerals plc, Standard Life Aberdeen plc, RSA Insurance Group plc, GE Capital Bank Limited, Sumitomo Mitsui Banking Corporation Europe Limited, Avocet Mining plc, Alent plc, Corus Group plc, Logica plc, The London Metal Exchange, Standard Life Assurance Limited and Scotiabank Europe Limited. Noël also held a variety of senior positions with Citicorp for 15 years, latterly serving as the Chief Operating Officer of Citibank International plc. Noël has extensive experience in both the public sector with government bodies and the private sector with global banking companies, which brings valuable insight to the boardroom debate.

Current external appointments
Noël is a non-executive director of CAB Payment Holdings plc and Crown Agents Bank Limited and a member of the UK Export Finance Board.

Committee membership:
- Chair of Committee
- N Group Nomination and Governance Committee
- Re Group Remuneration and People Committee
- C Board Capital and Funding Committee
- M Group Models and Ratings Committee
- A Group Audit Committee
- Ri Group Risk Committee

Director tenures are as at 31 December 2023

Our Board of Directors continued

Re

Kal Atwal

Independent Non-Executive Director and ESG Champion

Tenure
0 years 11 months

Skills, experience and qualifications
Kal was appointed to the Group Board on 7 February 2023. Kal has significant experience as a non-executive director across FTSE 100, FTSE 250 and mutual businesses and was previously a non-executive director of Admiral Financial Services Limited and WH Smith PLC. At BGL Group, Kal was Managing Director and became the founding managing director of comparethemarket.com, a division of BGL. Following promotion to Group Director of BGL Limited, Kal was responsible for brand-led businesses, group strategy and corporate communications. Kal is an experienced strategy leader with international experience in start-up, scale-up, fintech and digital businesses.

Current external appointments
Kal is a non-executive director of Royal London Mutual Insurance Society Limited, Whitbread Plc and Chair of FunkyPigeon.com Limited, a subsidiary of WH Smith PLC.

N
A
Re

Sarah Hedger

Independent Non-Executive Director and People Champion

Tenure
4 years 11 months

Skills, experience and qualifications
Sarah was appointed to the OSB Board in February 2019 and previously held leadership positions at General Electric Company for 12 years in its Corporate, Aviation and Capital business development teams, leaving General Electric Company as Leader of Business Development and M&A for its global GE Capital division. Prior to General Electric Company, Sarah worked at Lazard & Co. Limited for 11 years, leaving as Director, Corporate Finance and also spent five years as an auditor at PricewaterhouseCoopers LLP (PwC). She served as an Independent non-executive director of Balta Group NV, a Belgian company listed on Euronext, until December 2021 and as non-executive director of GE Money Bank AB for 3 years during her time at GEC. Sarah has significant capital management and merger and acquisitions experience in financial services. Sarah qualified as a chartered accountant.

Current external appointments
None held.

A
M
C
Re
Ri

Rajan Kapoor

Independent Non-Executive Director and Whistleblowing Champion

Tenure
7 years 4 months

Skills, experience and qualifications
Rajan was appointed to the Group Board in February 2020 and the OSB and CCFS subsidiaries in October 2019 and September 2016 respectively. He was Financial Controller of NatWest Group (formerly Royal Bank of Scotland Group) and held a number of senior finance positions during a 28-year career with NatWest. Rajan has extensive experience of financial and regulatory reporting in the UK and US with a strong background in internal financial controls, governance and compliance. Rajan is a Fellow of the Institute of Chartered Accountants and of the Chartered Institute of Bankers in Scotland.

Current external appointments
Rajan is a non-executive director of Allica Bank and Revolut Newco UK Ltd.

M
A
C
Ri

Simon Walker

Independent Non-Executive Director and Consumer Duty Champion

Tenure
2 years 0 months

Skills, experience and qualifications
Simon was appointed to the Group Board in January 2022. He joined KPMG in 1980 and was made a partner of the firm in 1992, going on to lead the firm's National Building Societies and Mortgage Practice and subsequently became banking partner in Financial Risk Management. Simon graduated in Law from University College London and is a qualified chartered accountant. Simon was previously a non-executive director of IWP (Holdings) Limited and Leeds Theatre Trust Limited. Simon has significant experience in financial services and mortgages, SME lending, risk management and regulation within the banking sector.

Current external appointments
Simon is a non-executive director of H&T Group plc and The Bureau of Investigative Journalism.

Our Group Executive Committee

Meet our strong leadership responsible for delivering the Group's strategy

Jens Bech
Group Commercial Director

Experience and qualifications
Jens joined OSB as Chief Risk Officer in 2012, before becoming Group Commercial Director in 2014.

Jens joined from the Asset Protection Agency, an executive arm of HM Treasury, where he held the position of Chief Risk Officer. Prior to joining the Asset Protection Agency, Jens spent nearly a decade at management consultancy Oliver Wyman Limited where he advised a global portfolio of financial services firms and supervisors on strategy and risk management. Jens led Oliver Wyman Limited's support of Iceland during the financial crisis.

Jason Elphick
Group General Counsel and Company Secretary

Experience and qualifications
Jason joined OSB in June 2016. He has over 25 years of legal private practice and in-house financial services experience. Jason's private practice experience was primarily in Australia with King & Wood Mallesons and in New York with Sidley Austin LLP. He has been admitted to practice in Australia, New York and England and Wales.

Jason's previous in-house financial services experience includes serving as Director and Head of Bank Legal at Santander UK Group. He also held various roles at National Australia Bank Limited, including General Counsel Capital and Funding, Head of Governance, Company Secretary and General Counsel Product, Regulation and Resolution.

Jon Hall
Group Managing Director, Mortgages and Savings

Experience and qualifications
Jon joined OSB in November 2021. Jon has significant experience within the financial services sector and joined the Group from Aspinall Financial Services, a pre-authorisation bank start-up, having previously led Masthaven Bank from 2016 to early 2021 as their Chief Commercial Officer and Deputy Chief Executive Officer (CEO). Jon started his career with PwC, before joining Aviva plc and subsequently became CEO of Saffron Building Society. Jon is a Fellow of the Institute of Chartered Accountants in England and Wales.

Peter Hindle
Group Chief Information Officer

Experience and qualifications
Peter joined OSB in 2017 and has been responsible for driving the IT change programme. In 2019, he was appointed to lead the post-Combination integration of OSB and CCFS. He was appointed as Group Chief Information Officer in April 2022. Peter has over 30 years' experience working in IT and Change across a range of market sectors. Having worked in an IT advisory capacity with Accenture and PwC, Peter worked extensively as an interim IT and Change leader and consultant serving financial services clients including Barclays, NatWest and Deutsche Bank. He previously held IT leadership positions in a range of organisations including Bradford & Bingley, Adidas, Merlin Entertainments, FirstAssist and John Charcol Limited.

Victoria Hyde
Deputy Chief Financial Officer

Experience and qualifications
Victoria joined OSB in September 2022. Prior to joining OSB, Victoria worked at Barclays for 21 years, most recently as Finance Director of the Consumer, Cards and Payments segment. Victoria is a qualified Chartered Management Accountant and has over 25 years' experience in finance. She has supported Retail, Corporate and Investment Banking business lines across a range of Finance roles including Product Control, Treasury Finance, Costs and Business Planning and Analysis.

Our Group Executive Committee continued

Lisa Odendaal
Group Chief Internal Auditor

Experience and qualifications
Lisa joined OSB in April 2016. Prior to joining OSB, she worked for Grant Thornton LLP where she was an Associate Director responsible for leading several outsourced audit functions within its Business Risk Services division. Lisa is a qualified Chartered Internal Auditor and has over 25 years of internal audit and operational experience gained in the UK, UAE and Switzerland, having worked at several financial institutions, including PwC, Morgan Stanley Group, HSBC and Man Group plc.

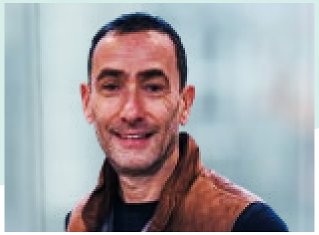
Hasan Kazmi
Group Chief Risk Officer

Experience and qualifications
Hasan joined OSB in September 2015 as Chief Risk Officer. He became Group Chief Risk Officer in 2021.

Hasan has over 25 years of risk experience having worked at several financial institutions, including Barclays Capital, Royal Bank of Canada and Standard Chartered Bank. Prior to joining OSB, he was a Senior Director at Deloitte LLP within the Risk and Regulatory practice with responsibility for leading the firm's enterprise risk, capital, liquidity, recovery and resolution practice. Hasan graduated from the London School of Economics with a MSc in Systems Design and Analysis and a BSc in Management.

Richard Wilson
Group Chief Credit and Compliance Officer

Experience and qualifications
Richard joined OSB in 2013. In addition to his Group Chief Credit and Compliance responsibilities, Richard became Group Money Laundering Reporting Officer in June 2023. Prior to joining OSB, Richard was responsible for Credit and Collections strategy for Morgan Stanley's origination businesses in the UK, Russia and Italy. Between 1988 and 2006, Richard held various roles at the Yorkshire Building Society.



Clive Kornitzer
Group Chief Operating Officer

Experience and qualifications
Clive joined OSB in 2013. Clive has over 25 years of financial services experience, having worked at several financial organisations including Yorkshire Building Society, John Charcol Limited and Bradford and Bingley plc. Prior to joining OSB, Clive spent six years at Santander Group where he was the Chief Operating Officer for the intermediary mortgage business. He has also held positions at the European Financial Management Association and has been the Chair of the FS Forums Retail Banking Sub-Committee. Clive is a Fellow of the Chartered Institute of Bankers and recently completed an advanced Leadership Program at INSEAD, as well as the FT Non-Executive Directors Diploma.

Corporate Governance Report

Dear Shareholder,

The Group's Corporate Governance Report for the year ended 31 December 2023 sets out our governance arrangements and compliance with the 2018 UK Corporate Governance Code (the Code) throughout the year.

Corporate Governance and Strategy at OSB Group

This report sets out the operation of the Board and its Committees during the year, giving insight to our corporate governance practices and decision-making aimed to achieve the best outcomes for our stakeholders and facilitating the Group's strategy. The Board continues to give due regard for stewardship, ESG, Diversity, Equity and Inclusion by ensuring these principles are refreshed and embedded within our culture, Vision and Purpose to help customers, colleagues and communities prosper. The Board appointed champions in Consumer Duty, ESG, whistleblowing and people, to ensure that the voice of our stakeholders is heard and continues to form part of our decision-making.

2023 was a year of market volatility. The Board continued to navigate the challenging macroeconomic environment by refocusing the Group's strategy as appropriate and within risk appetite, to deliver the best outcome for our stakeholders. Our key areas of focus have been the Group's digitalisation programme, achieving sustainable profits, return of capital to shareholders, debt management, the adverse Effective Interest Rate (EIR) adjustment and considering lessons learned as well as ensuring good outcomes for our customers and other stakeholders from an ESG perspective.

Consumer Duty

Our main objective is to create opportunities for customers to flourish, thrive and succeed in their personal goals. The Board has placed great emphasis on the business and its commitment to deliver good outcomes for all customers, whilst also protecting those who are vulnerable. During the year, we assessed our products, services, fair value assessment frameworks and communication channels so that customers understood and could make informed decisions in relation to our available products and services. Our approach led to a more customer centric culture throughout the organisation's strategic plans, risk management and governance. These areas are under constant review by the Board through a customer lens, where we challenge the effectiveness of our customers' experience and the data used to generate Board customer metrics. Customer outcomes and experience was a key Board consideration during our oversight of the digitalisation programme. Looking ahead to 2024, the Board will oversee the embedding of Consumer Duty and monitor products and services to ensure they comply with the regulatory regime.

Corporate Governance Report continued

Board effectiveness

During the year, the Board and its Committees undertook self-evaluations with the assistance of Independent Audit[1], details of which are set out in the report on pages 129-130. As reported in the 2022 self-evaluation results, the Board and its Committees continued to operate effectively. Recommended areas of focus will be addressed by the Board, which will set the scene for the formal external board evaluation exercise to be conducted in 2024.

Board changes and composition

In November 2023, we announced April Talintyre's retirement as Chief Financial Officer (CFO). She will not be standing for re-election at the 2024 Annual General Meeting (AGM) when she will step down from the Board. I would like to thank April for her significant contribution to the Group over the past 11 years.

As Chair of the Board, I remain committed to ensuring the Group continues to be led by a diversely skilled Board which is appropriately equipped to carry out its duties to the highest governance standards. Through the Group Nomination and Governance Committee, I have been overseeing the search for April's successor. On 14 March 2024 we announced that Victoria Hyde, Deputy CFO will become acting CFO, subject to regulatory approval whilst the ongoing process to appoint a permanent replacement for April is completed.

The Group Nomination and Governance Committee regularly assesses Board and Executive succession plans, ensuring we maintain the appropriate skills, knowledge and expertise and also consider diversity, equity and inclusion principles which provide for richer deliberation and better decision-making. Our Board Diversity is set out on pages 113, 134 and 135.

Kal Atwal was elected as a Non-Executive Director (NED) at the 2023 AGM following her Board approved appointment in February 2023. She has recently assumed the role of Board champion for ESG and I look forward to her observations and support to the wider business during 2024.

Engaging with stakeholders

The Board is committed to maintaining effective engagement and active dialogue with its stakeholders. Full details can be found on pages 117-126. We leverage the work of our Board champions to ensure that employees, consumers, ESG and diversity are prioritised as part of boardroom debate. We continue to focus on transparency with our regulators in relation to our strategy and risk management. The Board continues to maintain an open and transparent dialogue with shareholders. With support of the Investor Relations team, Group Executives and certain Board members undertake roadshows for investors and analysts, so they have a clear understanding of our business proposition and prospects. All of our shareholders have an opportunity to further engage with us at the AGM which will be held at our offices at 90 Whitfield Street, Fitzrovia, London W1T 4EZ on 9 May 2024 at 11am. Further details are set out in the Notice of AGM.

David Weymouth
Chair of the Board
14 March 2024

> **The Board has placed great emphasis on the business and its commitment to deliver good outcomes for all customers.**
>
> **David Weymouth**
> **Chair of the Board**
> 14 March 2024

1. Independent Audit has no other connection with the Company or individual Directors.

Corporate Governance Report continued

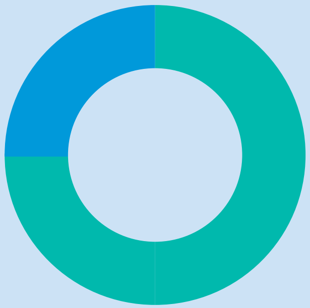
Corporate Governance Statement
UK Corporate Governance Code 2018 (the Code) Compliance Statement
During 2023, the Group applied all the principles and complied with all the provisions of the Code. The Corporate Governance Report illustrates how we applied the Code principles and complied with the provisions and the table on this page signposts where further details can be found. The Code is available at www.frc.org.uk

The Board recognises that stewardship and strong corporate governance is fundamental to the sustainable execution of the Group's strategy.
David Weymouth, Chair of the Board

Corporate Governance Report continued

2023 Board Governance at a glance (31 December 2023)

Ethnicity



White **6**
Asian/Black or other ethnic minority **2**

FCA Listing Rule target
- At least one ethnic minority director to serve on the Board (excluding white ethnic groups)

Board Composition and Tenure

Board composition

Independent NEDs **6** (Including the Chair of the Board and SID)
Executive Directors **2** (CEO and CFO)

The biographies of the Directors can be found on **pages 106 and 107**

Non-Executive Board tenure

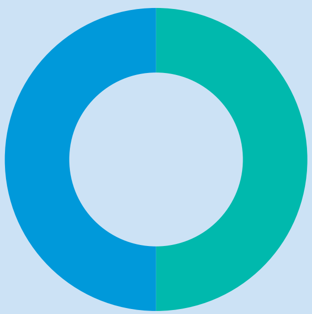
First tenure (0-3 years) **2**
Kat Atwal
Simon Walker

Second tenure (3-6 years) **1**
Sarah Hedger

Third tenure (6-9 years) **3**
David Weymouth
Noel Harwerth
Rajan Kapoor

Refer to the Group Nomination and Governance Committee Report for more information about Board succession

Gender ratio

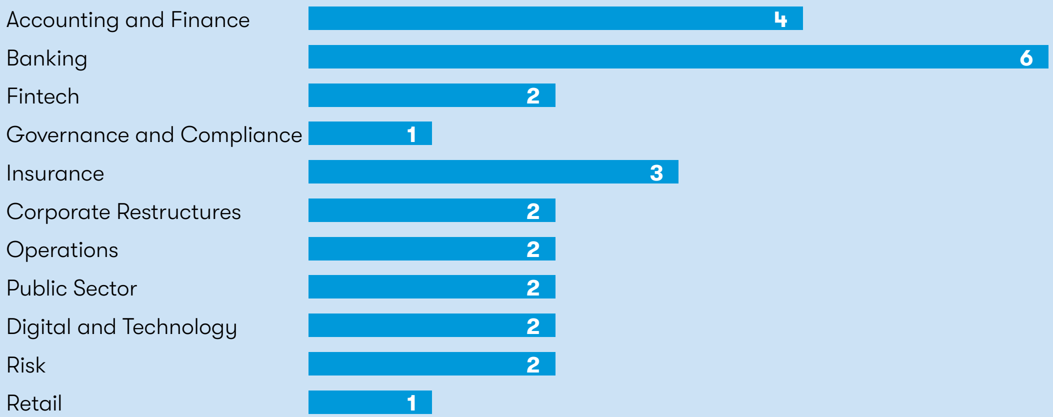


Female **50%**
Male **50%**

Senior Board Positions
- The SID and Group Remuneration and People Committee Chair are women
- Chairs of the Board, Group Audit, Group Nomination and Governance and Group Risk Committees are men
- 2 women and 2 men have been appointed as Board Champions

Balance of Board Expertise

Experience and Knowledge



Corporate Governance Report continued

2023 Board Governance at a glance continued

Board and Committee Meeting attendance[1, 2]

As at 31 December 2023	Board	Group Audit Committee	Group Remuneration and People Committee	Group Nomination and Governance Committee	Group Risk Committee
Current Directors					
David Weymouth (Chair)	9/9	n/a	6/7	6/6	n/a
Kal Atwal[3]	8/9	n/a	5/6	n/a	n/a
Andy Golding	9/9	n/a	n/a	n/a	n/a
Noël Harwerth	9/9	8/8	7/7	6/6	6/7
Sarah Hedger	9/9	8/8	7/7	4/4	n/a
Rajan Kapoor	9/9	8/8	7/7	n/a	7/7
April Talintyre	9/9	n/a	n/a	n/a	n/a
Simon Walker	9/9	8/8	n/a	n/a	7/7
Former Directors					
Graham Allat[3]	3/3	2/3	n/a	n/a	3/3
Mary McNamara[3]	3/3	n/a	3/3	2/2	n/a

The Board met nine times during the year. The Board has a formal meeting schedule with ad hoc meetings called when circumstances require. There is an annual calendar of agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the regulatory and financial cycle. The table also shows each Director's attendance at Board and Committee meetings in accordance with their membership. Directors may be invited to attend meetings of Committees where they are not a member, if it is considered appropriate.

All Directors are expected to attend all meetings of the Board, any Committees of which they are members and to devote sufficient time to the Group's affairs to fulfil their duties as Directors. Where Directors are unable to attend a meeting, they are encouraged to submit any comments on the meeting materials in advance to the Chair of the Board to ensure that their views are recorded and taken into account during the meeting. The Chair of the Board, Noël Harwerth and Kal Atwal provided comments in advance for the meetings they were unable to attend. During 2023, the Board and Group Executive Committee conducted the majority of their meetings in person across Chatham and London sites.

1 The Deputy CFO, Group Chief Risk Officer and other Group Executives are invited to attend as appropriate.

2 Attendance at meetings of the Board Capital and Funding Committee were not included due to its transactional nature.

3 Kal Atwal was appointed in February 2023. Kal missed one Board meeting in 2023 due to an engagement created prior to her appointment. Graham Allat and Mary McNamara resigned as Directors of the Group on 11 May 2023.

Corporate Governance Report continued

Board structure

The governance structure below illustrates the established Board Committees all of which have delegated authority from the Board to oversee certain activity on its behalf, such as remuneration, governance, financial and risk matters. This enables the Board to focus on the key strategic matters, including but not limited to business plans, customers and culture.

Terms of reference of the Board and its Committees can be found on our website at www.osb.co.uk.

The role of the Board

The Board is responsible for the long-term success of the Company for the benefit of its shareholders. Through its leadership and effective corporate governance, the Board focuses on setting the strategy of the Group generating value for shareholders and maintaining a sustainable and profitable business, underpinned by a robust risk management framework.

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

The activities undertaken by the Board during the year are set out below. The Board's Committees (illustrated on page 50) operated under Board delegated authority as prescribed in their individual terms of reference, which are also reviewed at least annually. The activities of each Committee during 2023 are on pages 131-177.

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 the Enterprise Risk Management Framework (ERMF)

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 Executive Directors and senior management (including Material Risk Takers)
- Overseeing the introduction of new share incentive plans or material 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 Chair of the Board, Chief Executive Officer (CEO), Senior Independent Director (SID) and Company Secretary

Other

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

Key Board activities during the year included:

- Execution of the 2023 Strategy and the Group's Financial Plan and plans for 2024
- ESG strategy, including climate change developments, charitable and community initiatives
- Monitoring and assessing culture
- Approval of a £150m share repurchase programme
- Dividend policy, declarations, and payments
- Capital and funding
- Effective Interest Rate (EIR) adjustment
- Implementation of the digitalisation programme
- Material outsourcing contracts
- Risk monitoring and review, in particular risk appetite and operational resilience
- Regulatory landscape and macro-economic environment
- Consumer Duty compliance, customer outcome monitoring
- Governance and compliance
- Board and Executive succession planning
- External financial and regulatory reporting and disclosures
- Policy reviews and updates
- Investment proposals
- Customer/brand/product reviews

Purpose, Vision, Values and Culture

The Board sets the tone from the top in relation to conduct and culture whilst acting with integrity and fully supports the Group's Purpose, Vision and Values.

The Board assesses and monitors culture to ensure that it is aligned with the Group's Purpose, Vision, Values and strategy. With the support of the Group Remuneration and People Committee, the Board monitors culture through regular updates from management, interactions with employees (informally and through the Workforce Advisory Forum (Our Voice) and mentoring), reviewing the diversity, equity and inclusion metrics, the employee engagement strategy and the results of employee engagement surveys.

Corporate Governance Report continued

The Board and Group Executive Committee monitor completion rates for the Group's conduct training modules to ensure employees successfully meet the required behaviours that support the Group's Values and to identify any key themes and systemic issues relating to culture. The Board is satisfied that culture aligns with the Purpose, Vision, Values and strategy of the Group but recognises that this continues to be a developing area. Further details regarding the Group's Values and culture are provided on pages 4 and 81-85.

During 2023, the Board received regular updates from management in respect of the workforce and the levels of engagement of employees, as well as insights from the NED designated as People Champion about sentiments of colleagues. The Board oversees charitable and community activities undertaken by employees. Further details of the Board's engagement with its stakeholders and the community is included on pages 117-126.

Risk management and internal control

The Board approves the Group's risk appetite and through the robust and regular monitoring of the Group Risk Committee ensures that there is an effective ERMF to maintain risk thresholds that have been set, whilst also ensuring the embedding of risk culture throughout the organisation. The Board regularly reviews its procedures for identifying, evaluating and managing risk, acknowledging that a sound system of internal control should be designed to mitigate risk exposures to ensure business objectives are met.

The Board carried out a robust assessment of the principal risks facing the business including those that could threaten its business model, future performance, solvency or liquidity.

Further details are contained in the Viability Statement on pages 67-68.

The Group Risk Committee also oversees the Group's risk appetite, risk monitoring and capital management, and the Group Risk Committee Chair regularly updates and advises the Board on potential financial and non-financial risk exposures and risk strategy.

The Group operates to a 'three lines of defence' model to ensure at least three stages of oversight to protect the customer and the Group from undue influence, conflicts of interest and inadequate controls. The Board is committed to the consistent application of appropriate ethical standards and the Conduct Risk Framework sets out the basic principles to be followed to ensure ethical considerations are embedded in all business processes and decision-making forums. The Group also maintains detailed policies and procedures in relation to the prevention of bribery and corruption, as well as a Whistleblowing Policy.

Further details of the Group's risk management approach, structure and principal risks are set out in the Group Risk Committee Report on pages 143-146 and in the Strategic Report on pages 45-66.

The Group Audit Committee reviews the effectiveness of the Group's internal control systems including oversight of financial reporting processes.

The Group Audit Committee is supported by the Internal Audit function in discharging this responsibility and receives regular reports from the Group Chief Internal Auditor regarding the overall effectiveness of the internal control system within the Group. The Group Audit Committee also receives reports from the external auditor on control matters. Details of the review of the effectiveness of the Group's internal control systems are set out in the Group Audit Committee Report on pages 136-142.

Stakeholder engagement

The Board is committed to maintaining effective engagement and active dialogue with its stakeholders and ensuring that stakeholder views and interests are a key consideration in the Board's decision-making. The Board engages with colleagues directly through attending Our Voice meetings. During the year members of the Board attended four Our Voice sessions which focused on employee pay, benefits and culture.

The Board and its Committees covered a broad range of sustainability considerations, receiving regular updates on ESG and its impact on the organisation's strategy. The Board has also prioritised open and transparent engagement with its regulators (particularly the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA)).

The Board and Group Nomination and Governance Committee have continued to monitor diversity, equity and inclusion, both as part of ongoing Board and Executive succession planning and in relation to activities aimed at developing a diverse and inclusive talent pipeline below Board level. The role of the Diversity, Equity and Inclusion Specialist is to progress the Group's ambitions in diversity and inclusion. Further information relating to Diversity can be found on pages 84-85 and 179-180.

Full details of how the Board engages with the Group's key stakeholders are included on pages 117-126.

Corporate Governance Report continued

Helping our stakeholders prosper

Our Purpose is to help our customers, colleagues and communities prosper

Maintaining strong relationships with our stakeholders through regular engagement and open dialogue is fundamental to achieving the Group's strategy which has been embedded within our culture and the Board's responsibilities.

We outline below how the OSB Group and its Directors engaged with key stakeholders and, in doing so, discharged their duties under section 172 of the Companies Act 2006. For more information on the activities of the Board and its Committees, see pages 110-177 in the Corporate Governance Report.

The following matters, which were identified as affecting our stakeholders, were of particular interest to the Board in 2023:

- increased volatility in global markets, alongside interest rate rises, the rising cost of living and cost of borrowing, and their impact on our customers' behaviours, including those customers who need additional support
- embedding of the Consumer Duty requirements across the Group
- the Group's response to the adverse EIR adjustment made in the first half of the year
- the impact of the rising cost of living on our employees
- the Group's environmental ambitions and initiatives
- execution of digitalisation
- final dividend amount

Corporate Governance Report continued

The Board's key strategic decisions

Decision-making

Considering our stakeholders in key business decisions is fundamental to our ability to deliver the Group's strategy in line with our long-term values and operating the business in a sustainable way. Balancing the needs and expectations of our key stakeholders is essential to achieving our purpose of helping our customers, colleagues and communities prosper.

Capital management and distributions

The Board recognises the importance of delivering against the Group's stated intention to provide attractive and sustainable returns to its shareholders.

In 2023, the Board approved a £150m share repurchase programme. During the year, over 38m ordinary shares were repurchased and cancelled in accordance with the terms of the programme which completed on 21 November 2023.

The Board ensures the Group operates to a robust capital management strategy, enabling the return of excess capital to shareholders whilst also generating sustainable profits and long-term value for wider stakeholders. Following successful completion of the £150m share repurchase programme, the Board has announced that a further £50m share repurchase programme over the next six months, commencing on 15 March 2024.

During the year the Group made good progress in optimising its capital composition following the Board's approval of £250m Tier 2 securities and £300m of Minimum Requirement for own funds and Eligible Liabilities (MREL) qualifying debt securities.

The Board has taken into consideration the interests of shareholders, other stakeholders (including its regulators) and the financial position of the Company, given the adverse EIR adjustment and has declared a final dividend of 21.8 pence per share amounting to a total dividend for the year of 32.0 pence per share.

People and Culture Strategy

The Board approved the Group's People and Culture Strategy, setting out the Group's ambition to be a number one employer of choice. The strategy includes a range of initiatives to be progressed over the next three years and aims to develop a culture of embracing change and new ways of working.

Employees are able to engage directly with the CEO through the 'Ask Andy' online portal and a key theme this year was improving the employee family benefits package. Following consideration of employee views, the Group Executive Committee approved enhancements to the UK employee family benefits, offering which received positive feedback from colleagues. More details on the enhanced benefits can be found on pages 81-82.

Effective Interest Rate (EIR) adjustment

The Board approved the trading update released in July 2023 relating to the adverse EIR adjustment and, following the announcement, investors were keen to understand the circumstances that led to the adjustment. The CFO held a number of meetings with investors to explain the Precise Mortgages product design, impact on customer behaviour and the IFRS 9 accounting treatment. The Chair of the Board also met with a small number of investors to hear their feedback directly. Further details around the adverse EIR adjustment can be found on pages 36-38.

Customer experience and Consumer Duty

During the year, the Board oversaw the embedding of the Consumer Duty programme across the Group . The Group Risk Committee Chair was appointed as Consumer Duty Champion to support the Board's oversight in relation to delivering good outcomes for and the fair treatment of customers, particularly, those who require additional support.

As part of the embedding process a number of enhancements were made across the Group including all-employee training and Consumer Duty roadshows.

The Board continued to monitor the evolution of customer reporting and enhancements were made to the management information presented to the Board to ensure it has the appropriate information in order to assess performance against the Consumer Duty principles, as well as the ongoing monitoring of good customer outcomes.

Digitalisation programme

The Board received regular updates in relation to the Group's digitalisation journey and enhancing digital solutions to enable us to meet the needs of our customers, brokers and wider stakeholders, whilst delivering further operational efficiencies. Enhancing the customer proposition through digitalisation will be a key focus for the Board in the coming years.

Corporate Governance Report continued

Helping our stakeholders prosper continued

Colleagues

Our colleagues are our key asset and our successes to date have been driven by the 2,459 talented individuals we employ.

We have always favoured interactive communication between management and our colleagues through regular town hall meetings, informal sessions with management and opportunities to ask questions anonymously directly to the CEO, with the questions and responses available on the intranet. These methods of communication proved popular with employees and contributed to many initiatives that were undertaken by the business during the year, including enhancements to the UK family benefits package.

> **Our Voice is a valuable forum which provides an open two way communication between the Board and the workforce.**
>
> **Sarah Hedger** People Champion

UK Best Companies Survey

'Outstanding' Company to Work For

in 2023

'Great Place to Work' 2023

Win

7th year in a row by OSB India

Outcomes following engagement

- Completed an extensive review of the UK family benefits package including significant enhancements to the Maternity, adoption and parental leave policies
- The Board approved the new People and Culture Strategy setting out a range of initiatives to be progressed over the next three years
- The Board explored opportunities to receive a more diverse range of metrics around employee engagement
- Approved a higher salary increase for over 80% of employees in 2023 in light of the high rate of inflation. This was focused towards less senior employees

Board engagement with colleagues

The Group has adopted a combination of methods to engage with its workforce, including the establishment of a formal Workforce Advisory Forum (Our Voice) and appointment of a designated NED for the People. In May 2023, Sarah Hedger replaced Mary McNamara as the Chair of the Group Remuneration and People Committee and the Board appointed People Champion, responsible for representing the workforce at Board and Committee level. Sarah is a permanent member of Our Voice where she engages directly with employee representatives and gains an insight into employee concerns, morale and culture.

Our Voice is represented by a broad range of employees. Their views support the Board's decision-making and provides additional points of reflection when determining metrics around strategic performance and Executive Director remuneration, culture and governance. The areas of discussion at Our Voice meetings in 2023 focused on employee end of year ratings and policies, UK employee benefits, employee share schemes, employee morale and updates from the OSB India team.

Employees are encouraged to be open and honest in their feedback at each meeting.

The Board also reviewed the results of the annual Best Companies to Work For survey. 86.4% of UK employees responded to the survey in 2023 demonstrating a high level of engagement.

Following the results of the survey, the Group retained a 2 star accreditation which means that it was recognised as an 'Outstanding' Company to Work For. The Board and Group Executive Committee reviewed the results, considered the key themes that had emerged from the responses and discussed what steps could be taken to capitalise on the positive themes and also address areas for improvement. The Board is also exploring opportunities for receiving more diverse metrics in relation to employee engagement surveys.

OSB India participates in a separate engagement survey and was officially certified a 'Great Place to Work' for a seventh consecutive year in 2023.

For more detail on employee initiatives in the year, **see the Colleagues section on pages 81-85**

The Board and its Committees also received regular updates on matters impacting employees from senior management and the Group's HR function. The Group Nomination and Governance Committee oversees the Group's talent management initiatives and senior management succession planning.

Further information on OurVoice can be found in the Directors' Report **on pages 179-180**

Finally, the Board, through the Group Audit Committee, has oversight of the Group's whistleblowing activity and the Group Remuneration and People Committee reviews and approves the Group's gender pay gap reporting and its commitment to the Women in Finance Charter.

The Board monitors the effectiveness of its methods of engaging with colleagues and adapts them where necessary.

Corporate Governance Report continued

Helping our stakeholders prosper continued

Customers

We pride ourselves on building strong, long-term relationships with our customers. Our continued commitment to providing excellent service to borrowers and savers and delivering good outcomes for our customers remained a priority in 2023.

Outcomes following engagement with customers

- The Group Executive Committee established a Customer and Product Committee to ensure customer outcomes remain at the heart of the Group's product proposition
- Simon Walker, Group Risk Committee Chair, was appointed as the Board's Consumer Duty Champion
- We conducted all-employee training and Consumer Duty roadshows to support with embedding the Group's Consumer Duty programme

We offered our savers an opportunity to let us know how we are doing whenever they call or interact with the Group by listening to their views and acting upon what they tell us. Customer feedback is collected throughout the year and satisfaction scores produced as a result. During 2023, there was an increase in the savings and broker Net Promoter Scores (NPS) compared to 2022.

Board engagement with customers

The Board's engagement with customers is indirect and Directors are kept informed of customer-related matters through regular reports, feedback and research. Satisfaction scores and retention rates, together with the number of complaints and resolution times form part of the management and Board monthly reporting packs, ensuring the visibility of our customers' experiences. Customer satisfaction scores and customer outcomes are also used as part of the Executive remuneration assessment, and form the basis of new initiatives and actions which continually improve customer experience.

Savings NPS for Kent Reliance

+71

2022: +64

Savings NPS for Charter Savings Bank

+62

2022: +61

OSB and CCFS broker NPS

+57

2022: OSB +37; CCFS +39

During 2023, the Board held an annual focused session on the customer experience focusing on customer performance, vulnerable customers and customer complaints.

A key focus for the Board was ensuring that the new FCA Consumer Duty requirements were embedded across the Group. Simon Walker as our Consumer Duty Champion and the Board received regular updates and assurance around the implementation of the Consumer Duty Programme throughout 2023, the embedding of which will continue in 2024.

Customers and intermediaries may be consulted when the business is considering the launch of a new product to ensure that it meets their needs, and any concerns raised are addressed.

Further information about our customers can be found in the Customer section **on pages 79-80**

Corporate Governance Report continued

Helping our stakeholders prosper continued

Intermediaries

Our lending products, with the exception of funding lines and residential development loans, are distributed via mortgage brokers. Mortgage brokers are vital to our success; it is important for us to understand the challenges they face and what they are trying to achieve in terms of serving their customers, so we can adapt how we support them and provide an even better service.

The Group's Sales teams attended

259

intermediary events

2022: 330

Outcomes following engagement with intermediaries

- The Board reviewed the trends in NPS scores for intermediary brokers
- Early exposure to the development of our digitalisation platform

Board engagement with intermediaries

The Board's engagement with intermediaries is indirect and Directors are kept informed of intermediary-related matters through regular updates at Board meetings. Broker and borrower satisfaction scores are tracked on a regular basis, along with details of all complaints, and are reviewed by the Board and management monthly.

We pride ourselves in providing unique and consistent lending propositions across all lending brands, which fulfil our goal of making it easier for intermediaries to serve their customers, our borrowers. Regular engagement with the broker community extends beyond our propositions and enables us to continuously enhance the service we provide, with our business development managers working closely with intermediaries to discuss cases and help to obtain swift and reliable decisions.

The Group's Sales team participated in 259 physical and virtual intermediary events during 2023 and 44 hospitality events. The events were an opportunity for the Sales team to interact with brokers, discuss their requirements and keep up to date with industry developments.

Corporate Governance Report continued

Helping our stakeholders prosper continued

Shareholders

Our approach to investor engagement is straightforward as we favour an open dialogue. Active engagement with our shareholders occurred throughout the year with the Investor Relations team meeting 206 individual investors via virtual one-to-one meetings, industry conferences and roadshows.

Engagement with shareholders

206

individual investors met

2022: 116

Board engagement with shareholders

The Board ensures that all shareholders have equal access to information through regulatory announcements, general meetings and publications on our website. The Board's primary engagement with investors comes through the Group's CEO and CFO, who meet with investors and sell-side analysts and present the Group's results to the market. The Board receives regular updates from the Investor Relations function, which include investor feedback, analysts' recommendations and market views. The Board also receives investor feedback from the Group's brokers and financial advisers.

Outcomes following engagement with shareholders

- Engaged with shareholder prior to finalising the Group's Remuneration Policy
- The Group successfully completed its £150m share repurchase programme during 2023 and has announced a further £50m share repurchase programme over the next six months

The most frequent theme raised by investors in 2023 related to the adverse EIR adjustment announced in July. In subsequent meetings hosted by the CEO and CFO investors were keen to understand the circumstances that led to the adjustment including the details of the Precise Mortgages product design, the relationship between customer behaviour and interest rate dynamics as well as the accounting treatment required under IFRS 9. Sentiment from the meetings was relayed to the Board and the Chair of the Board met with a small number of large shareholders to hear and respond to their feedback.

Investors focused on the outlook for capital distribution and its relationship with the expected Basel 3.1 requirements and MREL qualifying debt securities programme. The Board welcomed the engagement from shareholders and considered their feedback during its deliberations on shareholder returns.

The Group Remuneration and People Committee Chair engaged with shareholders in relation to the new Remuneration Policy which will be submitted for shareholder approval at the 2024 AGM.

Corporate Governance Report continued

Helping our stakeholders prosper continued

Suppliers

Our business is supported by a large number of suppliers, allowing us to provide a high standard of service to our customers.

Supplier payments

97%

of all invoices paid within 30 days

2022: 95%

Board engagement with suppliers

The Board does not interact directly with the Group's suppliers; however, during the year the Board maintained oversight of key supplier relationships including engagement between the Group Audit Committee and the external auditor. The Board also considered the risks associated with suppliers and the framework for assurance and oversight of key supplier relationships.

The Group's Modern Slavery and Human Trafficking Statements are reviewed and approved on an annual basis by the Board and can be found on our website at www.osb.co.uk.

The Group is committed to complying with the law and best practice in respect of Modern Slavery, workforce rights and the environment. We expect suppliers to share our commitment by complying with our Vendor Code of Conduct and Ethics. The Group has taken steps towards understanding suppliers' attitudes towards ESG to ensure that their values and aspirations are aligned to the Group's.

Outcomes following engagement with suppliers

- The Group engaged with suppliers to understand their aspirations and approach towards ESG and to ensure that they are aligned with the Group's ESG Strategy

During 2023, the Group's suppliers and business partners were asked to complete a questionnaire giving us insight to how they addressed topics such as climate change, diversity, equality and inclusion and modern slavery, and to identify areas of focus in the future. We understand that organisations will be at various stages of their own ESG and sustainability journey and we continue to encourage and support our suppliers with their transition to an ESG strategy that aligns to the Group's ambitions.

Supplier payment practice reports are published on a six-monthly basis and approved and signed by the CFO and Group Chief Operating Officer on behalf of the main operating entities. The Group enters into standard terms with suppliers, which include terms requiring payment within 30 days of the invoice date following receipt of a valid invoice. Over 97% of all invoices are paid within 30 days in line with the standard payment period for qualifying contracts. The average time taken to pay invoices ranges from five to nine days across the Group. The maximum contractual payment period agreed varies between 30 to 45 days. There were no changes to the standard payment terms in the reporting period.

Any complaints received in respect of invoice payments are considered as part of the dispute resolution process. During the year, the Group did not deduct any sums from payments under qualifying contracts as a charge for remaining on a supplier list.

The Group also engages with key suppliers as part of the Group's Recovery Plan which is reviewed by the Board.

Corporate Governance Report continued

Helping our stakeholders prosper continued

Regulators

The Board recognises the importance of having an open and continuous dialogue with all of our regulators, as well as other government bodies, trade associations and UK Finance.

Board engagement with regulators

The Board and Group Executive Committee maintains a proactive dialogue with the PRA and FCA. Engagement typically takes the form of regular and ad hoc meetings attended by both members of the Board and Group Executives, as well as subject matter experts. The Chair of the Board and Group Executives work with the PRA and FCA to agree the regulatory agenda. The Group Chief Risk Officer (CRO) and Group Chief Credit and Compliance Officer in particular are key to ensuring that expectations are appropriately managed.

The Board and its Committees receive regular updates in respect of the broader regulatory developments and compliance considerations. The PRA was invited to and attended one Board meeting during 2023, presenting their Periodic Summary for the year. The regulator is also given the opportunity to discuss thematic areas with the Board including operational resilience and integration of IT related matters in the overall risk management framework.

The Group regularly interacts with the Bank of England and His Majesty's Revenue & Customs (HMRC), amongst others, helping the Group's alignment with the relevant regulatory frameworks and developments in the financial services industry.

Outcomes following engagement

- Meetings held with regulators during the year covered, amongst other topics, operational resilience, integration of IT related matters in the overall risk management framework and the Group's strategic plans. These are all areas that have been considered by the Board in its meetings
- Agreed the Group's approach to future engagement with the regulator

Corporate Governance Report continued

Helping our stakeholders prosper continued

Communities

We partner with national and local charities, which offers employees the chance to make a difference both nationwide and closer to home.

Board engagement with communities

The Board and management actively encourage and fully support engagement with our local communities to make a positive impact. Giving something back to our community is important to all of us, whether it is through volunteering, fundraising or efforts that help protect our environment, and aligns with the Group's Values. Our nominated charity partners are chosen by employees with the aim of making a meaningful impact to these charities and to the lives of those that the charities help.

Group's sponsorships and donations

over £288k

2022: £220k

Outcomes following engagement with communities

- Charities, organisations and good causes benefitted by over £288k from donations, employee fundraising, and the annual donation linked to the Demelza Children's Savings Account offered under the Kent Reliance brand. Further details can be found on pages 86-87

Sustainability

Sustainability remains an important topic for the Board and management. We operate under the highest governance and ethical standards and we are committed to reducing our impact on the environment.

The Board and management are mindful of the impact of social and environmental change on our business and stakeholders and regularly promote awareness of such issues among our employees, as well as adhering to our plan to become a greener organisation and comply with enhanced regulation and disclosures.

The Board is responsible for approving the Group's ESG Strategy and ESG Operating Framework which sets out how the Group will monitor ESG matters material to the Group's Purpose, Vision, Values and stakeholder expectations. The Board oversees an environmentally friendly culture and ensures that the business is ready to respond to the growing impact of climate change on the Group's activities in line with its Stewardship value. Further details can be found in the Sustainability report on pages 88-93.

Electricity purchased in the UK from renewable tariffs

99%

2022: 100%

Corporate Governance Report continued

Relations with shareholders

Dialogue with shareholders

The Group has a dedicated Investor Relations function which maintains regular, open and transparent dialogue with institutional investors and sell-side analysts. The team has access to the CEO and CFO who are available for meetings with shareholders and frequently attend industry conferences. Twice each year, post year-end and half-year results, the CEO and the CFO participate in scheduled meetings with larger investors and remain available outside of this cycle to discuss areas of topical interest. The Board is updated on shareholder expectations following these meetings to ensure that the strategy is aligned with those expectations.

In 2023, the Investor Relations team responded to a range of enquiries and points of feedback raised by shareholders, including in relation to the adverse EIR adjustment and capital management planning.

The Board's primary contact with institutional shareholders and sell-side analysts is through the CEO and CFO. The Board is also regularly presented with shareholders' feedback, analysts' recommendations and market views via Investor Relations updates, topics which are frequently on the Board agenda.

The Chairs of each Board Committee are available to engage with shareholders on any significant matters that relate to their areas of responsibility.

Further details can be found on pages 117-126.

Annual General Meeting

Our AGM will be held at our offices at 90 Whitfield Street, Fitzrovia, London W1T 4EZ on 9 May 2024 at 11am. The Annual Report and Accounts and Notice of the AGM will be sent to shareholders at least 20 working days prior to the date of the meeting.

Shareholders are encouraged to participate in the AGM process and all resolutions will be proposed and voted on at the meeting on an individual basis by shareholders or their proxies. Voting results will be announced and made available on the Company's website, www.osb.co.uk. At the 2023 AGM, all resolutions were passed with at least 80% of votes in favour.

Workforce policies and practices

The Board is supported by its Committees to ensure that workforce policies and practices are consistent with the Company's core values and support its long-term success. The Board monitors and assesses culture to ensure that it is aligned to the Group's continued commitment to treating customers fairly, carrying out business with integrity and preventing bribery, corruption, fraud or the facilitation of tax evasion and modern slavery. The Board, with the support of its Committees, approves key policies and practices which impact the workforce and drive their behaviours. Training is provided to employees to ensure that the policies are embedded within the culture. Further details of workforce policies and practices are included on pages 88-93.

Corporate Governance Report continued

Division of responsibilities

Roles of the Chair of the Board and Chief Executive Officer

The roles of Chair of the Board and CEO are distinct and held by David Weymouth and Andy Golding respectively. There is a clear division of responsibilities, which has been agreed by the Board and formalised in a schedule of responsibilities for each. The SID and NED roles and responsibilities have also been clearly established.

The Chair of the Board, who was independent on appointment, leads the Board's overall effectiveness and direction of the Group by ensuring the appropriate balance of skills, experience and development so that it can focus on the key issues affecting the business. He also leads the Board to ensure that it acts effectively.

Under delegated authority from the Board, Andy Golding, as CEO, is responsible for the day to day running of the Group and implementing the strategy, achieving this with the support of the Group Executive Committee.

A summary of the key areas of responsibility of the Chair of the Board and CEO and how these have been discharged during the year, are set out below and on the following page.

Chair responsibilities	Activities carried out in 2023
Chairing the Board and general meetings of the Company	David chaired all Board meetings held during 2023, including the AGM
Setting the Board agenda and ensuring that adequate time is available for discussion of all agenda items	The Chair of the Baord sets the annual calendar of Board business and the agenda for each meeting is agreed in advance of each meeting by the Chair of the Board, CEO and Company Secretary
Promoting the highest standards of integrity, probity and corporate governance throughout the Company	The Board received regular updates from its Committees and on changes in corporate governance and its application to the Group. The annual Board Effectiveness review also checks that this is working appropriately
Ensuring that the Board receives accurate, timely and clear information in advance of meetings	The Chair of the Board, in liaison with the Company Secretary and the CEO, agreed the information to be distributed to the Board in advance of each meeting
Promoting a culture of openness and debate by facilitating the effective contribution of all NEDs. Ensuring constructive relations between Executives and NEDs and the CEO in particular	The Chair of the Board ran meetings in an open and constructive way, encouraging contributions from all Directors and regularly met with NEDs without management present so that any concerns could be expressed
Regularly considering succession planning and the composition of the Board	The Board received regular updates from the Group Nomination and Governance Committee on succession planning activities, details of which are set out on pages 132-133
Ensuring training and development needs of all Directors are met and that all new Directors receive a full induction	The Chair of the Board, in liaison with the Company Secretary, reviewed the Directors' training requirements. Details of training held during the year are given on page 129
Ensuring effective communication with shareholders and stakeholders	The Chair of the Board, along with other members of the Board, is available should any shareholders or other key stakeholders wish to speak to him. During the year, a small number of our larger shareholders requested meetings with the Chair of the Board following the adverse EIR adjustment trading update in July. The Chair of the Board also attended private meetings with the regulators during 2023

Corporate Governance Report continued

Chief Executive Officer's responsibilities

Andy Golding ensures that the Group operates effectively at strategic, operational and administrative levels. He is responsible for all the Group's activities; he provides leadership and direction to encourage others to effect strategies agreed by the Board; channels expertise, energy and enthusiasm; builds individual capabilities within the team; develops and encourages talent within the business; identifies commercial and business opportunities for the Group, building strengths in key areas; and is responsible for all commercial activities of the Group, liaising with regulatory authorities where appropriate. He is responsible for the quality and financial well-being of the Group, represents the Group to external organisations and builds awareness of the Group externally.

An experienced Group Executive Committee, comprising specialists in finance, banking, risk, operations, internal audit, legal and IT matters, assist the CEO in carrying out his responsibilities. The biographies for the Group Executive Committee are set out on pages 108-109.

Senior Independent Director

Noël Harwerth assumes the role of the SID. The SID's role is to act as a sounding board for the Chair of the Board, another point of contact for other NEDs and an alternative route of communication to shareholders when other channels of engagement have not been successful. She also leads the annual appraisal on Chair performance.

Group Executive Committee

The CEO chairs the Group Executive Committee, whose members also include the CFO, Deputy CFO, Group Chief Operating Officer, Group Chief Risk Officer (CRO), Group General Counsel and Company Secretary, Group Commercial Director, Group Chief Information Officer, Group Chief Credit and Compliance Officer, Group Managing Director for Mortgages and Savings and the Group Chief Internal Auditor. The Group Executive Committee is supported by a number of Management Committees. The purpose of the Group Executive Committee 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 to ensure consistency 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 and strategic business risks
- To oversee how the Group's Purpose, Vision and Values are being embedded
- To oversee the Risk and Compliance functions, with a view to ensuring the effective management of risks across OSB and CCFS as individual entities and on an aggregated basis.
- To oversee and lead the embedding of the ESG Strategy and Operating Framework

The areas of focus for the Group Executive Committee during the year included:

- Consumer Duty
- Digitalisation
- Capital and funding
- Human resources and succession planning
- Governance, control and risk environment – current and forward-looking
- Monitoring target operating model progress
- Culture – Purpose, Vision and Values
- ESG matters, including climate change
- Operational and customer service
- IT security and cyber risk

Company Secretary

The Company Secretary, Jason Elphick, plays a key role within the Group, advising on good governance and assisting the Board to discharge its responsibilities, acting with integrity and independence to protect the interests of the Company, its shareholders and employees of the Group. Jason advises the Board on statutory and regulatory compliance matters and works closely with the Chair of the Board, Committee Chairs and the CEO to ensure the highest standards of board governance are upheld. Jason also provides the Directors with advice and support, including facilitating induction programmes and training in conjunction with the Chair of the Board.

Non-Executive Directors' terms of appointment and time commitment

NEDs are appointed for terms of three years, subject to annual re-election by shareholders. The initial term may be renewed up to a maximum of three terms (a total of nine years). The terms of appointment of NEDs specify the amount of time they are expected to devote to the business, which is a minimum of two and a half days per month, calculated based on the time required to prepare for and attend Board and Committee meetings, the AGM, meetings with shareholders and training.

NEDs are also committed to working additional hours as may be required in exceptional circumstances. NEDs are required to confirm annually that they continue to have sufficient time to devote to the role.

Corporate Governance Report continued

Board resources

Induction, training and development

The Chair of the Board ensures that all Directors receive a tailored induction on joining the Board, with the aim of providing a new Director with the information required to allow him or her to contribute to the running of the Group as soon as possible. The induction programme is facilitated and monitored by the Company Secretary to ensure that all information provided is fully understood by a new Director and that any queries are dealt with. Typically, the induction programme will include a combination of key documents and face-to-face sessions covering the governance, regulatory and other arrangements of the Group.

As senior managers, under the Senior Managers Regime operated by the PRA and FCA, all Directors are required to maintain skills, knowledge and a certain level of expertise in order to meet the demands of their positions of 'significant influence' within the Group. As part of the annual fitness and propriety assessment, Directors are required to complete a self-certification that they have undertaken sufficient training during the year to maintain their skills, knowledge and expertise and to make declarations as to their fitness and propriety. The Company Secretary supports the Directors to identify relevant internal and external courses to ensure that Directors are kept up to date with key regulatory changes, their responsibilities as senior managers and other matters impacting the business.

Information and support

The Company Secretary and the Chair of the Board agree an annual calendar of matters to be discussed at each Board meeting to ensure that all key Board responsibilities are discharged over the year. Board agendas are then distributed with accompanying detailed papers to Directors in advance of each Board and Committee meeting. These include reports from Executive Directors and other members of senior management. All Directors have direct access to senior management should they require additional information on any of the items to be discussed. The Board and Group Audit Committee also receive regular and specific reports to allow the monitoring of the adequacy of the Group's systems and controls.

The information supplied to the Board and its Committees is kept under review and formally assessed on an annual basis as part of the Board evaluation exercise to ensure that it is fit for purpose and that it enables sound decision-making. As an initiative to support boardroom dynamics, the Company Secretary's office proactively initiated plans during the fourth quarter of 2023 to improve the communication flows between the Board and management and a simplification review of Board governance arrangements will be undertaken during 2024. This supports the sentiments of respondents from the 2023 Board Evaluation exercise. Please see pages 129-130.

There is a formal procedure through which Directors may obtain independent professional advice at the Group's expense. The Directors also have access to the services of the Company Secretary as described on page 128.

Directors' indemnities

The Articles provide, subject to the provisions of UK legislation, an indemnity for Directors and Officers of the Group in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them, which relate to anything done or omitted, or alleged to have been done or omitted, by them as Officers or employees of the Group.

Directors' and Officers' Liability Insurance cover is in place for all Directors and Officers.

Directors' powers

As set out in the Articles, the business of the Company is managed by the Board, which may exercise all the powers of the Company. In particular, save as otherwise provided in company law or in the Articles, the Directors may allot (with or without conferring a right of renunciation), grant options over, offer, or otherwise deal with or dispose of shares in the Company to such persons at such times and generally on such terms and conditions as they may determine. The Directors may at any time after the allotment of any share but before any person has been entered in the Register as the holder, recognise a renunciation thereof by the allottee in favour of some other person and may accord to any allottee of a share, a right to effect such renunciation upon and subject to such terms and conditions as the Directors may think fit to impose. Subject to the provisions of company law, the Company may purchase any of its own shares (including any redeemable shares).

Despite this activity the Board remains satisfied that its current composition allows it to operate effectively and that all Directors are able to bring specific insights and make valuable contributions to the Board, due to their varied commercial backgrounds. The NEDs constructively challenge the Executive Directors and the Chair of the Board ensures that the views of all Directors are taken into consideration in the Board's deliberations.

The Directors' biographies can be found on pages 106-107.

Board evaluation

The Board undertakes an external effectiveness review once every three years, with the next scheduled in 2024. This year, an internal effectiveness review was conducted for the Board and its Committees. Independent Audit was commissioned to facilitate the 2023 Board Evaluation, which included the production and dissemination of questionnaires to members of the Board, its Committees, and certain Group Executives. Responses from the questionnaires were analysed by Independent Audit and formed the basis of the internal self-assessment report, which was presented to the Board and its Committees who discussed the findings.

The 2023 Board Evaluation concluded that the Board continued to work well together, fostering balanced and thorough Board deliberations. There were regular considerations of stakeholder impacts. The relationship between the Board and management remains positive and respondents were confident of the work and value added by the Committees.

Corporate Governance Report continued

Board evaluation continued

Suggested areas for development are set out below:

	Proposed actions to address development areas:
People and Culture: • Increase the diversity of metrics used to measure culture and behaviours • Greater linkage of people and culture to the Group's overall strategy • Overseeing the appointment of a new Chief People Officer	• This continues to be developed by the Board. The Group Remuneration and People Committee has spent time refining the reference metrics to be used for ESG performance measurement • A Group People and Culture strategy was approved by the Board in 2023 and implementation has commenced
Board Oversight • Improved understanding of the business through training and development programmes • Facilitate further strategic oversight by dedicating sufficient time on the agenda to shaping strategic direction and monitoring progress on delivery • Board deep dives to refine the governance approach for oversight of material projects	• Facilitation of inductions and board training to assist with the development of Board members' knowledge and capabilities to enhance their effectiveness, whilst leveraging business insights from the Board Champions to ensure they are discussed and considered as part of strategic deliberations • The Board attended a series of optional deep dive topics during 2023 to improve their understanding of the business • The Company Secretary has been supporting more strategic agenda setting for Board meetings to facilitate strategic oversight • In 2023 the Board conducted a dedicated session on oversight of material projects
Board Reporting • Continue to improve the quality of information to the Board • More discussion time on strategic delivery	• Continued support of the information flow between the Board and senior management. Work is underway to improve the type of information, as well as tools to facilitate improved board reporting. As part of plans to enhance the corporate governance framework, terms of reference will be reviewed, clarifying matters reserved for the Board and where overall responsibility for decision making lies, including committee contribution in line with recommendations from the Financial Reporting Council (FRC) to support the Board's effectiveness in decision-making

Following a review, the Board was satisfied that the actions arising from the 2022 Board Evaluation were satisfactorily closed. The outcomes are summarised below:

Progress against actions from the 2022 Evaluation	Outcomes
Continue to focus on the long-term strategy of the Group	Time was allocated to discuss the Group's long-term strategy at Board meetings in 2023
Develop deeper understanding of the role of technology in the Group's strategy, in particular the ability of IT systems to support the strategy, as well as managing cyber risk	Members of the Board participated in cyber risk war game training in September 2023, in addition to general cyber risk training. During 2023, the Board received regular updates on its digitalisation programme and the implications from an IT and data perspective. Management reported several planned activities around the decommissioning of the legacy IT infrastructure, as well as progress of migrating to cloud based IT platforms The Board also attended optional workshops focused on technology issues
Oversee the development of a broader People strategy, with particular reference to culture and engagement	The Group People and Culture Strategy was presented to, and approved by, the Board which focused on the culture, skills, characteristics and diversity needed to underpin the Group's overall strategy
Continue to oversee the development of the ESG strategy in terms of how it is being embedded throughout the Group and with focus on thought leadership in relation to the private rented sector	The Board discussed and approved its ESG strategy in 2023. In addition, it has been reviewing regular ESG updates. The Board had an ESG Champion throughout 2023

Group Nomination and Governance Committee Report

Dear Shareholder,

This report is presented to you in my capacity as Chair of the Group Nomination and Governance Committee.

Committee members and meeting attendance

David Weymouth (Chair) 6/6


Sarah Hedger[4] 4/4


Noël Harwerth 6/6

Former Director


Mary McNamara 2/2

1 Korn Ferry also act as Remuneration Consultant to the Group Remuneration and People Committee, Korn Ferry has no other connection with the Company or any individual Director.

2. Per Ardua Associates has no other connection with the Company or any individual Director.

3. Odger Berndston has no other connection with the Company or any individual Director.

4. Sarah Hedger was appointed to the Committee on 11 May 2023.

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

Board and Executive Director succession are key priorities for the Committee, as we prepare for potential Board changes in the coming years. From a non-executive perspective, we are monitoring succession activity for the SID, Chair of the Group Audit Committee and Board Chair positions, all of whom are serving their third appointment terms as independent directors. The Committee is cognisant of the importance of these roles in terms of leadership, and strategic oversight of the organisation, and will leverage the support of Per Aruda Associates2 to search for viable candidates that will not only complement the existing dynamics, diversity, skills and experience, but also meet the future strategic requirements of the Group.

As reported in my last report, the Committee recommended Kal Atwal to the Board. She was appointed on 7 February and stood for election at the 2023 AGM. More information on her appointment and induction is detailed throughout this report.

We recently announced that our CFO, April Talintyre, would be retiring from the Board and will not stand for re-election at the 2024 AGM. In consultation with the CEO, the Committee has taken this opportunity to reassess the scope of this role, by reallocating the responsibility of the Human Resources function to a stand-alone and newly created Chief People Officer position. Our meetings at the end of 2023 have focused on both roles. Korn Ferry[1] will support the succession of the CFO. Odger Berndston[3] has been commissioned to assist the CEO in his pursuit of a candidate to join his executive leadership team as Chief People Officer.

In addition to succession, the Committee regularly monitored the Board's skills, experience and diversity. This also extended to our key subsidiary undertakings. In my last report, I mentioned our subscription to the Women in Finance Charter and achieving the recommended representation of females in senior roles across the Group. In March 2023 and earlier than anticipated, we achieved our published commitment that by the end of 2023, 33% of senior roles would be undertaken by female employees. Whilst the end of 2023 figure had dropped slightly to 32.9%, we have set an enhanced target of achieving 40% by the end of 2026. We will continue to improve on broader diversity metrics and have already exceeded Parker Review and Hampton-Alexander guidelines with two board directors from an ethnic minority and 50% female representation on the Board. See pages 134-135 for more information on diversity and inclusion within the Group.

The Group adheres to best practice in relation to corporate governance which is in line with the Code and the requirements of the PRA and FCA. The Board, its Committees and the boards of the subsidiary companies operate effectively and have an appropriate balance of diversity, skills, experience, availability, independence and knowledge of the Group to enable them to discharge their respective responsibilities effectively.

David Weymouth
Chair of the Group Nomination and Governance Committee and Chair of the Board
14 March 2024

Group Nomination and Governance Committee Report continued

Board and Committee composition and succession planning has been a main focus throughout the year.

David Weymouth Chair of the Group Nomination and Governance Committee

Attendance, membership and meetings

The Committee met a total of six times during 2023. The members of the Committee are Noël Harwerth, Sarah Hedger and David Weymouth (Chair of the Board), the biographies of whom can be found on pages 106-107. Mary McNamara ceased to be a member of the Committee on 11 May 2023 upon her retirement. The CEO is regularly invited to attend, as appropriate.

Responsibilities

The Committee is responsible for the oversight and monitoring of corporate governance matters across the organisation, including the composition of the Board and its Committees, Board evaluations and succession, as well as the plans for key leadership positions and making recommendations to the Board as appropriate. The Committee also oversees Board Director conflicts of interest. The specific responsibilities and duties of the Committee are set out in its terms of reference which are available on our website, www.osb.co.uk.

Following an annual review of the terms of reference and on consideration of the activities conducted during the year, the Committee is satisfied that they have appropriately discharged their responsibilities. The Board commissioned Independent Audit in 2023 to assist with targeted survey questions on the effectiveness of the Board. The results of these survey questions were discussed and areas for continual improvement were noted. The 2023 Board Evaluation concluded that the Committee continued to operate effectively and the membership remained appropriate.

Balance and independence

The Board comprises five NEDs, the Chair of the Board and two Executive Directors. All of the NEDs, including the Chair of the Board, have been determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the relevant individual's judgement. The independence of the NEDs is reviewed continuously, including a formal annual review. Any NED who does not meet the independence criteria will not stand for election or re-election at the AGM.

Conflicts of interest

The Company's Articles set out the policy for dealing with Directors' conflicts of interest and are in line with the Companies Act 2006. The Articles permit the Board to authorise conflicts and potential conflicts, as long as the potentially conflicted Director is not counted in the quorum and does not vote on the resolution to authorise the conflict.

Directors complete their annual confirmation (fitness and propriety questionnaires), which requires them to declare any external interests and potential conflicts. They are required to declare their interests in the business to be discussed at each Board and Committee meeting. The interests of new Directors are reviewed during the recruitment process and authorised, if appropriate, by the Board at the time of their appointment. The Group Nomination and Governance Committee reviews conflicts of interest relating to Directors at least annually; periodic reviews are also undertaken as required. The Group has adopted a Conflicts of Interest Policy, which includes a procedure for identifying potential conflicts of interest within the Group.

No Director had a material interest in any contract of significance in relation to the Group's business at any time during the year or at the date of this report.

Board appointments and succession plans

On the recommendation of the Committee, the Board considers all Director appointments, which is supported by following a transparent, formal recruitment process that is overseen by the Committee.

Priorities for 2024 will be:

- Board and Executive succession planning, ensuring that there is a strong talent pipeline within senior management
- Enhancing the Group's Corporate Governance Framework
- Continue to monitor and oversee the Board's commitments to drive its diversity, equity and inclusion initiatives and targets
- Overseeing the 2024 External Board Performance Review
- Overseeing compliance with the UK Corporate Governance Code 2024, effective 1 January 2025

Group Nomination and Governance Committee Report continued

The Committee makes recommendations to the Board regarding Director appointments, either to fill a vacancy or as an addition to the existing Board. Succession plans are also considered by the Group Nomination and Governance Committee. Appointments and succession plans are based on merit and objective criteria and, within this context, promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

All Directors, with the exception of April Talintyre, will stand for re-election at the forthcoming AGM. In addition to any power of removal conferred by the Companies Act, any Director may be removed by special resolution, before the expiration of their period of office and, subject to the Articles, another person who is willing to act as a Director may be appointed by ordinary resolution in their place.

During the year, both Board and Executive Director level succession planning were considered by the Board, including ways in which existing skills could be developed further and identified additional skills which would complement the Board and its Committees. Korn Ferry was appointed to assist with CFO succession planning and provided independent advice to the Committee during 2023. Per Ardua is the appointed Board succession planning adviser and assisted with the search for new NEDs.

All members of the Board were invited to participate in succession planning discussions during the year.

Board composition

The skills and composition of the Board and its Committees is kept under review by the Group Nomination and Governance Committee, ensuring that an appropriate balance of knowledge, experience and diverse representation.

The Board commissioned external Executive Search agency, Per Ardua, for the Non-Executive Director candidates. After an extensive search and rigorous interview process, the decision was made to appoint Kal Atwal as a NED with effect from 7 February 2023. The Board composition and succession plans remain under regular review, as three NEDs (namely the Chair of the Board, Group Audit Committee Chair and SID) are in their third appointment term, along with the CFO's intended retirement.

The Group Nomination and Governance Committee focused on effective and robust succession plans for both NEDs and Executive Directors in order to fill any potential skills gaps and to continue to develop broader diversity within the Board. As well as advising on CFO succession, Korn Ferry has acted as the independent remuneration consultant to the Group Remuneration and People Committee. Korn Ferry has no other connection with the Company.

Board and Committee effectiveness

The Committee oversees the annual effectiveness review of the Board and its Committees. In 2023 the review was completed internally and focused on holistic effectiveness of the Board and Board Committees. The performance of individual directors was not assessed. The process included the completion of various questionnaires, covering the Board and Board Committees issued by Independent Audit. Overall the review concluded that the Board and all Committees continue to operate effectively. Some areas were also identified as opportunities for improvement.

Composition of the Board and its Committees

The Committee conducted a review of the composition of the Group Audit, Group Remuneration and People and Group Risk Committees and its own composition during 2023, carefully considering the skills of existing members and looking at any skills gaps applicable to each Committee. In relation to the effectiveness of this Committee, it was found that members were unanimous in their decisions following detailed discussion; the meetings are chaired well and supported by internal functions of the Group. The focus of the Committee was strong in all aspects of its key responsibilities, particularly in relation to diversity, equity and inclusion and overseeing Executive Director succession planning.

Induction

All Directors newly appointed to the Board undergo a thorough induction plan. During 2023, Kal Atwal had one-to-one meetings with the Chair of the Board, existing NED, CEO, CFO, Group General Counsel and Company Secretary, members of the Group Executive Committee and other senior managers. She also had access to various corporate documents and product guides and received a briefing on Directors' responsibilities and obligations. All Board members are provided with the opportunity to visit all Group's offices.

Environmental, Social and Governance

ESG continues to be a key area for the Board and its Committees and is expected to remain a focus in the coming years. During 2023 the Board hosted a joint event with the Board of Arup in order to share and learn from ESG strategies employed by each organisation.

Following Sarah Hedger's appointment as Chair of the Group Remuneration and People Committee, Kal Atwal was recommended and appointed as the ESG Champion in her stead to facilitate Board engagement on ESG matters.

Further details on the Group's ESG initiatives is included **on pages 69-93**

Group Nomination and Governance Committee Report continued

Diversity and inclusion

The Board recognises and embraces the benefits that diverse and inclusive representation can bring to its Board and sees it as an essential element for maintaining competitive advantage. The Board has agreed to a set of Commitments (contained within Group's Diversity, Equity and Inclusion Policy, approved in March 2023 and available on the website at www.osb.co.uk) to address behavioural, gender and ethnic bias and basing appointments on merit and objective criteria and, within this context, promoting diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. The Board's adherence to the FCA Listing Rule requirement demonstrate the desire to achieve both a diverse Board and workforce. These commitments are considered by the Committee alongside the Group Remuneration and People Committee which considers the wider workforce perspective. Both Committees continue to drive the ambition of ensuring that the Board and workforce is representative of the communities in which the Group operates.

The Committee considers the benefits of all aspects of diversity, including but not limited to, the balance of skills necessary for the Board to effectively discharge its responsibilities and additional training or development required for existing or newly appointed Board Directors. 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.

Looking ahead, and following the publication of the PRA consultation paper on 'Diversity and Inclusion in PRA-regulated firms' (CP18/23), the Committee, together with the Group Remuneration and People Committee, will supervise the analysis of, and response to, the consultation.

The Group asks employees to complete diversity questionnaires to confirm their gender and ethnicity as part of the onboarding process, on a voluntary self-reporting basis. Data relating to senior management gender and ethnicity was sourced from this existing data. Data relating to the gender and ethnicity of the Board was collected by way of a year end questionnaire, on a voluntary self-reporting basis.

As at 31 December 2023 the Company therefore met the following targets specified by the Listing Rules of the FCA:

- At least 40% of the Directors were women
- At least one of the senior positions on the Board was held by a woman
- At least one individual on the Board was from an ethnic minority

As at 31 December 2023, we are pleased report the following:

- 50% female representation on the Board (2022: 40%)
- Two Senior Board positions held by females
- Two members of the Board were from an ethnic minority background.
- 27.3% of the Executive Management was female (2022: 25%)
- 32.9% of our senior management across the Group were female (comprising of the Group Executive Committee and their direct reports) (2022: 31.4%)
- No changes in Board composition have occurred between year end and the date of approval of this Annual Report and Accounts which would affect the Group's ability to meet those targets

The tables below and on page 135 set out the required information as at 31 December 2023.

Jason Elphick is the appointed Diversity and Inclusion Champion. His role is to promote diversity initiatives such as our commitment to those with a disability, mental health in the workplace and unconscious bias training. The Employee Engagement Network, Our Diversity, consists of volunteer representatives from across the Group who are interested in elevating the conversation in relation to Diversity, Equity and Inclusion (DE&I) in line with the Respect Others value. The DE&I calendar for 2023 has enabled the network to create and host a range of activities aimed at raising awareness and providing resources to support conversations relating to gender, ethnicity, faith/religion, disability, sexual orientation, identity, socio-economic background, and health and wellbeing. The Our Diversity network reports to the ESG Technical Committee, which in turn provides updates to the Committee and the Board on all matters relating to DE&I.

Further details relating to diversity, equity and inclusion are set out **on pages 84 and 179-180**

	Number of Board members		Percentage of the Board		Number of senior positions on the Board (CEO, CFO, SID and Chair of the Board)		Number in Executive Management[1]		Percentage of Executive Management[1]	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
Men	5	4	56%	50%	2	2	9	8	75%	72.7%
Women	4	4	44%	50%	2	2	3	3	25%	27.3%
Other	0	0	0%	0%	0	0	0	0	0%	0%
Not specified/prefer not to say	0	0	0%	0%	0	0	0	0	0%	0%

1. In accordance with the requirements of the FCA Listing Rules and for the purposes of this table only 'Executive Management' comprises the Group Executive Committee, which includes the Company Secretary.

Group Nomination and Governance Committee Report continued

Table for reporting on ethnic background

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair of the Baord)	Number in Executive Management[1]	Percentage of Executive Management[1]
White British or other White (including minority-white groups)	6	75%	4	10	92%
Mixed/Multiple Ethnic Groups	0	0%	0	0	0%
Asian/Asian British	2	25%	0	1	8%
Black/African/Caribbean/Black British	0	0%	0	0	0%
Other ethnic group, including Arab	0	0%	0	0	0%
Not specified/ prefer not to say	0	0%	0	0	0%

1. In accordance with the requirements of the FCA Listing Rules and for the purposes of this table only 'Executive Management' comprises the Group Executive Committee, which includes the Company Secretary.

Key Activities during 2023

In last year's report, the Committee identified three key priorities. A summary of actions taken and outcomes are set out in the table below.

Objective	Action taken
Board and Group Executive Committee succession plans and invite all NEDs to attend such meetings of the Committee	• Oversaw the search and recommended Kal Atwal's appointment as a non-executive Board director, including as member of the Group Remuneration and People Committee. The Committee also assessed the skills and competencies of Sarah Hedger and Simon Walker, recommending them as successor Chairs of the Group Remuneration and People and Group Risk Committees respectively • Focused on the succession plans for those non-executives directors who were either approaching or in their third appointment term. Whilst all roles were considered priority, the Committee agreed to expedite the successor for the Group Audit Committee Chair with the roles of the SID and the Chair of the Board to follow • Monitored the succession of key executive positions including the talent and diversity pipeline beneath this population • Invited the full Board to attend key discussions regarding succession planning
Oversee the development of a structured workforce engagement plan to build upon the engagement provided by employee forums, including face-to-face engagement and informal visits	• Clarified the roles of the Board appointed Champions for Consumer Duty, ESG, Whistleblowing and People
Review of NED experience and time commitment and Board Directors' conflicts	• Discussed the skills and experience on the Board, identifying where particular skills are required. From a potential overboarding perspective, the Committee reviewed the time commitments of its non-executive population, focusing on Noël Harwerth, Kal Atwal and the Chair of the Board. The review concluded that non-executives complied with regulatory requirements and have sufficient time to commit to the role

Group Audit Committee Report

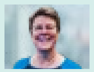
Dear Shareholder,

The Group Audit Committee report for 2023 sets out how the Committee has discharged its responsibilities and the areas of focus for the Committee during the year ended 31 December 2023.

Committee members and meeting attendance[1]


Rajan Kapoor[2] (Chair) 8/8


Noël Harwerth 8/8


Sarah Hedger[2] 8/8


Simon Walker[2] 8/8

Former Directors


Graham Allatt[3] 2/3

1. In addition to the eight scheduled meetings, four ad-hoc Group Audit Committee meetings were held during the year.
2. Rajan Kapoor, Sarah Hedger and Simon Walker are qualified chartered accountants and all have recent and relevant financial experience having held senior positions within the banking and financial services sectors.
3. Graham Allatt stepped down from the Board and the Committee on 11 May 2023.

The Committee has continued to support the Board in overseeing the systems of internal control and ensuring the integrity of the Group's financial statements.

A key area of focus for the Committee was challenging management's accounting judgements and estimates following an observed change in the behaviour of Precise Mortgages customers in a rising interest rate environment. The Committee considered the requirement of financial reporting standards to adjust the carrying value of the loan book through net interest income once a change in customer behavioural trend became apparent and challenged management on the significant judgements required in estimating how long customers would spend on the higher reversion rate in the future. The Committee also challenged when the change in behavioural trend became observable and was satisfied that this was through the course of the first half of 2024.

After detailed consideration of the accounting rules, analysis of the emerging data and input from the external auditor, the Committee supported management's conclusion that the reduction in the expected time spent on the reversion rate by Precise Mortgages customers resulted in an adverse EIR adjustment of £178.0m on an underlying basis (£205.7m on a statutory basis) in the first half of 2023. The Committee has continued to closely monitor the impact of EIR accounting on the Group's financial results and the planned delivery of enhancements to the Group's modelling processes, and second line oversight.

In addition to EIR accounting, the Committee, in conjunction with the Group Risk Committee, also challenged management on the calculation of expected credit losses (ECL) in accordance with IFRS 9.

The Committee focused on model enhancements and analysis, with management judgements applied on historical data trends to factor in the impact of the macroeconomic outlook, including inflation and interest rate movements, as well as the longer term climate factors.

The Committee reviewed the steps taken by management to enhance the Group's internal control environment and monitored regulatory and corporate governance developments.

Throughout 2023, maintaining audit quality remained a priority. The Committee monitored the performance of the external auditor and assessed the independence and effectiveness of the external audit process. More details can be found on pages 140-141. The Committee also reviewed the independence and objectivity of the Chief Internal Auditor in line with the requirements of the Internal Audit Financial Services Code of Practice, given her tenure exceeds seven years. The Committee concluded that the Chief Internal Auditor remained independent and objective and the quality, experience and expertise of the internal audit function is appropriate for the business. The on-going adherence to professional standards by the internal audit team was confirmed by a quality assurance review conducted by an external firm.

The Committee closely tracked and responded on the corporate governance reform proposals during the year and we note the new Code and reporting requirements from 2025, which reflect the feedback received from various stakeholders. The Committee also fully complies with the Financial Reporting Council's (FRC) Minimum Standards for Audit Committees and its terms of reference have been updated accordingly.

Group Audit Committee Report continued

The Committee's performance and effectiveness were also reviewed as part of the Board Evaluation undertaken during the year and further details can be found on pages 129-130.

In addition to my role as Chair of this Committee, I act as the Group's Whistleblowers' Champion and have overall responsibility for the integrity, effectiveness and independence of the Group's whistleblowing policies and procedures.

I would like to thank all Committee members for their diligent contribution during 2023.

Rajan Kapoor
Chair of the Group Audit Committee
14 March 2024

Membership and meetings

The Committee had eight scheduled meetings during the year and four additional ad-hoc meetings focusing on the adverse EIR adjustments.

The current members of the Committee are Rajan Kapoor (Chair), Noël Harwerth, Sarah Hedger and Simon Walker. Full details of their experience can be found on pages 106-107.

All members of the Committee are independent NEDs who have significant senior management and Board-level experience in the banking and financial services sectors. Rajan Kapoor is a fellow of the Institute of Chartered Accountants and a fellow of the Chartered Institute of Bankers in Scotland. Simon Walker and Sarah Hedger are both qualified chartered accountants. As such, the Committee has an appropriate balance of skills and competence relevant to the sector in which the Group operates.

Standing invitations to Committee meetings are extended to the Board Chair, Executive Directors, the Group CRO, the Group Chief Internal Auditor and the external audit partner, all of whom attend meetings as a matter of practice. Other non-members may be invited to attend all or part of any meeting, as and when appropriate.

Responsibilities

The specific responsibilities and duties of the Committee are set out in its terms of reference which are available on our website, www.osb.co.uk.

Group Audit Committee – key responsibilities

Internal control and risk management

- Review systems of internal control over financial reporting to identify, assess and monitor financial risks and other internal control and risk management systems
- Review and approve systems and controls for the prevention of bribery and procedures for detecting fraud including conduct risk and related activities
- Review the adequacy and effectiveness of anti-money laundering systems and controls
- Review the adequacy of the Group's whistleblowing arrangements and procedures

Financial and non-financial reporting

- Review and recommend to the Board, the long-term viability statement and the adoption of the going concern basis for the preparation of the year-end and interim financial statements
- Monitor the integrity of the financial statements, including annual and interim reports, trading updates, Pillar 3 disclosures and any other formal announcements relating to financial performance
- Provide challenge and oversight on the consistency, quality and appropriateness of significant accounting policies and judgements and on the methods used to account for significant or unusual transactions
- Ensure compliance with all appropriate accounting standards and regulatory reporting requirements
- Consider and recommend changes to accounting policies to the Board
- Review and challenge, where appropriate, all material information included in the Annual Report and the financial statements, such as the business review and the corporate governance statements relating to the audit and to risk management
- Advise the Board whether the Annual Report and Accounts is fair, balanced and understandable.

Internal and External Audit

- Review and monitor the effectiveness of the Group's internal and external audit arrangements

Group Audit Committee Report continued

Activities during 2023
The principal activities undertaken by the Committee during the year are described below.

Viability and going concern
The Committee reviewed the current position of the Group, along with principal and emerging risks, and assessed the prospects of the Group before recommending the Group's long-term viability statement for approval by the Board. The Committee also undertook a review, before recommending to the Board, that the going concern basis should be adopted in preparing the annual and interim financial statements. Further details are set out on pages 67-68 and 181.

Alternative performance measures
The Committee provided oversight and challenge in relation to the use of alternative performance measures (APMs) in the interim financial statements and Annual Report and Accounts to ensure that these were applied consistently and remained relevant. The Group presents APMs on an underlying basis, alongside the statutory basis, which helps demonstrate the performance of the Group on a consistent basis and enables meaningful comparisons to prior years. See pages 42 and 265-267 for further details.

As APMs are important measures of how the Group performed, the Committee asked the external auditor, Deloitte, to provide assurance on their computation. Deloitte was selected as the Committee considered that they could perform the work efficiently and economically. The Committee was satisfied that this assignment did not affect Deloitte's independence as external auditor. A copy of Deloitte's independent assurance statement can be found on pages 183-192.

Fair, balanced and understandable
The Committee considered, on behalf of the Board, whether the 2023 Annual Report and Accounts taken as a whole are fair, balanced and understandable.

The Committee considered regulatory and governance reporting requirements, the going concern and longer-term viability statements and reports from management on significant accounting judgements and estimates.

Following its review, the Committee was satisfied that the 2023 Annual Report and Accounts taken as a whole are fair, balanced and understandable and accurately reflect the information necessary for shareholders and stakeholders to assess the Group's position and performance, business model and strategy in line with section 172 requirements as outlined on pages 8 and 117-126. The Committee was also satisfied that the non-financial information within the Annual Report is consistent with the financial statements and with the use of APMs and associated disclosures.

Financial reporting and regulatory disclosures
During the year the Committee reviewed and, recommended for Board approval, the Annual Report and Accounts, the Interim Results, quarterly trading updates, EIR Trading Update and analysts' presentations. The Committee also approved the Group's Pillar 3 regulatory disclosures for publication on the Group's website.

As part of its review, the Committee assessed management's application of key accounting policies, significant accounting judgements and compliance with disclosure requirements. The Committee carefully considered the presentation of results on a statutory and underlying basis to ensure transparency and consistency throughout.

Significant areas of judgement and estimates considered by the Committee
The Committee considered management's significant accounting judgements and use of accounting policies in relation to the interim and full-year results of the Group. In its assessment, the Committee received reports from management and provided challenge in relation to each area of significant judgement and management's recommended approach. The Committee also sought the views of the external auditor on the accounting treatment and judgements underpinning the financial statements.

Details of the significant areas of judgement and estimates can be found on page 139.

> **The Committee's primary objective is to assist the Board in overseeing the systems of internal control and external financial and narrative reporting across the Group.**
>
> **Rajan Kapoor** Chair of the Group Audit Committee

Group Audit Committee Report continued

Significant issues considered	How these were addressed by the Committee
Effective interest rate	A number of assumptions are made when calculating the EIR for newly-originated loan assets. These include their expected redemption profiles, product switching activity and the anticipated level of any early redemption charges (ERCs). Certain mortgage products offered by the Group include significant directly attributable fee income; in particular, certain Buy-to-Let products and/or those that transfer to a higher revert rate after an initial discount or fixed period. Judgement is used in assessing the expected rate of prepayment during the discounted or fixed period and during the period post rate reversion. The Group uses historical experience of customer behaviour in its assessment along with the economic outlook and market conditions. The Committee reviewed and challenged management's assessment of the drivers of recent prepayment behaviour, in both the fixed and reversionary periods, and whether these were expected to be temporary or longer-term in nature. The assessment in relation to the Precise segment considered higher than expected early repayments during the fixed period, which increased ERC income and accelerated the recognition of net fee income, and concluded that this was temporary in nature as customers looked to lock in their cost of borrowing in a period of extreme interest rate volatility. The assessment also included refinancing behaviour in the reversionary period, which had accelerated during the first half of the year as customers looked to lock in their cost of borrowing, and concluded that this was likely to continue in a higher base rate environment, due to the significant step up in rates in the reversionary period, and the Group's active retention programmes offering more favourable rates. The Committee received and reviewed sensitivities illustrating the impact of extending or shortening the expected weighted average lives of organically originated loan portfolios, which influence the expectation of income earned at higher reversionary rates; the period over which fees are recognised; and the expectations of early repayment income. The Committee noted that the portfolios were most sensitive to the assumption of time spent on the higher reversion rates and reviewed and challenged management's proposed sensitivity disclosures. Having considered all of the evidence, the Committee is satisfied that the approach taken and judgements and estimates made were reasonable. Further details of the above significant areas of judgement and estimation can be found in note 2 to the financial statements.
Loan book expected credit losses (ECL)	The Committee, in conjunction with the Group Risk Committee, received reports from management and challenged the approach to provisioning for loan book ECLs. The Committee provided oversight of the IFRS 9 framework including the Group's enhancements to models and application of post model adjustments, which account for movements in interest rate and inflation. The Committee consulted the Group's economic advisers who provided their view and insight into macroeconomic scenarios and proposed probability weightings. The Committee focused on management's proposals on the probabilities attached to the economic scenarios and approved the final weightings utilised within the Group's impairment calculations. The Group continued to utilise four scenarios; an upside, base case and two downside scenarios. The Group undertakes regular industry benchmarking of the economic scenarios, weightings and the resulting overall coverage. These benchmarks, in addition to insight from the Group's economic advisers, support management in the selection and weighting of economic scenarios. The Committee reviewed the key assumptions and judgements to ensure that these appropriately reflect the economic environment. The Group has ensured that the identification of Significant Increases in Credit Risk remains appropriate, in addition to making post model adjustments for model limitations, including the impacts of cost of living and cost of borrowing.
Tangibles, intangibles and investments in subsidiaries	The Committee reviewed management's assessment of indications of impairment of the Group's tangible, intangible assets and investments in subsidiaries at the Company level. The Committee noted the reduced balances for merger related intangibles (following the Combination with CCFS in October 2019) and was satisfied that there was no impairment in tangibles, intangibles or investments in subsidiaries at the Company level.

Group Audit Committee Report continued

Systems of internal control and risk management

The Committee reviewed and approved the Compliance Risk Assessment and Assurance Plan and received regular reports from the Group's Compliance function. The Committee used the Internal Audit and Compliance Reports to support its assessment of the effectiveness of the Group's system of internal controls and risk management. The Committee also received a report on the effectiveness of the Group's system of controls from the CEO, which was based on a self-assessment process completed by senior managers and Executives. The Committee continues to review operational incidents and ensures that appropriate follow up action is taken.

The Committee received and reviewed reports from management on key controls over the accuracy and completeness of the financial statements, the status of the substantiation of balance sheet general ledger accounts at the reporting date and judgements made in the calculation of regulatory capital disclosures including the interpretation of regulatory requirements and the supporting external professional advice. In addition, the Committee requested and reviewed reports from management on the Group's Finance function. The Committee also received and reviewed reports on planned enhancements to internal IT access controls to address control deficiencies identified by internal and external audit. The systems of internal control and risk management have been in place throughout the year under review and up to the date of approval of the Annual Report and Accounts.

The Committee reviewed and approved a number of policies following their annual update, including; anti-bribery and corruption, data protection, data retention and record management, fraud, sanctions, loan impairment provisioning, whistleblowing, anti-money laundering and prevention of terrorist financing. The Committee received reports on fraud prevention arrangements, fraud incidents, whistleblowing, financial crime systems and controls and received an annual report from the Money Laundering Reporting Officers for the two Banks during the year.

Whistleblowing

The Committee is responsible for monitoring the Group's Whistleblowing Policy and arrangements. Where concerns have been raised, a detailed report is provided on the investigation, actions taken, lessons learnt and changes made as a result.

The Committee Chair has overall responsibility for whistleblowing arrangements with oversight from the Board. Training and periodic updates are provided to all employees who are encouraged to use the multiple channels available to raise any concerns they may have. Training is also provided to line managers and those involved in any investigations to ensure that they comply with relevant regulations. No concerns were raised that required a report to be made either to the Board or the regulators.

Taxation

The Committee received an update on the Group's tax position and discussed matters such as the relationship with HMRC and tax compliance status. The Committee approved the Group's UK tax strategy, which is available on our website, www.osb.co.uk.

External auditor

The Committee is responsible for overseeing the Group's relationship with its external auditor, Deloitte. This includes the ongoing assessment of the auditor's independence and the effectiveness of the external audit process, the results of which inform the Committee's recommendation to the Board relating to the auditor's appointment (subject to shareholder approval) or otherwise. The Committee holds regular private sessions with the external auditor.

External auditor independence, objectivity and effectiveness

The Committee assesses the effectiveness of the external audit function on an annual basis. This year the review was facilitated by a questionnaire completed by members of the Committee, the Executive Directors and other key employees who had significant interaction with the external audit team during the year.

The questionnaire focused on the effectiveness of the lead partner and audit team, the audit approach and execution, the role of management in the audit process, communication, reporting and support to the Committee as well as the independence, scepticism and objectivity of the external auditor. The assessment concluded that the external audit process was effective and objective, and some areas for improvement were suggested.

As part of the evaluation, the auditor was requested to explain the risks to audit quality and how these have been addressed and to detail any findings from internal and external inspections of their audit.

The Committee also considered whether the external auditor had met the agreed audit plan and whether the management letter was based on a good understanding of the business. As part of the review, the Committee took into account the non-audit services provided during the year and confirmations given by Deloitte as to its continued independence.

Following this review, the Committee is satisfied that the external auditor's independence, objectivity and effectiveness has been maintained.

External auditor appointment and tenure

The Group's external audit contract was put out for tender for the 2019 financial year and the next external audit tender is expected to be in 2028 for the financial year 2029.

Rob Topley has been the statutory auditor since 2019, and in compliance with mandatory lead partner rotation standards will rotate off the audit at the conclusion of the 2023 audit. In anticipation of this change, the Committee met with a number of potential successors and considered that Ben Jackson has the experience and knowledge to take on this role.

The Committee confirms that the Group has complied with the Statutory Audit Services for Large Companies Market Investigation (mandatory use of competitive tender processes and Audit Committee Responsibilities) Order 2014, which requires FTSE 350 companies to put their statutory audit services out to tender no less frequently than every 10 years. There are no restrictive contractual provisions or third parties limiting the Company's choice of auditor and a resolution to re-appoint Deloitte as external auditor will be presented at the AGM.

Group Audit Committee Report continued

External audit plan and reports

The Committee reviewed the plan for the 2023 audit and was satisfied that appropriate audit effort was being directed at all significant areas. The auditors attended all meetings of the Committee and presented their detailed reports for their half-year review and the year end audit on the audit-related work and conclusions. This included Deloitte's view on accounting judgements made by management, compliance with IFRSs and observations on controls. The Committee also received helpful benchmark data from Deloitte during the year.

Non-audit services

The Committee reviewed and approved the policy governing the use of the external auditor for non-audit services, which is designed to ensure that any provision of non-audit services to the Group by the external auditor does not impact its independence and objectivity. The Committee closely monitors and receives regular reports on non-audit services.

The Group maintains active relationships with several other large firms and any decision to appoint the external auditor for non-audit services is taken in the context of its understanding of the Group, which can place it in a better position than other firms to undertake the work, and includes an assessment of the cost-effectiveness and practicality of using an alternative firm.

The EU statutory audit market reform legislation adopted in the UK applies a cap on permissible non-audit services of 70% of the preceding three-year average of audit fees for UK incorporated Public Interest Entities (PIEs). The Revised Ethical Standard issued by the FRC in December 2019 contained a 'whitelist' of permitted non-audit services, distinguishing between those which fall under the cap, including extended assurance work, and those not subject to the cap, being services required by a competent authority or regulator by law. The cap is applicable for financial periods commencing on or after 17 June 2019. As a result of the Combination with CCFS and insertion of a holding company in 2020, the Group contains multiple PIEs and the application of the rules are considered carefully for each PIE. The rules on capping non-audit services is applicable to the Company for the first time in 2023 (based on the average audit fees for 2020, 2021 and 2022), to OSB for the first time in 2022 (based on the average audit fees for 2019, 2020 and 2021) and applied to CCFS for the first time in 2020 (based on the average audit fees for 2017, 2018 and 2019).

Notwithstanding the above effective dates, the Committee maintained a cap for non-audit services in 2023 of 50% of audit services. The Committee pre-approved a number of non-audit services including in respect of proposed Tier 2 and Senior Holdco debt issuances, compliance tools in India, interim profit verifications, the half-year review, assurance review of Alternative Performance Measures in the Annual Report and Accounts, Taskforce for Climate-related Financial Disclosures (TCFD), and reporting on the Inline Extensible Business Reporting Language (iXBRL) tagging of Financial Statements. The Committee also agreed mandates for the CFO and Committee Chair to approve additional permitted engagements, subject to agreed thresholds.

The fees paid to the external auditor in respect of non-audit services during 2023 totalled £895,000, representing 23% of 2023 Group audit fee of £3,869,000 (2022: £546,000, representing 16% of 2022 Group audit fee of £3,415,000) and are summarised in the table below. All non-audit services provided by Deloitte were assurance-related in nature and consistent with the role of the external auditor. No advisory or consulting services were provided.

Audit-related assurance services include the interim review and profit verifications for regulatory purposes. Other assurance services in 2023 include an assurance review of APMs, iXBRL and ESG disclosures and certain ESG metrics (2022: assurance review of APMs, iXBRL, ESG disclosures and ESG metrics). Other non-audit services primarily comprise work related to reporting accountant work and the Euro Medium-Term Note comfort letter (2022: work related to reporting accountant work and the Euro Medium-Term Note comfort letter where we did not issue due to market volatility).

	Group 2023 £'000	Group 2022 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**81**	75
Fees payable to the Company's auditor for the audit of the accounts of subsidiaries	**3,788**	3,340
Total audit fees	**3,869**	3,415
Audit-related assurance services	**487**	254
Other assurance services	**366**	259
Other non-audit services	**42**	33
Total non-audit fees	**895**	546
Total fees payable to the Group's auditor	**4,764**	3,961

Group Audit Committee Report continued

Internal Audit

The Committee is responsible for approving the remit of Group Internal Audit, together with the annual Internal Audit plan and ensuring that it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee approved the Group Internal Audit Charter in October 2023, which formally defines Internal Audit's purpose, authority and responsibility and can be found on our website, www.osb.co.uk.

The Internal Audit function is resourced with an in-house team supported by a panel of third party independent accountancy and consultancy firms that provide expert resource (on a co-source basis) for specific technical/specialist audits which included a review of progress in relation to digitisation. The Group Internal Audit team has grown in size, developed its methodology and matured its assurance to support the growth ambitions of the Group.

The Committee holds private sessions with the Group Chief Internal Auditor and ensures that the Internal Audit function has adequate standing and is free from management, or other restrictions, which may impair its independence and objectivity. On an annual basis, the Committee assesses the effectiveness of the Internal Audit function. In 2023, this was facilitated by a survey completed by Committee members, the Group Executive Committee (excluding the Group Chief Internal Auditor) and the external auditor, who maintains a close relationship with the Internal Audit function. The Committee also reviewed the independence and objectivity of the Chief Internal Auditor in line with the requirements of the Internal Audit Financial Services Code of Practice, given her tenure exceeds seven years. As part of the review, the Committee considered the continued exercising of professional scepticism; ethical conduct; compliance with relevant regulations, and the effectiveness of her leadership. Regular performance reviews were conducted and the on-going adherence to professional standards by the internal audit team were confirmed by an external consultancy review. The Committee concluded that she remained independent and objective and the quality, experience and expertise of the internal audit function is appropriate for the business.

The Committee received regular updates from the Group Chief Internal Auditor on progress against the 2023 Internal Audit Plan and noted the results of audit assignments, significant findings and themes, and any outstanding audit action points. This is a dynamic plan, which is updated on a quarterly basis to capture any emerging risks that required assurance. In addition, the Committee, together with the Group Executive Committee and external auditor, received written reports following the conclusion of each Internal Audit engagement. Management actions on all Internal Audit recommendations were tracked and reported to the Committee. As well as monitoring progress with the 2023 Internal Audit Plan, the Committee also considered and approved the 2024 Plan, which is based on an assessment of the key risks faced by the Group.

Committee effectiveness

The Committee formally evaluates its performance on an annual basis. This year, the assessment was facilitated using a survey completed by members of the Committee and other attendees, including the external auditor. The review concluded that the Committee operated effectively throughout 2023 with no significant improvements required. An internally facilitated Board and Committee effectiveness review was also undertaken, which included the Committee and further details can be found on pages 129-130.

The Committee undertook training during the year, including making extensive use of training programmes run by the major accountancy firms and other external advisers. In addition, Committee members attended a number of in-house workshops on specific areas and completed all mandatory training. Some members of the Committee also interacted with key employees during the year to increase their knowledge and understanding of the business.

Common membership across the Group's Committees facilitates effective communication lines between the Committees regarding finance, risk and remuneration matters, and ensures that agendas are aligned and duplication of responsibilities is avoided.

Group Risk Committee Report

Dear Shareholder,

The Committee has continued to discharge its risk oversight, review and challenge responsibilities effectively during a period of continuing uncertainty and change.

Committee members and meeting attendance

Simon Walker (Chair) 7/7

Noël Harwerth[1] 6/7

Rajan Kapoor 7/7

Former Director

Graham Allatt[2] 3/3

1. Noël Harwerth was unable to attend one meeting due to personal circumstances.
2. Simon Walker assumed the role of Chair of the Risk Committee when Graham Allatt stepped down from the Board and Chair of the Committee on 11 May 2023.

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

Continued volatility in global markets, alongside the collapse of some banks in the US with potential for contagion to UK banks, coupled with ongoing conflict in Ukraine, continuing interest rate rises, the rising cost of living and cost of borrowing in the UK, has been a challenging backdrop against which the Committee has discharged its duties. The Committee has responded positively to these challenges while remaining mindful of the increasing regulatory and supervisory focus as a result of the Group's growth. The Group has also needed to respond to a significant uplift in its regulatory obligations impacting both financial resources (Resolvability Assessment Framework (RAF)) and desired customer outcomes (Consumer Duty).

The Committee has overseen and further guided the Group's development of its risk management frameworks, risk appetite and key regulatory submissions such as the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and Recovery Plan, as well as ensuring that appropriate levels of risk governance and oversight have been maintained over the individually regulated entities. The Committee, together with other NEDs have attended workshops in the year including a Risk Appetite Workshop organised by management and the Committee has received updates on some important enhancements that have been made this year to the Group's approaches and methodologies, as well as tools and capabilities, to enhance the ILAAP analysis and to strengthen its analytical rigour.

A number of key regulatory projects have been subject to review, discussion and challenge by the Committee including the Internal Ratings-Based Approach (IRB), RAF Operational Continuity in Resolution (OCIR), Treasury Management System (TMS) and Asset and Liability Management (ALM) projects.

The Committee, jointly with the Group Audit Committee, has provided a significant level of review and challenge to IFRS 9 based methodologies, judgements and estimates, economic scenario calibrations and weightings, including the adequacy of individually assessed provisions. It has also ensured that the total level of expected credit loss provisions at the Group and its regulated entities are commensurate with the wider risks and uncertainties. Assessment of risk-based capital and funding requirements, including supporting methodologies and assumptions, have been subject to Committee review and recommendation for Board approval as part of the Group and regulated entities' ICAAP, ILAAP and Recovery Plan.

The Committee has closely scrutinised the Group and its regulated entities' risk profiles against the Board-approved risk appetites, requesting focused reviews and deep dives to better understand emerging trends and incidents.

Group Risk Committee Report continued

IRB is an important strategic initiative that is intended to enhance risk management capabilities. Regular updates are presented at each Committee meeting on progress against plan, use and integration of IRB outputs within credit underwriting, credit risk management, capital planning and stress testing processes. The Committee has exercised oversight and approval of IRB and IFRS 9 based models and policies through its sub-committee, the Group Models and Ratings Committee.

The Committee has overseen efforts to enhance the Group's operational resilience capabilities in line with industry good practice and emerging regulatory requirements, as well as continuing to oversee the alignment and enhancement of the Group's approach to risk and controls assessment based on a single system platform and common standards. The Committee has reviewed the enhancements made to the Operational Risk Framework and Risk and Control Self-Assessments (RCSA) process to ensure consistency and alignment.

Simon Walker
Chair of the Group Risk Committee
14 March 2024

Group Risk Committee – key responsibilities

- Set a clear tone from the top in relation to a risk-based culture to foster individual and collective accountability for risk management
- Ensure the Group organises and resources its risk management and oversight functions across the first and second line effectively
- Provide oversight to key regulatory initiatives

Risk appetite and assessment

- Actively assess performance against risk appetite and challenge management to ensure that the Board's strategic, business and regulatory objectives are not put at unacceptable levels of risk
- Advise the Board on overall risk appetite, tolerance and strategy
- Review risk assessment processes that inform the Board's decision-making
- Consider the Group's capability to identify and manage new risks
- Advise the Board on proposed strategic transactions, including acquisitions or disposals, ensuring risk aspects and implications for risk appetite and tolerance are considered

Risk monitoring and framework

- Review credit risk, interest rate risk, liquidity risk, market risk, compliance and regulatory risks, solvency risk, conduct risk, reputational risk, financial crime risk and operational risk exposures by reference to risk appetite
- Continuously review, challenge and recommend enhancements to the Group's ERMF
- Challenge and oversee the ICAAP and ILAAP frameworks
- Monitor actual and forecast risk and regulatory capital positions
- Recommend changes to capital utilisation
- Monitor the actual and forecast liquidity position
- Review reports on risk appetite thresholds, identify where a risk of a material breach of risk limits exists and ensure proposed actions are adequate
- Provide challenge and oversight to the Recovery Plan framework
- Monitor risks arising from Climate Change

Internal Controls and Risk Management

- The Group is organised along the 'three lines of defence' model to ensure at least three stages of independent oversight to protect the customer and the Group from undue influence, conflict of interest and poor controls
- The first line of defence is provided by the operational business functions which identify, measure, assess and control risks through the day-to-day activities of the business within the frameworks set by the second line of defence. The second line of defence is provided by the Risk, Compliance and governance functions which include the Board and Group Executive Committee
- The third line of defence is the Internal Audit function

Group Chief Risk Officer (CRO) and risk governance structure

- Consider and approve the remit of the Risk function
- Recommend to the Board the appointment and removal of the Group CRO
- Review all reports from the Group CRO and monitor management's responsiveness to the Group CRO's findings
- Receive summary reports from senior risk management committees

Group Risk Committee Report continued

Membership and meetings

The Committee met seven times during the year. The current members are Simon Walker as Chair, Noël Harwerth and Rajan Kapoor. Simon Walker succeeded Graham Allat as Chair of the Group Risk Committee after the Annual General Meeting on 11 May 2023.

In addition to the members of the Committee, the Chairman of the Board has a standing invitation to the Committee, along with the CEO, CFO, Group Chief Internal Auditor, Chairman of CCFSL, Group CRO and Group Chief Credit and Compliance Officer, unless the Chair of the Committee informs any of them that they should not attend a particular meeting or discussion.

Committee objectives and responsibilities

The primary objective of the Committee is to provide oversight, advice and recommendations to the Board on current risk exposures and future risk strategy and, to assist the Board to promote a culture within the Group that emphasises and demonstrates the benefits of a risk-based approach to internal control and management of the Group.

The specific responsibilities and duties of the Committee are set out in its terms of reference, which are available on our website, www.osb.co.uk.

Activities during 2023

The key areas of the Committee's focus during 2023 are outlined in the following pages.

Risk appetite

The Committee played an active role in shaping and assessing the design of the Group's risk appetite in the context of the economic and business outlook and uncertainties, the strategic growth agenda of the Group and regulatory developments. The Committee reviewed and recommended to the Board for approval, the Group's risk appetite metrics and thresholds, noting the need for the Group to tighten its appetite across a number of risk types to reflect heightened levels of external and internal risks, ensuring that they remained appropriate and aligned to the Group's strategic agenda, business plans and stress testing capabilities. Members of the Committee attended dedicated workshops run by management, which focused on the risk appetite methodologies and details of how the supporting analysis was conducted.

Risk appetites are set at both Group and solo banking entity levels. The Committee reviewed the Group's position against risk appetite across all principal risks and escalated issues to the Board, where appropriate, and endorsed the risk appetite statements, metrics and limits for Board approval for the Group's strategic digitalisation programme.

Internal Ratings-Based Programme

The Committee oversees the performance and regulatory compliance of the Group's IRB rating systems through regular updates from management at each Committee's meeting regarding the Group IRB programme, including progress made against key milestones in model development, model governance and technical enhancements. The Committee has an established sub-committee (Group Models and Ratings Committee) to ensure effective governance of all the IRB related models. The Committee is well positioned to provide oversight and approval of relevant supervisory submissions relating to the IRB approval process.

Credit risk

The Committee has monitored the performance of the Group's loan book on both aggregated and asset class sub-segment bases by assessing the key indicators of credit quality, security coverage, affordability and borrower risk profile. The Committee also assessed forward-looking credit risk indicators in the form of bureau data on customer credit scores, mover alerts and indebtedness, business and economic early warning indicators and climate change.

The Committee challenged and approved updates to policies including the Group Lending Policy and reviewed the proposal to tighten credit risk appetite as part of the annual risk appetite review.

During 2023, the Committee (jointly with the Group Audit Committee) provided oversight of the Group's IFRS 9 methodologies focusing on key assumptions and the appropriateness of judgements made and assessed and approved the Group's provision adequacy levels, supported by analysis provided by the Risk function.

Market risk and liquidity risk

Market risk and liquidity risk are continually monitored by the Group Assets and Liabilities Committee (ALCO), which provides reports to the Committee. The Committee reviewed ALCO's regular assessments of the UK macroeconomic environment and potential impacts on the Group's assets and liquidity. The Committee reviewed the updates to market and liquidity risks in the ILAAP as well as updates relating to the RAF and the Group's response to the volatile macroeconomic environment.

The Committee also reviewed and recommended the market and liquidity risk appetite to the Board for approval. The Committee oversaw the Group's liquidity management plans during the year in order to ensure that liquidity positions remained appropriate against the uncertain economic backdrop arising from the Russian invasion of Ukraine, and the political disruptions in the UK and historically high levels of inflation feeding through into a pronounced change in Bank of England monetary policy (base rate increases) resulting in a rapid economic slowdown coupled with cost of living and cost of borrowing challenges in the UK.

Solvency risk and ICAAP

The Committee reviewed the Group ICAAP, which demonstrates how the Group would manage its capital resources and requirements during a plausible but severe period of stress. The Committee also reviewed the bespoke macroeconomic stress scenarios produced by an independent third party engaged by the Group to support ICAAP Pillar 2B stress testing activity.

The Committee also reviewed and challenged the Group Capital Plan and monitored total capital and Common Equity Tier 1 (CET1) forecasts throughout the year, ensuring that risks were understood and managed appropriately. The solvency risk appetite was reviewed and recommended to the Board for approval.

Group Risk Committee Report continued

Operational risk

The Committee received reports on operational risks at each of its meetings. The reports covered risk incidents that had arisen to allow the Committee to assess management's response and remedial action proposed. The reports also covered key risk indicators (KRIs), which can be quantitative or qualitative and provided insights regarding changes in the Group's operational risk profile. The Committee also reviewed and recommended the operational risk appetite to the Board for approval.

The Committee also provided oversight and guidance in relation to the programme of activities focused on enhancing the Group's systems and procedures for the assessment of operational risks and controls as well as the management of operational risk events.

Conduct, regulatory and financial crime risks

The Committee received reports covering conduct, regulatory and financial crime KRIs on a quantitative and qualitative basis, which provided insight into changes in the Group's conduct, regulatory and financial crime risk profiles. The Committee also assessed enhancements to the conduct, regulatory and financial crime risk appetites before recommending them for approval by the Board. The Committee reviewed the implementation of the programme of work undertaken during the year to ensure that the Group successfully met the deadline for the first phase of the delivery of Consumer Duty. The Committee has provided continuous oversight of progress ensuring alignment with regulatory expectation and the Group's commitment to ensuring that customers receive good outcomes.

The Committee has continued to progress its oversight responsibilities over some key strategic programmes of the Group including the digitalisation programme, IRB, Consumer Duty and General Data Protection Regulation.

Enterprise Risk Management Framework

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

Committee effectiveness

The Committee undertakes an external effectiveness review once every three years, with the next scheduled in 2024. This year a self-evaluation was undertaken and, similar to the 2022 self-evaluation, concluded that the Committee continues to operate effectively. Recommended areas of focus will be addressed by the Committee during 2024, which will set the scene for the formal external evaluation exercise to be conducted this year. More information can found in the Corporate Governance Report on pages 129-130.

Other risk types

The Committee reviewed the Group profiles of credit risk, climate change risk and business and strategic risk against their respective risk appetites. Further details on climate-related risks are set out in the TCFD report on pages 94-102.

Other Committees

Group Models and Ratings Committee

The Group Models and Ratings Committee is a sub-committee of the Group Risk Committee and met six times during the year including one ad hoc meeting.

The primary purpose of the Committee is to act as the designated Committee for the purpose 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 Group's models and ratings systems, including IRB, IFRS 9 and other risk-based models. The Committee also exercises oversight over credit risk models and provides an appropriate level of challenge in relation to model construction and validation to ensure that the models are appropriate, robust and fit for the purpose for which they are intended. The Committee has also directed management on how to monitor model performance.

The Committee is chaired by the Group Risk Committee Chair, Simon Walker. The other members of the Committee are Rajan Kapoor and April Talintyre. Simon Walker succeeded Graham Allatt as Committee Chair after the AGM on 11 May 2023.

Board Capital and Funding Committee

The Board Capital and Funding Committee is a Committee of the Board. Its primary objective is to approve capital, funding and equity activities of the Group consistent with Board approved plans.

The Committee met two times during the year. The current members are David Weymouth as Chair, Simon Walker, Rajan Kapoor, Andy Golding and April Talintyre. Graham Allatt ceased to be a member on 11 May 2023.

Directors' Remuneration Report

Annual Statement by the Chair of the Group Remuneration and People Committee

Dear Shareholder,

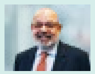
As Chair of the Group Remuneration and People Committee, I am pleased to present the 2023 Directors' Remuneration Report. This report is set out in three sections:

1. This Annual Statement in which I set out the background and rationale to the key decisions on remuneration;
2. The Directors' Remuneration Policy (the Policy) which provides the framework under which remuneration is structured which will be presented to shareholders for a binding vote at the 2024 AGM; and
3. The Annual Report on Remuneration, which together with the Annual Statement will be presented to shareholders for an advisory vote at the 2024 AGM. This report provides details of how Directors were paid during 2023 and how we intend to operate the Policy over the 2024 financial year.

Committee members and meeting attendance


Sarah Hedger[1] (Chair) 7/7


Noël Harwerth 7/7


Rajan Kapoor 7/7


David Weymouth[2] 6/7


Kal Atwal[3] 5/6

Former Director and Chair


Mary McNamara[4] 3/3

Overview of 2023 performance and incentive outcomes

2023 has seen strong operational performance, set against financial performance negatively impacted by the significant adverse EIR adjustment discussed on pages 36-37. As a result, the payout under the Balanced Business Scorecard (Scorecard) and the 2021 Awards under the Performance Share Plan (PSP) are much reduced.

Whilst there has been solid performance in the customer, quality and ESG segments of the Scorecard, the threshold financial targets have not been met, other than in relation to net loan book growth where the stretch target was exceeded. As a result, 7.5% out of the 50% allocated to the Financial segment was earned.

Our customers are key stakeholders and the Scorecard incorporates key measures of how we treat them, including customer NPS and the level of complaints. Our customer scores continue to be sector leading and above target NPS scores were achieved for Lending, Savings and Brokers. This resulted in 12.35% out of the 15% allocated to the Customer segment being earned.

The achievements in the Quality segment resulted in 11.93% out of the 15% allocated being earned, which reflected the strength of our controls environment with the levels of Arrears being well managed within the risk framework and a low number of High Severity Incidents.

The ESG segment is based on environmental and employee metrics. There continues to be good progress on ethnicity and gender diversity targets in senior leadership, and employee engagement scores have been pleasing. However, the targeted reductions in emissions were not achieved and, as a result, 5.5% of the 10% allocated to the ESG segment was earned.

As an underpin, the Committee also considers whether the Scorecard's formulaic outcome reflects the Group's risk appetite and profile and considers current and potential future risks.

The bonus payout under the Scorecard metrics is 37.33% out of the 90% of the 2023 Executive Directors' Bonus Scheme attributable to the Scorecard.

The remaining 10% of the Executive Directors' Bonus Scheme is based on the achievement of stretching personal objectives. Performance against personal objectives was considered by the Board and Committee to be strong. This resulted in a payout of 7.0% and 5.5% out of the maximum 10% of bonus payout for the CEO and CFO respectively.

Total payouts under the 2023 Executive Directors' Bonus Scheme are therefore 44.33% and 42.83% of maximum for the CEO and CFO respectively. The bonus is paid half in cash and half in shares, with the shares held for a minimum of three years and up to seven years for a portion, in line with regulatory requirements.

1. Sarah Hedger assumed the role of the Chair of the Group Remuneration and People Committee 11 May 2023.
2. David Weymouth was unable to attend one meeting due to personal circumstances.
3. Kal Atwal was appointed to the Board on 7 February 2023 and missed one meeting due to prior engagements.
4. Mary McNamara stepped down from the Board and as Chair of the Committee on 11 May 2023.

Directors' Remuneration Report continued

Annual Statement by the Chair of the Group Remuneration and People Committee continued

Full details of the performance conditions and bonus payments are provided on page 158 of this report. The targets for each measure were set at the start of the year and assessed by the Committee following the end of the financial year, liaising as necessary with the Group Audit Committee and Group Risk Committee Chairs.

Overview of 2023 performance and incentive outcomes continued

The underlying operational performance of the business in 2023 was strong, with loan book growth exceeding the stretch target. The Committee carefully considered the impact of the adverse EIR adjustment on the wider stakeholder experience and concluded it was appropriately captured by the reduced payout under the Financial segment of the Scorecard. As a result, discretion was not used to adjust the formulaic outcome.

The 2021 Awards under the PSP were based on performance over the three-year period which ended on 31 December 2023. Performance was based 35% on Earnings Per Share (EPS) growth; 35% on Total Shareholder Return (TSR) versus companies in the FTSE 250 Index (excluding Investment Trusts); and 15% each on Return on Equity (RoE) and an assessment of the Group's overall risk performance.

Performance against the EPS target range exceeded the threshold so 40.56% of the EPS part of the Award was earned. The TSR of 21.1% growth over the performance period reflects the impact of the adverse EIR adjustment and placed the Group just below the upper quartile of the FTSE 250 peer group and therefore 95.1% of the TSR part of the Award was earned. The average RoE over the performance period was 21.1% resulting in 76.7% of the RoE part of the Award being earned. As prescribed by the performance condition, the Committee undertook a qualitative assessment of the Group's risk performance over the period using an overall assessment prepared by the Group CRO and endorsed by the Chair of the Group Risk Committee. The Committee concluded that 80% of maximum had been achieved. Full details of the PSP assessment are included on page 159.

In total, 70.96% of the maximum PSP Awards have been earned. The Committee is comfortable there has been a clear and strong link between reward, performance and the broader stakeholder experience over the three-year performance period (including the experience of customers) and discretion was not used to adjust the incentive outcome.

These PSP Awards will vest in five equal tranches between 2024 and 2028, with the shares being subject to a further one-year holding period and malus and clawback provisions.

Review of the Directors' Remuneration Policy

The Policy was last approved by shareholders at the 2021 AGM and therefore has been reviewed by the Committee ahead of its triennial renewal at the 2024 AGM. The Committee is comfortable the existing Policy has operated well during the recent period of economic and market challenges and has delivered a strong link between pay and performance. The Committee is therefore proposing only a few changes to ensure the structure of the Policy remains appropriate to retain and motivate existing management as well as support senior management succession.

The main changes to the Policy are as follows:

Annual bonus metrics: Currently, the Policy sets the proportion of the Bonus linked to individual performance to be 10%. The new Policy provides additional flexibility to base up to 20% of the Bonus on individual performance, with an appropriate percentage of between zero and 20% used for each individual. The balance of Bonus outcome would continue to be assessed using collective performance against the Scorecard.

Higher percentages for individual objectives will be used where it is important to drive strategic initiatives. They will be tailored appropriately for each Executive Director and performance will be subject to detailed scrutiny. For 2024, it is intended that 5% of the CEO's and 15% of the CFO's total bonus opportunity will be based on individual strategic performance objectives.

Recruitment Policy: The individual maximum limits for the Bonus and PSP for Executive Directors are currently 110% of annual salary. The Committee proposes to increase both of these limits to 135% of annual salary for newly appointed Executive Directors to provide additional flexibility in the design of the package. The Policy requires that the current Executive Directors (Andy Golding and April Talintyre) continue with an individual limit of 110%.

The Committee considers that this commercial flexibility is important and has also noted that the regulatory cap limiting variable pay to two times fixed pay for Executive Directors and employees within the banking sector was removed by the PRA at the end of 2023. The Committee will nevertheless ensure that the 135% limits for new executives are used responsibly, to offer competitive packages in the context of senior management succession and the skillsets of those new executives, with the possibility of a reshaped package offering lower fixed pay and higher variable pay. The Committee would continue to ensure that appropriately challenging performance targets are set for higher variable pay and would ensure the overall packages were appropriately positioned versus the market.

> **Executive Directors' remuneration is aligned with performance, risk and pay policies throughout the organisation.**
>
> **Sarah Hedger** Chair of the Group Remuneration and People Committee

Directors' Remuneration Report continued

Annual Statement by the Chair of the Group Remuneration and People Committee continued

Implementation of the Policy in 2024

The new Policy will be implemented as follows:

- **Salary:** The salary for the CEO will be increased by 3.0%, lower than the workforce average of 4.7% (excluding additional Real Living Wage adjustments to be made for a number of junior employees in April 2024). The salary for the CFO will be unchanged in light of her impending retirement.
- **Pension:** The pension contribution remains at 8% of salary, which is aligned to the rate for the majority of the workforce.
- **Annual Bonus:** The Committee has reviewed the metrics and concluded that the ESG segment (previously weighted as 10% of the Scorecard) should be moved to the PSP, as it is more appropriate to measure performance over the longer term now more robust methodologies, baselines and prior year data are in place, and to incentivise fundamental operational changes. The performance measures remain largely unchanged, with the weightings of the Financial and Customer segments increased to 65% and 20% respectively, with the Quality segment remaining at 15%. There will continue to be an underpin, so the Committee can consider whether the formulaic outcome reflects the Group's risk appetite and profile, and considers current and potential future risks. Full details of the metrics and weightings are provided on page 156.

  The Committee has determined that the percentage of the CEO's bonus based on individual performance should reduce from 10% to 5% for FY24, with his personal objectives set to support the digitalisation of the Group. The percentage of the CFO's bonus based on individual performance (which will be earned for the proportion of the year that she is actively employed and exclude any period of garden leave) will increase from 10% to 15% for FY24. Her personal objectives have been set to ensure: a smooth hand-over to her successor, delivery against the Board approved Capital Strategy and Plan, and to support for the digitalisation of the Group.

  The remaining percentage outcome for the CEO and CFO (95% and 85%, respectively) will be based on the outcome from the FY24 Scorecard (whose structure is summarised above).

  Half of any bonus will be paid in shares, which may not be sold for at least three years.
- **PSP Awards:** A PSP award of 110% of annual salary will be made to the CEO. A discount will be applied to the share price used to calculate the number of shares granted to reflect the expected dividend yield on the shares over the performance period (see page 166 for more details), an approach which is typical of Financial Services firms. Performance will be measured over the three-year period to 31 December 2026. The current CFO will not receive a PSP award given she will be retiring from the Company in 2024.

  As noted above, an ESG segment will now be included in the PSP with a 10% weighting to incentivise delivery of the ESG strategy over the longer term. The PSP performance metrics and weightings are therefore: EPS in 2026 (30% weighting), relative TSR versus the FTSE 250 Index (excluding Investment Trusts) (30% weighting), RoE (15% weighting), Non-financial/Risk (15% weighting) and ESG (10% weighting).

  The targets for each measure are set out on page 158 of this report together with their supporting rationale and the Committee is satisfied that these provide the appropriate amount of stretch, taking into account the business plan, external operating environment and market expectations. Furthermore, when assessing the performance outcome, the Committee may adjust the formulaic vesting outcome to ensure that it is aligned with underlying performance, risk appetite and individual conduct over the period.

CFO succession

On 2 November 2023, we announced that April Talintyre, our CFO, would be retiring after more than 11 years with the Group. Her remuneration arrangements are in accordance with the Policy and she has been treated as a 'good leaver' in relation to her incentive arrangements. We provide full details of these arrangements on pages 151-152 of this report and will set out further details of the amounts payable for this year in next year's report.

Review of Chair of the Board's fees

During the year, the Committee reviewed the Chair's fee and determined that the fee should increase by 3% from £346,500 to £356,895. Further details on the changes to NED fees are on page 154.

Directors' Remuneration Report continued

Annual Statement by the Chair of the Group Remuneration and People Committee continued

Consideration of shareholder views

As part of the Policy review process we engaged with our top 20 shareholders (representing over 50% by value) as well as the main shareholder advisory bodies. Shareholders were generally supportive of the proposed changes to the Policy, with feedback that there should be effective, transparent disclosure and a strong rationale for the implementation of the Policy, which the Committee committed to provide. The Committee also received feedback from certain shareholders in relation to Resolution 2 at the 2023 AGM approving the Directors' Remuneration Report. This received a larger than expected number of shares voting against (although still receiving in excess of 80% support). The Committee understands that this vote against was primarily as a result of a perceived windfall gain on the vesting of the 2020 PSP Awards. The Committee sought to provide these shareholders with comfort that a robust assessment had been undertaken and the rationale for the Committee's decisions. The Committee believes that these shareholders were comfortable with the explanations provided and will keep this feedback in mind when considering the operation of the PSP in the future.

Consideration of employee policies and views

As the NED responsible for representing the workforce on the Board, I regularly meet with employees, individually and through forums such as Our Voice, to understand their views, including those on remuneration, and report these views to the Board. During 2023, the Policy was discussed with Our Voice, setting out how Executive Directors' remuneration is governed and how the Policy is aligned with the wider workforce's remuneration polices. Views were sought on the approach to senior management remuneration. Our Voice was supportive of the balanced approach to measuring performance through the Scorecard, individual performance objectives and the PSP. Further details on the activities of Our Voice can be found on page 189.

Concluding remarks

Having been a member of the Committee since 2020, I assumed the role of Committee Chair following Mary McNamara's retirement from the Board at the 2023 AGM. I have been grateful for the input of the Committee members over the past year and am confident that the proposed changes to the Policy and its implementation will continue to support the Group's strategy through the coming years.

The Policy and the Annual Report on Remuneration will both be presented to shareholders for approval at the 2024 AGM and I look forward to your support at such time.

Sarah Hedger
Chair of the Group Remuneration and People Committee
14 March 2024

Key responsibilities

- Review and recommend for Board approval the Group Remuneration Policy
- Review the ongoing appropriateness and alignment of the Group Remuneration Policy to the Group's strategy (including ESG) and its alignment with key stakeholder expectations
- Review workforce remuneration and related implementation policies and note, annually, the remuneration trends across the Group
- Review and recommend for Board approval, the Remuneration Policy for the Executive Directors, including pension rights and any compensation payments
- Review and approve the Remuneration Policy for senior management and the Company Secretary and all employees who are identified as Material Risk Takers for the purposes of the PRA's Remuneration Code (the Remuneration Code) including pension rights and any compensation payments
- Review and approve the total individual remuneration package of the Chair of the Board, each Executive Director, the Company Secretary and other designated senior managers1 including bonuses, any other incentive payments and share-based awards
- Ensure that workforce remuneration practices and culture are taken into account when determining individual remuneration packages
- Approve the appointment of remuneration consultants
- Approve the design of, and determine targets for, any performance-related pay schemes operated by the Group and approve the total annual payments made under such schemes
- Provide oversight of people matters within the Group (in conjunction with the Group Nomination and Governance Committee), including targets set by the Women in Finance Charter, Gender Pay Gap reporting, Culture, updates from Our Voice and outputs from surveys relating to employee engagement
- Review and approve the Group's Diversity, Equity and Inclusion Policy

1. Designated senior managers include all members of the Group Executive Committee and any other senior employees in independent control functions.

Directors' Remuneration Report continued

Directors' Remuneration at a glance

An overview of the Directors' Remuneration Policy and its implementation in FY23.

Salary

Feature

To reward for the role and duties required, recognising experience, responsibility and performance

Alignment with Workforce policies
Executive Directors salary increases are normally in line with or lower than the average of the workforce

Performance Metrics (weighting)
N/A

How we implemented the Policy in FY23

CEO (A Golding)	£889,980 (+5%)
CFO (A Talintyre)	£556,920 (+5%)

How we intend to implement the Policy in FY24

CEO (A Golding)	£916,679 (+3.0%)
CFO (A Talintyre)	£556,920 (0.0%)

Pension/Benefits

Feature

Contributes to retirement planning and market competitive benefits to ensure the well-being of employees

Alignment with Workforce policies
Pension contribution rates for Executive Directors are the same as for most of the workforce

The benefits are generally in line with those available to the wider workforce

Performance Metrics (weighting)
N/A

How we implemented the Policy in FY23 and how we intend to implement the Policy in FY24

Pension:
8%
of salary

Benefits:
Standard benefits provided to both Executive Directors

Executive Director Bonus Scheme

Feature

To incentivise and reward the achievement of pre-defined annual financial, operational and individual objectives which are closely linked to the corporate strategy

Maximum opportunity = 110% of salary[1]

Deferral of 50% of value earned into shares aligns payout with shareholders' interests over the longer term

Alignment with Workforce policies
The majority of our workforce participate in an annual bonus plan, with performance metrics aligned to business performance and individual KPIs

Senior employees are required to defer a portion of their bonus into shares

Performance Metrics

	% weighting	
	FY23	FY24[1]
Financial	50	65
Customer	15	20
Quality	15	15
ESG	10	0
Individual - CEO	10	5
Individual - CFO	10	15

How we implemented the Policy in FY23

CEO: 44.33% of maximum

CFO: 42.83% of maximum

50% of bonus deferred into shares for at least three years

Performance assessment set out on page 159

How we intend to implement the Policy in FY24
Maximum opportunity
110%[2]
of salary

ESG segment removed from the Scorecard and transferred to the PSP, resulting in Financial and Customer segment increasing to 65% and 20%, respectively. CEO and CFO personal objectives represent 5% and 15% of a maximum potential, respectively

Targets disclosed retrospectively together with performance assessment

1. The Financial, Customer and Quality metrics sum to 100% for fY24 because the individual element can now vary between 0% and 20%.
2. The incoming CFO could have a PSP maximum of 135% for the relevant period of 2024.

Directors' Remuneration Report continued

Directors' Remuneration at a glance continued

Performance Share Plan

Feature

To incentivise and recognise execution of the business strategy over the longer term

Payable in shares, three-year performance period, with vesting in five annual tranches

Maximum opportunity = 110% of salary[1]

Alignment with Workforce policies

Only the most senior individuals participate in the PSP

In FY23, around 98 employees participated in the scheme thereby promoting longer-term performance and aligning them to shareholders' interests

Performance Metrics (weighting)

2021 Award vesting:

Relative TSR (35%)
EPS (35%)
ROE (15%)
Non-financial – Risk (15%)

2023 Award granted:

In line with 2021 Award

How we implemented the Policy in FY23

2021 Award:

70.96%

of the maximum award vested based on performance over the three years to FY23

Performance assessment set out on page 159

FY23 Award:

Awards granted at

110%

of salary

Targets set out on page 158

How we intend to implement the Policy in FY24

FY24 Awards expected to be made over a maximum of 110% of salary for the CEO. No award will be made to the current CFO as she will be retiring in 2024

In line with the 2021 Award, other than EPS and TSR segments reduced to 30% each and an ESG segment added at 10%

1. The incoming CFO could have a PSP maximum of 135% for the relevant period of 2024.

Shareholding requirements

Feature

To increase alignment between Executive Directors and shareholders during employment and following cessation

Alignment with Workforce policies

Shareholding requirements are only in place for the most senior employees to strengthen the alignment of their interests with those of our shareholders

Performance Metrics (weighting)

Executive Directors are required to build up and maintain a shareholding worth at least 250% of salary for the CEO and 200% of salary for the CFO

How we implemented the Policy in FY23

Value of direct shareholding

CEO:

£3.54m

(398% of salary)

CFO:

£1.54m

(276% of salary)

(based on the share price on 31 December 2023 of £4.6460)

How we intend to implement the Policy in FY24

No change

The link between pay and the Group's performance, strategy, culture and ESG commitments

Financial	Quality	Strategy & Culture	Purpose	ESG
Sustainable financial growth of the business through attractive margins and exceptional returns, measured across a range of financial indicators	Strong governance and quality of the business underpins our operations	Tailored individual objectives in line with our strategic priorities and values	Helping our customers prosper in line with our Purpose	To support our Purpose to help our customers, colleagues and communities prosper

Executive Director Bonus Scheme FY23

110% of salary opportunity with at least 50% deferred into shares for 3 years

Financial - 50% of bonus opportunity	Quality - 15% of bonus opportunity	Individual - 10% of bonus opportunity	Customer - 15% of bonus opportunity	ESG - 10% of bonus opportunity
• Underlying PBT[1] • All-in RoE[1] • Cost to income ratio[1] • Net loan book growth	• Overdue management actions • Arrears • High-severity incidents	• Varies by Executive	• Customer satisfaction[1] • Broker satisfaction • Complaints	• Gender diversity[1] • Ethnicity diversity • Environment (Carbon emissions) • Employee engagement

Performance Share Plan FY23

110% of salary opportunity, with performance assessed over 3 years and any shares delivered over extended time-horizons

Financial - 50% of PSP opportunity	Risk - 15% of PSP opportunity	Total Shareholder Return - 35% of PSP
• EPS[1] (35% weighting) • ROE[1] (15% weighting)	• Non-financial/ Risk (15% weighting)	• Total Shareholder Return vs FTSE 250 (35% weighting)

1. Key performance indicators (see pages 2 to 3 and 33 to 35).

Directors' Remuneration Report continued

Introduction

This section outlines details of the remuneration received by Executive Directors and NEDs in respect of the financial year ended 31 December 2023. This Annual Report on Remuneration (the Report) will, in conjunction with the Annual Statement of the Committee Chair on pages 147 to 151, be proposed for an advisory vote by shareholders at the forthcoming AGM to be held on 9 May 2024.

Where required data provided has been audited by Deloitte, as indicated throughout the Report.

Membership and meetings

The Committee met seven times during 2023. The members of the Committee are Sarah Hedger (Chair), Kal Atwal (from 7 February 2024), Noël Harwerth, Rajan Kapoor and David Weymouth. Mary McNamara was Chair of the Committee until 11 May 2023 when she stood down from the Board with Sarah Hedger being appointed Chair of the Committee on the same date. The attendance of individual Committee members is set out in the Corporate Governance Report.

The Board considers each of the members of the Committee to be independent in accordance with the UK Corporate Governance Code.

Responsibilities

The Committee's responsibilities are set out in its terms of reference, which are available on the Group's website. In summary, the responsibilities of the Committee include:

- Pay for employees under the Committee's scope:
  - Setting the Remuneration Policy
  - Determining total individual remuneration (including salary increases, bonus opportunities and outcomes and long-term incentive plan (LTIP) awards)
  - Ensuring that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised
- Approving the design of, and determining targets for, any performance-related pay schemes operated by the Company and approving total payments made under such schemes
- Provide oversight of people matters within the Group (in conjunction with the Group Nomination and Governance Committee) including targets set by the Women in Finance Charter, Gender Pay Gap reporting, Culture, updates from Our Voice and outputs from surveys relating to employee engagement

Employees under the Committee's scope include Executive Directors, the Chair of the Board, the Company Secretary and all employees who are identified as Material Risk Takers for the purposes of the PRA and FCA's Dual-regulated firms Remuneration Code.

Key matters considered by the Committee in 2023

Key issues reviewed and discussed by the Committee during the year included:

- Review of the Directors Remuneration Policy for presentation to shareholders at the 2024 AGM
- Review and approval of 2023 salary increases
- Review of 2022 bonus awards
- Determining the 2023 grants under the PSP
- Consideration of remuneration arrangements for the CEO and CFO for 2024
- Updates on the performance of the 2023 bonus Scorecard and in-flight PSP awards
- Regular shareholder updates, as well as the approach and strategy in respect of shareholder engagement
- Review of pay arrangements across the Group
- Leaving arrangements for senior employees including the CFO
- Considering and recommending the Directors' Remuneration Report to the Board for approval
- Approval of the 2023 personal objectives for the CEO, CFO and Group Executive Committee
- Annual review of the costs and performance of the external remuneration consultant
- Considering and recommending the People and Culture Strategy; and the Diversity, Equity and Inclusion Strategy
- Other business as usual matters for employees under the Committee's scope

Advisers to the Committee

Korn Ferry provided independent advice to the Committee during 2023, having been appointed following a competitive tender process in 2017. The total fees paid to Korn Ferry in 2023 were £216,360 and were charged on a time and materials basis.

Korn Ferry has no other connection with the Company or any individual Director. Korn Ferry is a member of the Remuneration Consultants' Group and abides by the voluntary code of conduct of that body, which is designed to ensure that objective and independent advice is given to remuneration committees. The Committee is satisfied that Korn Ferry provides objective and independent advice.

The Committee consults with the CEO (as appropriate) and seeks input from the Chair of the Group Risk Committee to ensure that any remuneration or pay scheme reflects the Company's risk appetite and profile and considers current and potential future risks.

The Committee also receives input on senior management remuneration from the CEO, CFO and Group HR Director. The Group General Counsel and Company Secretary (or their nominee) acts as Secretary to the Committee and advises on regulatory and technical matters, ensuring that the Committee fulfils its duties under its terms of reference.

No individual is present in discussions directly relating to their own pay.

Directors' Remuneration Report continued

Directors' pay outcomes for 2023

Remuneration and fees payable for 2023 – (audited)

The table below sets out a single figure for the total remuneration received by each Executive Director and NED for the years ending 31 December 2023 and 31 December 2022.

Executive Directors	Year	Basic salary £'000	Taxable benefits[1] £'000	Pension[2] £'000	Annual bonus paid[3] £'000	Amount bonus deferred[3] £'000	LTIP[4,5] £'000	Total fixed pay £'000	Total variable pay £'000	Total £'000
Andy Golding	**2023**	**879**	**22**	**70**	**217**	**217**	**465**	**971**	**899**	**1,870**
	2022	839	22	67	395	395	1,424	928	2,214	3,142
April Talintyre	**2023**	**550**	**16**	**44**	**130**	**130**	**291**	**610**	**551**	**1,161**
	2022	525	16	42	247	247	969	583	1,463	2,046

1. Taxable benefits received include car allowance (CEO: £20,000; CFO: £15,000) and private medical cover.
2. Executive Directors currently receive pension contributions (or cash in lieu thereof) of 8% of salary, which is in line with the majority of the workforce.
3. 50% of bonus is payable in cash and 50% in shares deferred for three years in line with regulatory requirements.
4. The LTIP figure for the year ended 31 December 2022 has been restated based on the share price on vesting of £4.91572 for the 2020 PSP.
5. The LTIP figure for the year ended 31 December 2023 has been valued using the fourth quarter share price of £3.61. The value will be restated in next year's report based on the actual share price on vesting for the 2021 PSP.

Total fees £'000	2023	2022
Chair		
David Weymouth	**346.5**	330
Non-Executive Directors		
Graham Allatt[1]	**49.2**	127.5
Kal Atwal[2]	**87.7**	n/a
Noël Harwerth[3]	**133.9**	127.7
Sarah Hedger[4]	**122.1**	102.5
Rajan Kapoor[5]	**136.5**	130
Mary McNamara[1]	**44.4**	115
Simon Walker[2]	**129.1**	105
Total[6]	**1,049.4**	1,037.5

NEDs cannot participate in any of the Company's share schemes and are not eligible to join the Company pension scheme.

1. Graham Allatt and Mary McNamara resigned as directors of the Company on 11 May 2023. Graham Allat received £627.80 (2022: £0) for taxable travel expenses; total payments received £49,886 (2022: £127,500).
2. Kal Atwal was appointed on 7 February 2023 and became ESG Champion on 11 May 2023. Kat Atwal received £787.97 for taxable travel expenses; total payments received £88,523. Simon Walker became Chair of the Group Risk Committee on 11 May 2023. Simon's fee includes £5,250 in relation to his services as Chair of CCFS Risk Committee.
3. Noël Harwerth received £961.76 (2022: £255) for taxable travel expenses; total payments received £134,834 (2022: £127,755).
4. Sarah Hedger received £365.94 (2022: £479) for taxable travel expenses; total payments received £122,489 (2022: £102,979). Sarah became Chair of the Group Remuneration and People Committee and relinquished her role as ESG Champion on 11 May 2023.
5. Rajan Kapoor received £523.80 (2022: £0) for taxable travel expenses; total payments received £137,024 (2022: £130,000).
6. Total fees shown relate to payments made during 2023 and include certain retrospective payments made in February and March 2024 for services undertaken during 2023.

Directors' Remuneration Report continued

Executive Director bonus scheme

2023 has seen strong operational performance, set against financial performance negatively impacted by the adverse EIR adjustment discussed on pages 36-38. As a result, the payout under the Scorecard and the 2021 Awards under the PSP are reduced.

Whilst there has been solid performance in the customer, quality, and ESG quadrants of the Scorecard, the threshold financial targets have not been met, other than for net loan book growth where the stretch target was exceeded. As a result, 7.5% out of the 50% allocated to the Financial segment was earned.

Our customers are key stakeholders and the Scorecard includes important measures of how we treat them, including customer NPS and the levels of complaints. Our customer scores continue to be sector leading and above target NPS scores were achieved for Lending, Savings and Brokers. This resulted in 12.35% out of the 15% allocated to the Customer segment of the Scorecard being earned.

The achievements in the Quality segment resulted in 11.93% out of the 15% being earned. This reflected the strength of our controls environment with the levels of arrears being well managed within the risk framework and a low number of High Severity Incidents.

The ESG segment is based on environmental and employee metrics. There continues to be good progress on ethnicity and gender diversity targets in senior leadership, and employee engagement scores have been pleasing. However, the targeted reductions in emissions were not achieved and, as a result, 5.55% out of the 10% allocated to the ESG segment was earned.

As an underpin, the Committee also considered whether the Scorecard's formulaic outcome reflected the Group's risk appetite and profile and considered the current and potential future risks.

The bonus payout is therefore 37.33% out of the 90% of the 2023 Executive Bonus Scheme attributable to the Scorecard under the Scorecard metrics.

The remaining 10% of the Executive Directors' Bonus Scheme is based on the achievement of stretching personal objectives. Performance against personal objectives was considered by the Board and Committee to be strong. This resulted in a payout of 7.0% and 5.5% out of the maximum 10% of bonus opportunity for the CEO and CFO respectively.

Total payouts under the 2023 Executive Directors' Bonus Scheme are therefore 44.33% and 42.83% of maximum for the CEO and CFO respectively. The bonus is paid half in cash and half in shares, with the shares held for a minimum of three years and up to seven years for a portion, in line with regulatory requirements.

Full details of the performance conditions and bonus payments are provided on pages 158-159 of this report. The targets for each measure were set at the start of the year and assessed by the Committee following the end of the financial year, liaising as necessary with the Group Audit Committee and Group Risk Committee Chairs.

The underlying operational performance of the business in 2023 was strong, with loan book growth exceeding the stretch target. The Committee carefully considered the impact of the adverse EIR adjustment on the wider stakeholder experience and concluded it was appropriately captured by the reduced payout under the Financial segment of the Scorecard. As a result, discretion was not used to adjust the formulaic outcome.

The 2021 Awards under the PSP were based on performance over the three-year period which ended on 31 December 2023. Performance was based 35% on Earnings Per Share (EPS) growth; 35% on Total Shareholder Return (TSR) versus companies in the FTSE 250 Index (excluding Investment Trusts); and 15% each on Return on Equity (RoE) and an assessment of the Group's overall risk performance.

Performance against the EPS target range exceeded the threshold so 40.5% of the EPS part of the Award was earned. The TSR of 21.1% over the performance period reflects the impact of the adverse EIR adjustment and placed the Group just below the upper quartile of the FTSE 250 peer group and therefore 95.1% of the TSR part of the Award was earned. The average RoE over the performance period was 21.1% resulting in 76.67% of the RoE part of the Award being earned. As prescribed by the performance condition, the Committee undertook a qualitative assessment of the Group's risk performance over the period using an overall assessment prepared by the Group CRO and endorsed by the Chair of the Group Risk Committee. The Committee concluded that 80% of maximum had been achieved. Full details of the PSP assessment are included on page 159.

In total, 70.96% of the maximum PSP Awards have been achieved. The Committee is comfortable there has been a clear and strong link between reward, performance and the broader stakeholder experience over the three-year performance period (including the experience of customers) and discretion was not used to adjust the incentive outcome.

These PSP Awards will vest in five equal tranches between 2024 and 2028, with the shares being subject to a further one-year holding period and malus and clawback provisions.

Directors' Remuneration Report continued

The performance against the measures for 2023 is set out below.

Category	Key performance indicator	Weighting	Targets[1] Threshold (25%)	Budget (50%)	Maximum (100%)	Actual result	Outcome CEO	Outcome CFO
Financial (50%)	Underlying PBT (£m)	25%	556m	585m	614m	426m	0%	0%
	All-in RoE (%)	10%	19.7%	20.7%	21.7%	16.1%	0%	0%
	Underlying Cost to income ratio (%)	7.5%	30.6%	29.1%	27.6%	32.9%	0%	0%
	Net loan book growth (%)	7.5%	4.1%	4.9%	5.7%	9.4%	7.5%	7.5%
Customer (15%)	Customer satisfaction – Lending	3%	40	45	50	45.1	1.53%	1.53%
	Customer satisfaction – Saving	3%	60	65	70	69.7	2.91%	2.91%
	Broker satisfaction	4%	30	35	40	53.5	4.00%	4.00%
	Complaints (%)	5%	0.14%	0.13%	0.12%	0.1243%	3.91%	3.91%
Quality (15%)	Overdue actions (#)	5%	5	3	2	3.92	1.93%	1.93%
	Arrears (%)	5%	2.7%	2.2%	1.8%	1.67%	5%	5%
	High-severity incidents (#)	5%	3	2	1	0	5%	5%
ESG (10%)	Gender diversity (%)[2]	2%	32.0%	33%	34%	32.9%	0.95%	0.95%
	Ethnic diversity (%)[2]	2%	11.0%	12.0%	13.0%	14.3%	2.0%	2.0%
	Environment[3]	3%	(2)%	(4)%	(6.8)%	(12.0)%	0.0%	0.0%
	Employee engagement[4]	3%	696.5	717.3	738	732.5	2.6%	2.6%
Personal (10%)	Varies by Executive	10%		See section below			7%	5.5%
Total							44.33%	42.83%

1. Targets – based on a sliding scale between threshold, target and maximum.
2. Gender diversity – based on the Group's commitment to the Women in Finance Charter and the gender diversity of employees in senior roles.
3. Environment based on reduction in Scope 1 and 2 emissions.
4. Employee engagement – Best Companies to Work For survey score.

Directors' Remuneration Report continued

2023 personal performance

The Executive Directors could earn up to a maximum of 10% of their bonus based on their performance against agreed personal objectives.

The objectives for 2023 were built around strategic priorities (as identified in our 2022 Annual Report) and cultural indicators. Performance against these objectives for both Executive Directors was considered to be strong, with the delivery of key objectives in a challenging and uncertain year.

The objectives set at the start of the year and the Committee's assessment of performance against them are set out below:

	Objectives	Key achievements
CEO	Deliver the 2023 strategic objectives in line with the Board-approved operating plan and as underpinned by a medium-term goal to position the Group for future growth and development	The Group delivered strong operational performance, set against financial performance negatively impacted by the adverse EIR adjustment discussed on pages 36-38
	People, Purpose, Culture – Support the implementation of a refreshed People and Culture strategy	The Board approved a People and Culture Strategy during 2023 for deployment in 2024
	Deliver external ESG thought leadership in relation to energy efficient funding in the private rental sector	Continued to enhance governance around the Group's ESG Strategy. The Group published articles on the private rental sector regarding Energy Performance Certificate ratings in industry publications. Created a Landlords Leadership forum
	Customer – Contribute towards the enhancement and embedding of the Group's approach to identification, assessment and management of customer vulnerabilities (including Consumer Duty requirements) in accordance with the Group's values and culture, emerging industry practice and regulatory guidelines	Successful implementations of Consumer Duty by the regulatory deadline for live products at the end of July. The Group enhanced its processes around identification and treatment of vulnerable customers
CFO	Deliver the 2023 strategic objectives in line with the Board-approved operating plan and as underpinned by a medium-term goal to position the Group for future growth and development	The Group delivered strong operational performance, set against financial performance negatively impacted by the adverse EIR adjustment discussed on pages 36-38
	People, Purpose, Culture – Support the implementation of a refreshed People and Culture strategy	The Board approved a People and Culture Strategy during 2023 for deployment in 2024
	Deliver external ESG thought leadership in relation to energy efficient funding in the private rental sector	Continued to support governance enhancements around the Group's ESG Strategy. The Group published articles on the private rental sector regarding Energy Performance Certificate ratings in industry publications. Created a Landlords Leadership forum
	Capital Management – Deliver against Board approved Capital Strategy and Plan	Delivered clarity to the market on our capital management framework at the 2022 preliminary result Lead the Group's lobbying effort on the Basel 3.1 consultation paper. Successful issuance of Tier 2 and MREL capital instruments to support meeting our interim MREL requirement Successfully completed a £150m share buyback

Based on this performance, the Committee determined that 7% and 5.5% of a possible 10% for the individual element of the bonus should be paid to the CEO and CFO respectively.

Directors' Remuneration Report continued

2023 bonus scheme payout

Based on performance against the Scorecard and individual objectives, the CEO and CFO earned 44.33% and 42.83%, respectively of their maximum bonus. The Committee believes that this payout is appropriate, reflecting the underlying performance of the Group after the adverse EIR adjustment and the wider stakeholder experience, and discretion was therefore not used to adjust the outturn.

In line with regulatory requirements, half of the bonus will be paid in cash with the remainder deferred into shares with the majority released after three years and the remainder vesting in equal tranches over three to seven years.

Long-term incentive plan (audited)

The 2021 PSP Award was granted on 15 April 2021 and measured performance over the three financial years to 31 December 2023. Based on performance against EPS, TSR, RoE and risk measures, 70.96% of the maximum award has been achieved as set out below.

In relation to the 15% Risk element, there was a robust process for the Committee's assessment of this measure. Papers were prepared each year by the Risk function, which were considered by the Group Risk Committee, together with an overall assessment for the three-year performance period prepared by the Group CRO and endorsed by the Chair of the Group Risk Committee.

The Committee assessed the Group's risk performance under six categories: Culture, Credit, Solvency and Liquidity, Conduct and Compliance, Operational and Reputational risk. It noted that the Group had been effective in operating within appetite in a volatile environment. Successful areas were around management of Board risk appetite tolerances, credit risk, the resolvability assessment framework and maintaining a strong balance sheet. It noted that where limits to risk tolerance had been approached, effective actions had been taken. However, there has been challenges around compliance and conduct risk and work was required to improve the management of regulatory relationships. The adverse EIR adjustment also had an impact on the reputation of the Group.

The Committee therefore concluded that a reduction in the Risk element of the PSP from 15% to 10% was appropriate for 2023. Together with the 13% given to the risk elements of the PSPs in 2021 and 2022, this led to an overall rating of 12% for the three years to 31 December 2023.

	Weighting	Threshold (25% vesting)	Stretch (100% vesting)	Actual	Vesting of portion
EPS growth	35%	7% CAGR 71.2p	16% CAGR 90.7p	8.9% CAGR 75.0p	14.18% out of 35%
Relative TSR	35%	Median	Upper quartile	Above Median (42 out of 153)	33.28% out of 35%
Average RoE	15%	17%	23%	21.1%	11.50% out of 15%
Non-financial/Risk	15%	Assessment by the Committee[4]			12.00% out of 15%

1. EPS targets were set in 2021 based on a 'Threshold' target of 7% CAGR and a 'Stretch' target of 16% CAGR measured from the 2020 pro-forma Group EPS for the base year.
2. Relative TSR is based on achieving at least Median performance (Threshold) and Upper Quartile performance (stretch) against the TSR of the FTSE 250 excluding Investment Trusts.
3. RoE targets were set in 2021 based on achieving an average RoE for the three years to 31 December 2023. The RoE portion is subject to an underpin requiring that the CET1 ratio is not below the Board-approved minimum requirement, which has been met.
4. The assessment by the Committee based on reports prepared by the Group CRO, and endorsed by the Chair of the Risk Committee.

Directors' Remuneration Report continued

Discretionary assessment

The Committee is comfortable that the level of vesting is in line with underlying performance and reflects the impact of the adverse EIR adjustment, risk appetite, individual conduct and shareholder experience over the performance period and that there had not been a windfall gain in relation to the 2021 Awards. As such, the 2021 Awards will vest in five equal tranches between 2024 and 2028, with the shares delivered being subject to a further one-year holding period in each case.

The 2021 PSP awards will therefore vest as follows:

Executive Directors	Number of shares granted	Number of shares due to vest	Number of shares lapsed	Value from share price increase/ decrease[1]	Total value vesting[2]
Andy Golding	181,404	128,724	52,680	(£171,460)	£464,695
April Talintyre	113,517	80,551	32,965	(£107,294)	£290,792

1. Value of share price increased/(decreased) based on a £4.9420 share price at the time of grant of the award compared to the three-month average share price of £3.61 to 31 December 2023. The Committee is comfortable that discretion is not required to scale back awards as a result of share price appreciation.
2. Value of shares based on a three-month average share price of £3.61 to 31 December 2023. The 2021 Awards will vest in equal tranches from 2024 to 2028, with each tranche of shares subject to a further one-year holding period. Dividend equivalents were not paid under the 2021 Performance Share Plan during the vesting period.

Directors' Remuneration Report continued

Executive pay outcomes in context

Percentage change in the remuneration of the Directors

The table below sets out the percentage change in base salary, value of taxable benefits and bonus for all the Directors compared with the average percentage change for employees. For these purposes, UK employees who have been employed for over a year (and therefore eligible for a salary increase) have been used as a comparator group as they are the analogous population (based on service and location). The percentage change for Executive Directors and NEDs is calculated based on the remuneration disclosed in the single figure tables on page 154. The percentage is not included for NEDs who joined the Board in the year as the disclosure would not be meaningful.

The changes to salary/fees between 2019 and 2020 are as a result of changes made to pay arrangements following the Combination of OSB with CCFS, which is also the reason for the increase in salary for the CEO between 2020 and 2021 when the second stage of his phased increase was implemented. There have been no material changes to the benefits between 2019 and 2020 or between 2020 and 2021. The reduction in bonus for Executive Directors and employees between 2019 and 2020 is as a result of the pandemic impacting the 2020 Scorecard performance and the Executive Directors waiving the cash portion of their bonus. The increase in annual bonus between 2020 and 2021 is as a result of strong performance across the Scorecard in 2021, whereas the payout in 2020 was lower due to the pandemic impacting performance. The increases to NED fees in 2022 and 2023 compared to 2021 were based on a market assessment of fee levels.

	Salary/NED fees				Taxable Benefits				Annual Bonus			
	2019/20	2020/21	2021/22	2022/23	2019/20	2020/21	2021/22	2022/23	2019/20	2020/21	2021/22	2022/23
UK employees	5.5%	5.1%	11.4%	9%	0%	21.87%[6]	0%	0%	(27.5)%	34%	24.8%	(13.0)%
CEO	42.4%	10.9%	3.0%	5%	0%	0.6%	0%	0%	(71.9)%	366.1%	1.54%	(45.0)%
CFO	44.1%	1.6%	3.5%	5%	0%	0%	0%	0%	(71.5)%	330.1%	1.23%	(47.5)%
Kal Atwal[4]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a[5]	n/a	n/a	n/a	n/a
Noël Harwerth[1]	n/a	0.9%	15.9%	4.6%	n/a	285%	(168)%	277%[7]	n/a	n/a	n/a	n/a
Sarah Hedger[2]	n/a	(1.2%)	23.5%	19.1%	n/a	n/a	198%	(23.6)%[8]	n/a	n/a	n/a	n/a
Rajan Kapoor[1]	n/a	(1.7%)	10.2%	4.8%	n/a	n/a	n/a	n/a[9]	n/a	n/a	n/a	n/a
Simon Walker[3]	n/a	n/a	n/a	23.0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
David Weymouth	16.7%	2.7%	10.0%	5%	0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a

1. Noël Harwerth and Rajan Kapoor joined the Board in October 2019.
2. Sarah Hedger joined the Board in February 2019.
3. Simon Walker joined the Board in January 2022.
4. Kal Atwal joined the Board in February 2023.
5. This relates to taxable travel expenses of £787.97 (2022: n/a).
6. Relates to the broader provision of our medical cash plan and the revision of car allowances following the harmonisation of benefits post Combination.
7. This relates to taxable travel expenses of £961.76 (2022: £255).
8. This relates to taxable travel expenses of £365.95 (2022: £479).
9. This relates to taxable travel expenses of £523.80 (2022: n/a).

Directors' Remuneration Report continued

Comparison of Company performance and CEO remuneration

The following table summarises the CEO single figure for total remuneration, annual bonus and LTIP payout as a percentage of maximum opportunity for the period between 2014 and 2023.

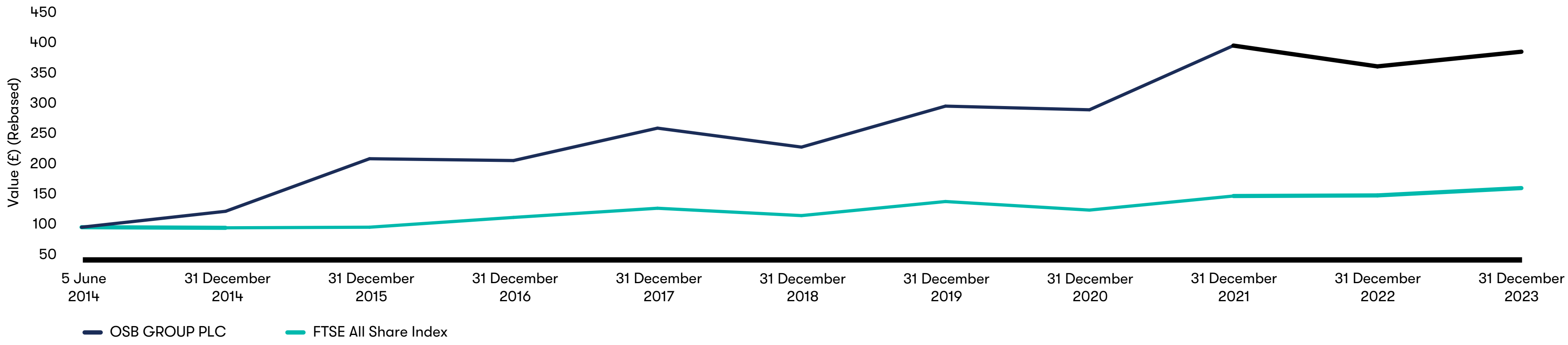
	2014	2015	2016	2017	2018	2019	2020[1]	2021	2022	2023
Annual bonus										
(% of maximum opportunity)	92.63%	93.00%	88.75%	85.00%	91.75%	75.89%	20.60%	86.83%	84.67%	44.33%
LTIP vesting										
(% of maximum opportunity)	–	–	–	100.00%	50.00%	75.1%	62.74%	87.16%	92.56%	70.98%
CEO single figure of remuneration										
(£'000)	777	848	910	1,614	1,602	1,382	1,510	2,587	3,058	1,870

1. The cash portion of the 2020 bonus was waived by the Executive Directors before they became entitled to it. As such, only the share portion of the 2020 bonus was payable (i.e. half of the bonus of 41.2% of maximum).

Total shareholder return

The chart below shows the TSR performance of the Group over the period from listing to 31 December 2023 compared to the performance of the FTSE All Share Index. This index is considered to be the most appropriate index against which to measure performance as the Group has been a member of this index since Admission of OneSavings Bank plc to the London Stock Exchange.

Total shareholder return



This graph shows the value, at 31 December 2023, of £100 invested in OneSavings Bank plc on Admission (5 June 2014), and following the insertion of a new holding company in November 2020, the shares of OSB GROUP PLC, compared with the value of £100 invested in the FTSE All Share Index on the same date. The other points plotted are the values at intervening financial year ends.

Source: Datastream (Refinitiv).

Directors’ Remuneration Report continued

CEO pay ratios

The ratio of the CEO’s single figure of total pay to median UK employee pay is set out in the table below. The ratio has been calculated in accordance with methodology B as it is the same pay data for employees as is used for the gender pay gap analysis and is based on pay and benefits as at 5 April each year. Full-time equivalent pay for individuals that do not work full time has been calculated by increasing their pay pro-rata to that of a full-time individual. No further estimates or adjustments have been made. The employees identified are considered to be representative of the quartile positions as their total pay is in line with expected positioning and the proportion of fixed pay to variable pay is also in line with other individuals at those levels.

The median ratio decreased in the period between 2017 and 2019 as a result of a combination of factors which resulted in the total pay for the median individual within the workforce increasing, including positive changes to the Group’s pay policy and changes in the employee population between 2018 and 2019. The decrease in the ratio between 2018 and 2019 was also due to the decrease in total pay for the CEO.

The median ratio increased between 2019 and 2020 largely as a result of the decrease in the total pay for the median employee. This was primarily as a result of OSB’s Combination with CCFS in October 2019. The increase in the ratio between 2020 and 2021 is primarily due to changes in the CEO pay, which was increased as a result of the staged salary increase upon Combination with CCFS; and due to higher incentive payouts than 2020, which were adversely impacted by COVID-19. The increase in ratio between 2021 and 2022 is primarily due to the increase in CEO pay caused by higher incentive payments and, in particular, the PSP award which benefitted from strong share price growth, reflecting the excellent recent performance of the business.

There has been no change to the Group’s employment models during this period and the median ratio is consistent with the pay, reward and progression policies within the Group. The Executive Directors pay is set by the Committee with reference to both the internal relativities across the Group and external market benchmarks. As such, the pay ratio is considered appropriate and is not considered excessive, particularly when compared to other listed financial services companies.

The reduction to the ratios in 2023 over 2022 relates to a reduction to the level of CEO pay caused by a lower FY23 annual bonus and lower value PSP award.

CEO pay ratio	2017	2018	2019	2020	2021	2022	2023
Method	B	B	B	B	B	B	B
CEO single figure	1,614	1,602	1,382	1,510	2,571	3,058	1,870
Upper quartile	24.8	22.3	22.5	28.1	35.9	45.1	26.4
Median	**46.1**	**40.1**	**32.0**	**42.1**	**56.1**	**70.1**	**39.05**
Lower quartile	62.1	59.5	54.6	51.6	82.2	86.3	57.9

2023	Basic salary (£’000)	Total pay (£’000)
CEO	879	1,870
Lower quartile – Employee A	29	32
Median – Employee B	41	47
Upper quartile – Employee C	58	70

Directors' Remuneration Report continued

Relative importance of the spend on employee pay (audited)

The table below shows the Group's total employee remuneration (including the Directors) compared to distributions to shareholders and underlying profit before tax for 2023 and 2022. In addition to the required disclosures showing total employee costs and distributions to shareholders, the table also shows PBT and headcount to provide a fuller picture.

	2023	2022
Total employee costs	£122.2m	£109.3m
Distributions to shareholders[1]	£185.0m	£133.1m
Distributions to shareholders – special dividend[1]	£0.0m	£50.3m
Underlying profit before tax (PBT)	£426.0m	£591.1m
Total employee costs vs PBT	28.7%	18.5%
Average headcount	2,272	1,896
Average underlying PBT per employee	£187,500	£311,762

1. See note 13 to the financial statements. In addition to dividends, the Company repurchased 38,243,031 ordinary shares as part of its £150m share repurchase programme announced to the market on 16 March 2023 (2022: £100m).

Other disclosures relating to 2023 Executive remuneration

Scheme interests awarded during the financial year (audited)

The table below shows the conditional share awards made to Executive Directors on 22 March 2023 under the PSP and the performance conditions attached to these awards. The Committee has discretion to adjust the vesting level to ensure that the reward level reflects underlying performance, risk and individual conduct. There will be full disclosure of the Committee's deliberations on these matters in the 2025 Directors' Remuneration Report. The Awards will vest 20% each year between three and seven years after grant, with each vested tranche subject to a one-year holding period.

Executive	Face value of award (percentage of salary)	Face value of award	Number of shares[1]	Percentage of awards released for achieving threshold targets	End of performance period	Performance conditions[2] (weighting)
Andy Golding	110%	£978,982	196,634	25%	31 December 2025	EPS (35%)
						TSR (35%)
April Talintyre	110%	£612,614	123,047	25%	31 December 2025	RoE (15%)
						Non-financial/Risk (15%)

1. The number of shares awarded was calculated using a share price of £4.9787 (the average closing price over the three Dealing Days prior to the date of grant).
2. Performance conditions are: (i) 35% TSR versus the FTSE 250 (25% vesting for median performance increasing to maximum vesting for upper quartile performance); (ii) 35% EPS (25% vesting for FY25 EPS of 92.0p increasing to maximum vesting for 105.0p); (iii) 15% RoE (25% vesting for average RoE of 15% increasing to maximum vesting for an average of 21%); and (iv) 15% non-financial/risk Scorecard.

Directors' Remuneration Report continued

All-employee share plans (audited)

Executive	Date of grant	Exercise price	Market price 31 December 2023	Exercisable from	Exercisable to	Number of options granted	Number of options as at 31 December 2023
Andy Golding	28 October 2020	£2.29013	£4.646	1 December 2023	1 June 2024	7,859	7,859
April Talintyre	28 October 2020	£2.29013	£4.646	1 December 2023	1 June 2024	7,859	7,859
April Talintyre	29 September 2023	£2.715733	£4.646	1 December 2026	1 June 2027	6,819	6,819

Statement of Directors' shareholdings and share interests (audited)

Total shares owned by Directors and connected persons and share ownership guidelines

The CEO and the CFO are required to accumulate and maintain a holding of ordinary shares in the Company equivalent to no less than 250% of salary and 200% of salary, respectively. This is calculated using the value of beneficially owned shares plus the net of tax value of deferred bonus shares or any other unvested share awards which are not subject to performance conditions. Half of any vested share awards must be retained until the guideline is achieved. Based on the current share price, the CEO and CFO hold shares in excess of these levels. The guidelines also apply for two years following cessation of employment.

	Interest in shares		Interest in share awards[1]		Shareholding requirements	
	Beneficially owned at 1 January 2023	Beneficially owned at 31 December 2023	Without performance conditions at 31 December 2023[2]	Subject to performance conditions as at 31 December 2023	Shareholding requirement (percentage of basic salary)	Current shareholding (percentage of basic salary)[3]
Executive Directors						
Andy Golding[4]	644,908	761,291	302,158	545,029	250%	398% (Met)
April Talintyre	269,260	330,854	232,116	341,061	200%	276% (Met)
Non-Executive Directors						
Kal Atwal	–	-	–	–	–	–
Noël Harwerth	–	-	–	–	–	–
Sarah Hedger	–	-	–	–	–	–
Rajan Kapoor	19,970	19,970	–	–	–	–
Simon Walker	–	25,000	–	–	–	–
David Weymouth	18,678	22,414	–	–	–	–

1. Vested shares are held in a corporate nominee account and are subject to the relevant retention periods. This account is also used to monitor current and post-employment shareholding guidelines. The details of share options relating to the Executive Directors are set out above. The Executive Directors hold vested but unexercised share options and no share options have been exercised during 2023.
2. Includes DSBP awards granted on 22 March 2023 at a price of £4.9787 (CEO: 59,051 shares and CFO: 36,952 shares).
3. Shareholding based on the closing share price on 31 December 2023 of £4.646 and year-end salaries.
4. Includes 518,184 shares that are owned by spouse.

The Company operates an anti-hedging policy under which individuals are not permitted to use any personal hedging strategies in relation to shares subject to a vesting and/or retention period.

Directors' Remuneration Report continued

External appointments

Andy Golding is a Director/Trustee of the Building Societies Trust Limited. He receives no remuneration for this position.

Payments to departing Directors (audited)

Mary McNamara and Graham Allat received their salaries until 11 May 2023, when they retired from the Board following the 2023 AGM. There were no payments for loss of office during 2023.

How we will implement the Remuneration Policy for Directors in 2024

Subject to the approval of the refreshed Policy at the 2024 AGM, the proposed operation is summarised below.

Salary

Following careful consideration by the Committee of the impact of salary increases on total remuneration and market positioning, the salary for the CEO will be increased by 3.0% to £916,679 on 1 April 2024 which is below the average workforce percentage increase of c.4.5%. The CFO's salary will not increase in view of her impending retirement.

Annual Bonus

The 2024 annual bonus will be subject to a maximum limit of 110% of salary. April Talintyre is retiring from the Group during 2024 and her annual bonus will be pro-rated based on the proportion of the year for which she remains actively employed by the Group (with no participation whilst she goes on garden leave). She will receive any entitlement in line with the normal payment process.

As part of the Policy review, the Committee concluded that there should be flexibility with respect to the weighting placed on individual performance with the ability to allocate between 0% and 20% of the bonus against individual strategic performance objectives.

The Committee believes the Scorecard effectively captures the overall performance of the CEO so, for 2024, the individual portion of the CEO's bonus will be reduced from 10% to 5%, and be primarily assessed against the Group's key strategic focus of digitalisation. Given she will retire during 2024, the individual portion of the CFO's bonus has been increased from 10% to 15%, with performance assessed on objectives relating to the capital plan, digitisation and the effective handover of her responsibilities to a successor.

The remainder of the Executive Directors' bonus will be based on performance against the Scorecard. The Committee has reviewed the metrics to be used for the 2024 annual bonus and concluded that the ESG segment (currently a 10% weighting) should be moved to the PSP as it is more appropriate to measure performance over the longer term now more robust methodologies, baselines and prior year data are in place to incentivise fundamental operational changes. The remainder of the performance measures remain largely unchanged, with the weightings of the Financial and Customer segments increased to 65% and 20% respectively.

The customer complaints metric has been changed from an absolute level of complaints to the proportion of Financial Ombudsman Service complaints upheld. This is a more robust measure of customer performance, and more independent of customer numbers and market conditions. The absolute number of complaints will continue to be monitored by the Board.

The Scorecard, which will determine 95% of the CEO's 2024 bonus and 85% of the CFO's 2024 bonus is based on Financial, Customer and Quality segments to provide a balanced assessment of performance for the year, as set out below.

Balanced Business Scorecard

Financial	Customer	Quality
Sustainable financial growth of the business through attractive margins and exceptional returns, measured across a range of financial indicators	Helping our customers and communities to prosper in line with our Purpose	Strong governance and quality of the business underpins our operations

65% of the Scorecard	20% of the Scorecard	15% of bonus opportunity
Underlying PBT	Customer satisfaction (separate for lending and savings)[1]	Overdue management actions
All-in RoE[1]	Broker satisfaction	Arrears
Cost to income ratio[1]	Complaints	High-severity incidents
Net loan book growth		

1. Key performance indicators (see pages 2-3 and 33-35).

Performance targets are commercially sensitive so will not be published in advance. There will be full disclosure of the targets set and the extent of their achievement in the FY24 Annual Report on Remuneration. The Committee may apply discretion to adjust the resultant bonus if the result fails to reflect broader performance and the wider shareholder experience.

At least half of any bonus will be delivered in shares and cannot be sold for at least three years.

Directors' Remuneration Report continued

Performance Share Plan

A PSP award of 110% of salary will be made to the CEO with performance being measured over the three-year period to 31 December 2026. The CFO will not receive an award given she will be retiring from the Company in 2024.

The number of shares will be determined based on the average closing price over the three Dealing Days prior to the date of grant, with the share price derived being discounted for the expected dividend yield over the performance period. The PRA prohibits dividend equivalents from being paid on unvested shares and this adjustment is in line with normal practice at other listed banks where dividend equivalents are also not permitted. The Committee will use an expected dividend yield of 4.45% to adjust the share price used to calculate the number of shares granted. This will result in a discount of 20% to the undiscounted grant price, with both the expected dividend yield and discount derived broadly comparable to those of other UK banks. There will be further disclosure in the next year's report. The fall in the grant price from 498 pence per share for the 2023 awards to an estimated grant price of around 462 pence per share (being the latest available share price) would be around 7.8%. The Committee does not believe this fall is likely to give rise to windfall gain on vesting, but has discretion to scale back if this proves to be the case.

Awards will vest 20% each year between three and seven years after grant, with each vested tranche subject to a one-year holding period.

The performance metrics and weightings in 2026 are EPS (30% weighting), relative TSR versus the FTSE 250 (excluding Investment Trusts) (30% weighting), RoE (15% weighting), Non-financial/Risk (15% weighting) and ESG (10% weighting). The metrics and weightings provide a balanced assessment of corporate performance over the three-year period taking into account financial, share price and non-financial metrics. A discretionary assessment at the time of vesting ensures that awards are granted in line with underlying performance, risk appetite and individual conduct over the period.

The target ranges for EPS and RoE have been carefully set by the Committee taking into account a number of factors, including those set out below, which will influence the outlook for business performance over the three years to 31 December 2026. The Committee is therefore satisfied that these are appropriately stretching:

– The 2023 EPS was negatively impacted by the adverse EIR adjustment which made setting growth rate targets inappropriate as these would measure growth off a base year which was impacted by this adjustment. An absolute measure will therefore be used based on the 2026 EPS.
– The Business Plan to 31 December 2026 is impacted by the anticipated changes in the Group's funding mix. The cost of these issuances will reduce the Group's EPS and RoE outlook. A key change being the requirement for the Group to meet an interim MREL requirement of 18% of Risk Weighted Assets by July 2024, with full bail-in MREL of 2x Pillar 1 and Pillar 2a from July 2026. The Group is also required to repay the relatively lower-cost £3.3bn of borrowings under the Bank of England's Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME) by October 2025 and replace this funding with alternative sources.
– The RoE range required is based on an average over the three years to 31 December 2026. It represents a sector leading performance, with the stretch target continuing to represent significant outperformance of expectations.

Overall, the Committee is comfortable that these targets provide a strong link between reward and performance delivered and are at least as stretching as target ranges in prior years.

Metrics	Weighting	Threshold (25% of maximum)	Stretch (100% of maximum)	Rationale
EPS in 2026[1]	30%	92p	107p	Measures the sustainable profitability of the business
Relative TSR versus FTSE 250	30%	Median	Upper quartile	Measures the success of the Company versus other listed companies
Average RoE[1]	15%	15%	19%	Measures the sustainable financial performance and financial efficiency of the business
ESG	10%	See below		Measures the progress against the ESG strategy
Non-financial/Risk	15%	See below		Strong governance around risk and quality underpins our business operations

1. Key performance indicators (see pages 2-3 and 33-35). No vesting below threshold and pro-rata vesting between threshold and stretch.

Directors' Remuneration Report continued

Performance Share Plan continued

ESG metric (10% weighting):
The ESG performance will be determined based on the Committee's assessment of progress against the ESG strategy which will be informed by performance against key employee and environmental metrics. The metrics and the 2026 targets are summarised below.

ESG metric	2026 target
Scope 1 & 2 emissions	43% reduction from the Group's 2022 baseline, in line with our 2030 external emissions reduction target
Scope 3 Financed emissions	8% reduction in Scope 3 Category 15 carbon intensity (tCO_2e/M2) from the mortgage loan book versus the Group's 2022 baseline, in line with our 2030 external emissions reduction target
Gender Diversity	40% of senior roles who identify as female
Ethnicity Diversity	13.5% of senior roles who identify as minority ethnic
Employee engagement score	696.5 score in our annual 'Best Companies Survey' for UK employees (equivalent to an 'Outstanding' rating) and an 83 score in our annual 'Great Place to Work' Survey Score for employees of OSB India

Non-financial/Risk metric (15% weighting):
For the risk-based measure, the Committee will assess the risk management performance with regard to all relevant risks including, but not limited to: Conduct, Credit, Solvency and Liquidity, Conduct and Compliance, Operational and Reputational risks. There will be full retrospective disclosure of the Committee's assessment.

Chair and Non-Executive Director fees

The fees for the Chair and NEDs were reviewed and the rates from 1 April 2024 are set out below. The fee payable to the Chair was reviewed by the Committee and it agreed that the fee would be increased by 3.0% from £346,500 to £356,896. The fees payable to the NEDs were also reviewed by the Board (minus the NEDs) and will be increased by 3.0% from 1 April 2024.

Base fees		£'000
Chair[1]		356.8
Non-Executive Director		86.5
Senior Independent Director		21.6
ESG Champion		8.1
Additional Board Committee fees	**Chair**	**Member**
Group Nomination and Governance Committee		5.4
Group Audit Committee	32.45	8.1
Group Remuneration and People Committee	32.45	8.1
Group Risk Committee	32.45	8.1
Group Models and Ratings Committee	10.8	5.4

1. The Chair's fee is inclusive of all duties; no additional Chair or Member fees are paid in relation to Board Committees.

Directors' Remuneration Report continued

Statement of voting at the Annual General Meeting

Shareholders were asked to approve the 2022 Annual Report on Remuneration at the 2023 AGM and the Directors' Remuneration Policy at the 2021 AGM. The votes received are set out below:

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Total votes cast	Votes withheld
To approve the 2023 Remuneration Report (2023 AGM)	300,592,875	80.19%	74,244,358	19.81%	374,837,233	6,244
To approve the Remuneration Policy (2021 AGM)	380,816,449	99.98%	65,570	0.02%	380,882,019	1,025,114

The Committee recognises that whilst a strong majority of shareholders voted in support of the 2023 Remuneration Report, a larger than normal minority of shareholders voted against. The Committee engaged with the main shareholders and proxy advisors that voted, or recommended, a vote against to fully understand their rationale. The Committee believes the main concern related to the assessment of windfall gains on the 2020 PSP award. The Committee sought to provide these shareholders with comfort that a robust assessment had been undertaken and the rationale for the decisions taken. The Committee will keep this feedback under review when considering the operation of the PSP in the future.

Directors' Remuneration Report continued

Remuneration Policy

This section describes the Directors' Remuneration Policy (the Policy) for which shareholder approval will be sought at the AGM on 9 May 2024 and which, if approved will formally come into effect from that date. It is intended that this Policy will last for three years from the 2024 AGM date.

The Committee is comfortable the Policy approved at the 2021 AGM coped well with the challenges presented by the last three years and remains fit for purpose. As a result, the new Policy retains the current Policy structure which includes an annual bonus (Bonus) and PSP opportunity based on a percentage of annual salary.

The limited changes proposed provide additional flexibility for succession and strategic priorities, with the key changes summarised below. Certain minor technical changes have also been made to reflect evolving market practice.

Policy overview

This Policy has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as subsequently amended. The Remuneration Policy has been developed taking into account a number of regulatory and governance principles, including:

- The 2018 UK Corporate Governance Code (the Code)
- The regulatory framework applying to the Financial Services Sector (including the Dual-regulated firms Remuneration Code and provisions of the EU Capital Requirements Directive)
- The Executive remuneration guidelines of the main institutional investors and their representative bodies

Approach to designing the Policy

The Committee is responsible for the development, implementation and review of the Policy. In addressing this responsibility, the Committee works with management and external advisers to develop proposals and recommendations. The Committee considers the source of information presented to it, takes care to understand the detail and ensures that independent judgement is exercised when making decisions. The Group Risk Committee considers whether the Policy and practices are in line with the Group's risk appetite and the Group Audit Committee confirms incentive plan performance results, where appropriate.

The Code sets out principles against which the Committee should determine the Policy for Executive Directors. These are shown in the first column of the table on page 171 together with the Committee's approach, in the second column.

Change	Rationale
Bonus and PSP – individual opportunity limits	The Committee proposes to increase the individual Bonus and PSP limits to 135% of annual salary to provide additional flexibility in the design of the remuneration package for newly appointed Executive Directors (with the possibility that the reshaped package offers lower fixed and higher variable pay).The current Executive Directors will continue to be eligible for a Bonus and PSP award based on 110% of annual salary. Overall packages will be appropriately positioned versus peers and challenging performance targets will be set to ensure higher payouts reflect superior performance
Bonus – individual performance percentage	The Committee proposes additional flexibility to base up to 20% of the Bonus on personal/strategic performance, rather than the 10% fixed percentage in the current Policy. An appropriate percentage of between zero and 20% will be agreed for each individual. The Committee will not use 20% as a matter of default, but will use the range judiciously. The Scorecard will continue to drive at least 80% of an individual's Bonus outcome, with the majority of the Scorecard outcome based on financial metrics. Higher individual performance percentages will be used where it is important to drive strategic initiatives such as digitalisation, the capital plan and regulatory priorities. The percentages will be tailored for each executive and receive detailed scrutiny

Directors' Remuneration Report continued

Remuneration Policy continued

Principle	Committee approach
Clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce	• We aim to set out our approach to remuneration in this report as transparently as possible • We engage with our top shareholders and shareholders' proxy agencies when making changes to the Policy and their views are taken into account • We engage with Our Voice annually to explain the alignment of the Policy with that of the workforce; and to encourage workforce feedback on the Policy
Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand	• Within the required regulatory framework and in line with investor guidance, we have structured the Policy to be as simple as possible • We have a simple policy offering a pension at the same rate as employees, an annual bonus plan which cascades to most employees and, for senior employees, performance shares to provide alignment with longer-term performance and stakeholder experience • There is, however, a degree of complexity required for Executive Director packages to ensure a robust link to performance, to avoid reward for failure and to comply with investor and Code requirements
Risk – remuneration arrangements should ensure reputational and other risks arising from excessive rewards and behavioural risks that can arise from target-based incentive plans are identified and mitigated	• We have mitigated these risks through careful policy design, including long-term performance measurement, the use of specific risk-based measures, deferral and shareholding requirements (including post-cessation of employment) and discretion and clawback provisions if incentive payment levels are inappropriate
Predictability – the range of possible values of rewards to individual Directors and any other limits or discretions should be identified and explained at the time of approving the Remuneration Policy	• We look carefully each year at the range of likely performance outcomes for incentive plans when setting performance target ranges for threshold, target and maximum payouts and would use discretion where this leads to an inappropriate pay outcome

Principle	Committee approach
Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance	• Incentive plans are determined based on a proportion of base salary, with a balance between fixed pay and performance-linked elements • There are provisions to override the formula-driven outcome to ensure that poor performance is not rewarded or if incentive payments are too high for the performance delivered, in the view of the Committee • As illustrated by the chart showing our TSR performance and historical CEO remuneration on page 161, we believe there has been a strong link between Executive Directors' pay and performance
Alignment to culture – incentive schemes should drive behaviours consistent with Company purpose, values and strategy	• The Scorecard used for the Bonus will be based on a wide range of measures linked to financial, customer and quality performance, to ensure that payments are aligned to Company culture and values • Bonus plans designed for sales teams operate widely throughout the Company and are approved by the Committee to ensure consistency with Company purpose, values and strategy

How the views of employees and shareholders are taken into account

The Committee Chair is the designated NED in relation to employee matters; she regularly meets with employees, including through Our Voice. The Committee Chair attends Our Voice annually to provide an overview of Executive Directors' pay and governance within the Group and to provide the opportunity for employees to give feedback on the Policy, with this feedback communicated to the Committee and the Board. The Committee also receives updates on the remuneration structure throughout the Group, with salary and bonus reviews each year. As set out in the Policy table above, in setting remuneration for the Executive Directors, the Committee takes note of the overall approach to rewards for employees in the Group and salary increases will ordinarily be in line with or lower than those of the wider workforce (in percentage of salary terms). Thus, the Committee is satisfied that the decisions made in relation to Executive Directors' pay are made with an appropriate understanding of the outcomes for the wider workforce.

Directors' Remuneration Report continued

Remuneration Policy continued

The Committee undertook extensive engagement with shareholders during the review of the Policy in late 2023 and early 2024 to understand the views of shareholders. The top 20 shareholders, representing over half or the shareholder register, were contacted in November 2023. Three shareholder representative bodies and proxy advisory firms were also contacted. The Committee believes the consultation confirms that shareholders and the main shareholder representative bodies and proxy advisory firms are supportive of the Committees proposals, although the Committee notes they will carefully scrutinise the use of the higher variable pay incentives in the context of the overall package for new Executive Directors, the personal objectives used to support higher individual bonus percentages should be robust and appropriate disclosures are required to support the rationale for remuneration decisions.

The Committee will seek to engage with major shareholders and the main shareholder representative bodies and proxy advisory firms when it is proposed that any material changes are to be made to the Policy or its implementation. In addition, we will consider any shareholder feedback received on the Policy at each AGM.

The table below and the accompanying notes describe the Policy for Executive Directors.

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
Salary	To reward Executive Directors for their role and duties required Recognises an individual's experience, responsibility and performance	Paid monthly Base salaries are usually reviewed annually, with any changes usually effective from 1 April No performance conditions apply to the payment of salary. However, when setting salaries, account is taken of an individual's specific role, duties, experience and contribution to the Company As part of the salary review process, the Committee takes account of individual and corporate performance, increases provided to the wider workforce and the external market for UK listed companies both in the financial services sector and across all sectors	Increases will generally be broadly in line with or below the average of the UK workforce (as a percentage of salary). Higher increases may be awarded in exceptional circumstances such as a material increase in the scope of the role, following the appointment of a new Executive Director (which could also include internal promotions), to bring an initially below-market package in line with the market over time or in response to market factors
Benefits	To provide market competitive benefits to ensure the well-being of employees	The Company currently provides: • car allowance • life assurance • income protection • private medical insurance • other benefits as appropriate for the role	There is no maximum cap on benefits, as the cost of benefits may vary according to the external market
Pension	To provide a contribution to retirement planning	Executive Directors may participate in a defined contribution plan or, if they are in excess of the HMRC annual or lifetime allowances for contributions, may elect to receive cash in lieu of all or some of such benefit	In line with the rate received by the majority of the workforce, which is currently 8% of salary

Directors' Remuneration Report continued

Remuneration Policy continued

<table>
<tr><th>Element</th><th>Purpose and link to strategy</th><th>Operation and performance conditions</th><th>Maximum</th></tr>
<tr><td>Bonus</td><td>To incentivise and reward individuals for the achievement of pre-defined, Committee-approved, annual financial, operational and individual objectives which are closely linked to the corporate strategy</td><td>Between 80-100% of the Bonus outcome is based on performance measured in line with an agreed Scorecard, with at least 50% of the bonus based on financial performance. The remaining 0-20% of the Bonus outcome is based on personal/strategic performance targets

The objectives in the Scorecard, and the weightings on each element, will be set annually and may be flexed according to individual roles. Each element will be assessed independently, but with Committee discretion to vary the payout (including to zero) to ensure there is a strong link between payout and performance

The Bonus outcome also has a risk underpin if the Committee believes an adjustment of the outcome is appropriate. There is also a general discretion to adjust the outcome to reflect other exceptional factors at the discretion of the Committee

Normally at least 50% of any bonus earned will be delivered in shares, subject to a three year holding period

In circumstances of a high Bonus payout there may be a regulatory requirement to defer a proportion of the Bonus payout, with vesting staggered over three to seven years, in line with the deferral arrangements for the PSP described below

Malus and clawback provisions apply, as described in note 1 on page 173</td><td>The maximum Bonus opportunity for incumbent Executive Directors in any financial year will remain at 110% of salary

Under the new Policy, the maximum bonus opportunity for new Executive Directors (i.e. not Andy Golding or April Talintyre) may be up to 135% of salary

The threshold level for payment is 25% of maximum for any quantitative measure</td></tr>
<tr><td>Performance Share Plan</td><td>To incentivise and recognise execution of the business strategy over the longer-term

Rewards strong financial, share, risk and ESG performance over a sustained period</td><td>PSP awards will typically be made annually at the discretion of the Committee, usually following the announcement of full-year results

Usually, awards will be based on a mixture of internal financial performance targets, risk-based measures, ESG measures and relative TSR. At least 50% of the total PSP award will ordinarily be based on financial and relative TSR metrics

The performance targets will usually be measured over three years

Any vesting will be subject to an underpin, whereby the Committee must be satisfied that:
(i) the vesting reflects the underlying performance of the Company
(ii) the business has operated within the Board's risk appetite framework
(iii) individual conduct has been satisfactory

There is also a general discretion to adjust the outcome to reflect other exceptional factors at the discretion of the Committee

Awards vest in line with regulatory requirements. Awards granted since 1 January 2020 vest in five equal tranches of 20%, following the Committee's determination of the extent to which performance conditions have been met. At the time each tranche vests, a one year holding period will apply

Malus and clawback provisions apply as described in note 1 on page 173</td><td>The maximum PSP opportunity for incumbent Executive Directors will remain at 110% of salary in respect of grants in any financial year

Under the new Policy, the maximum PSP opportunity for new Executive Directors (i.e. not Andy Golding or April Talintyre) may be up to 135% of salary in respect of grants in any financial year

The threshold level for payment is 25% of maximum for any quantitative measure

Where relevant regulations do not permit dividend equivalent payments until after vesting, the number of shares granted may be uplifted to reflect the absence of dividends or dividend equivalents during the vesting period (e.g. to broadly reflect the expected dividend yield on the shares)</td></tr>
</table>

Directors' Remuneration Report continued

Remuneration Policy continued

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
All-employee share plan (e.g. Sharesave Plan)	All employees, including Executive Directors, are encouraged to become shareholders through an all-employee share plan	A tax-favoured plan under which regular monthly savings may be made over a three year period. These savings can then be used to fund the exercise of an option at the end of the three year period, where the exercise price is discounted by up to 20% Executive Directors may also participate in other all-employee HMRC approved share plans should they be introduced by OSB Group in the future	Maximum permitted savings based on HMRC limits
Share ownership guidelines	To increase alignment between Executive Directors and shareholders	Executive Directors are expected to build and maintain a minimum holding of OSB Group shares Executive Directors must retain at least 50% of the shares acquired on vesting of any share awards (net of tax) until the required holding is attained On cessation of employment, Executive Directors must retain the lower of the in-service shareholding requirement, or the Executive Directors' actual shareholding, for two years	At least 250% of salary for the CEO and at least 200% of salary for the CFO, or such higher level as the Committee may determine from time to time The net of tax value of any unvested deferred awards (which are not subject to any future performance condition) may count towards the definition of a shareholding for this purpose

1. Malus and clawback provisions apply to both the annual bonus, including amounts deferred into shares, and PSP awards. These provide for the recovery of incentive payments within seven years in the event of: (i) a material misstatement of results; (ii) an error; (iii) a significant failure of risk management; (iv) regulatory censure; (v) in instances of individual gross misconduct; (vi) corporate failure; (vii) reputational damage; or (viii) any other exceptional circumstance as determined by the Board. A further three years may be applied following such a discovery in order to allow for the investigation of any such event. In order to affect any such clawback, the Committee may use a variety of methods: withhold deferred bonus shares, future PSP awards or cash bonuses, or seek to recoup cash or shares already paid.

Choice of performance measures for Executive Directors' awards

The Group uses a Scorecard to support its annual Bonus which incorporates both financial and non-financial business drivers across the Group. The combination of performance measures ties the Bonus outcome to the balanced delivery of corporate targets, risk measures and personal/strategic objectives. The Committee sets the threshold, target and stretch limits and reviews the measures used in the Scorecard annually, to ensure they continue to be relevant and remain anchored to the corporate plan.

The PSP incorporates measures of shareholder, financial and non-financial performance, in line with our key objectives of sustained growth in earnings leading to the creation of shareholder value over the long-term with appropriate consideration of risk and ESG performance. Relative TSR provides close alignment between the relative returns experienced by our shareholders and the rewards to Executive Directors.

There is an underpin for the PSP to ensure payouts are aligned with underlying performance, financial and non-financial risk and individual conduct.

Bonus and PSP targets are set taking into account the business plan, shareholders' expectations, the external market and regulatory requirements.

In line with HMRC regulations for such schemes, the Sharesave Plan does not operate performance conditions.

How the Group Remuneration and People Committee operates the variable pay policy

The Committee operates the share plans in accordance with their respective rules, the Listing Rules and HMRC requirements, where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of certain plans, including:

- Who participates in the plans
- The form of the award (for example, conditional share award or nil cost option)
- When to make awards and payments; how to determine the size of an award; a payment; and when and how much of an award should vest
- Whether share awards will be eligible to receive dividend equivalents and the method of calculation. Where relevant regulations do not permit dividend equivalents until after vesting, the number of shares granted may be uplifted to reflect the absence of dividends or dividend equivalents during the vesting period (e.g. to broadly reflect the expected dividend yield on the shares)

Directors' Remuneration Report continued

Remuneration Policy continued

- The testing of a performance condition over a shortened performance period
- How to deal with a change of control or restructuring of the Group
- Whether a participant is a 'good' or 'bad' leaver for incentive plan purposes; what proportion of an award vests at the original vesting date, or whether and what proportion of an award may vest at the time of leaving
- How and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends)
- What the weighting, measures and targets should be for the Bonus and PSP each year

The Committee also retains the discretion to adjust existing targets and/or set different measures for the Bonus. For the PSP, if events happen that cause the Committee to determine the targets are no longer appropriate, an amendment could be made so the PSP can achieve its original purpose, with the new targets not materially less or more difficult to satisfy.

Any use of the above discretions would, where relevant, be explained in the Annual Report and may, as appropriate, be the subject of consultation with the Company's major shareholders.

The Group operates in a heavily regulated sector, the rules of which are subject to frequent amendment. The Committee therefore retains the discretion to make adjustments to payments under this Policy as required by financial services regulations.

Conflicts of interest

The Committee ensures that no Executive Director is present when their remuneration is being discussed and considers any potential conflicts prior to meeting materials being distributed and at the beginning of each meeting.

Awards granted prior to the effective date

Any commitments entered into with Executive Directors prior to the effective date of this Policy will be honoured. Details of any such payments will be set out in the Annual Report as they arise.

Remuneration Policy for other employees

The Committee has regard to pay structures across the Group when setting the Policy for Executive Directors and ensures that policies at and below the Executive Director level are coherent. There are no significant differences in the overall remuneration philosophy, although pay is generally more variable and linked more to the long-term for those at more senior levels. The Committee's primary reference point for the salary reviews for the Executive Directors is the average salary increase for the UK workforce, with the expectation that increases for Executive Directors will, other than in exceptional circumstances, be at or below the increase for the UK workforce (as a percentage of salary).

A Scorecard is used to assess Bonus outcomes throughout the Group, with measures weighted according to role, where relevant.

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

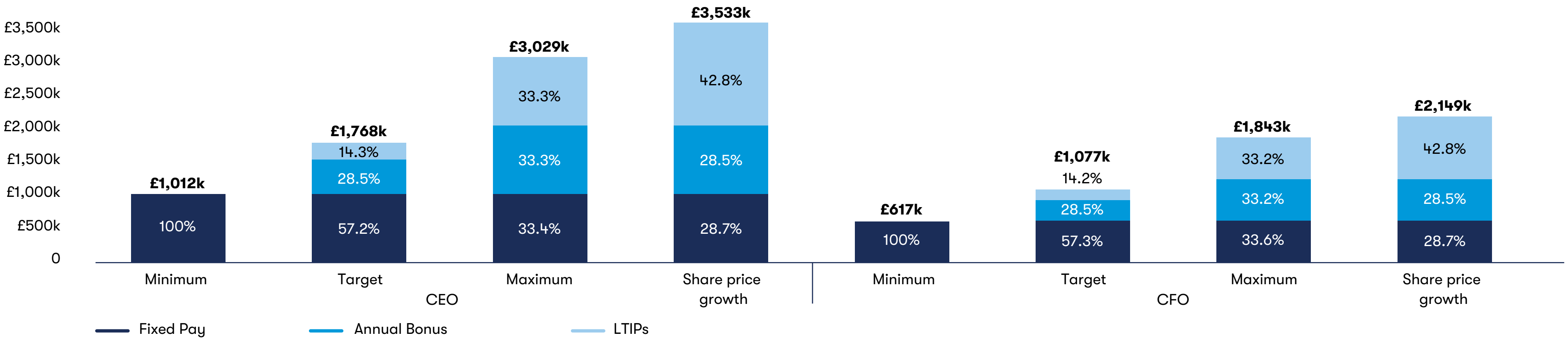
Although PSPs are awarded only to the most senior managers in the Group, the Group is committed to widespread equity ownership and a Sharesave Plan is available to all employees in the UK. Executive Directors are eligible to participate in this plan on the same basis as other employees.

Directors' Remuneration Report continued

Remuneration Policy continued

Illustration of application of Remuneration Policy

The chart below illustrates how the composition of the Executive Directors' remuneration packages would vary under various performance scenarios, based on the intended implementation in 2024.



1. Minimum performance assumes no award is earned under the Bonus and no vesting is achieved under the PSP – only fixed pay (salary, benefits and pension are payable).
2. At on-target, half of the Bonus is earned (i.e. 55% of salary) and 25% of maximum is achieved under the PSP (i.e. 27.5% of salary).
3. At maximum, full vesting is achieved under both the Bonus and PSP (i.e. 110% of salary under the Bonus and PSP for current Executive Directors).
4. At maximum, but illustrating the effect of a 50% increase in the share price on PSP awards.

Other than as noted in the chart above, share price growth and all-employee share plan participation are not considered in these scenarios.

The terms and provisions that relate to remuneration in the Executive Directors' service agreements are set out below. Service contracts are available for inspection at the Company's registered office.

Provision	Policy
Notice period	12 months on either side
Termination payments	A payment in lieu of notice may be made on termination to the value of the Executive Director's basic salary at the time of termination. Such payments may be made in instalments and in such circumstances can be reduced to the extent that the Executive Director mitigates their loss. Rights to Deferred Share Bonus Plan and PSP awards on termination are shown below. The employment of each Executive Director is terminable with immediate effect without notice in certain circumstances, including gross misconduct, fraud or financial dishonesty, bankruptcy or material breach of obligations under their service agreements
Remuneration	Salary, pension and core benefits are specified in the agreements. There is no contractual right to participate in the Bonus or to receive long-term incentive awards
Post-termination	These include six months' post-termination restrictive covenants against competing with the Group; nine months' restrictive covenants against dealing with clients or suppliers of the Group; and nine months' restrictive covenants against soliciting clients, suppliers and key employees
Contract date	Andy Golding, 12 February 2020; April Talintyre, 12 February 2020
Unexpired term	Rolling contracts

Directors' Remuneration Report continued

Remuneration Policy continued

Payments for loss of office

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

The Group may also pay reasonable legal costs in respect of any compromise settlement.

Annual bonus on termination

There is no automatic/contractual right to bonus payments and the default position is that the individual will not receive a payment. The Committee may determine that an individual is a 'good leaver' and may elect to pay a pro-rated bonus for the period of employment at its discretion and based on full-year performance.

Deferred share bonus awards on termination

Shares which are subject to a holding period will ordinarily be released at the normal time. Where a portion of the Bonus is deferred, subject to vesting conditions, beyond termination (e.g. to comply with FCA regulations), awards will be treated in line with the relevant plan rules and vest at the normal time.

Performance Share Plan awards on termination

Awards normally lapse on termination of employment. However, in certain 'good leaver' situations, awards may vest on the normal vesting date to the extent that the performance conditions are met. The Committee is, however, permitted under the PSP rules and FCA regulations to allow early vesting of the award to the extent it considers appropriate, taking into account performance to date. Unless the Committee determines otherwise, awards vesting in 'good leaver' situations will be pro-rated for the time employed during the performance period. Shares which are subject to a post-vesting holding period will ordinarily be released at the normal time.

The Committee will normally apply its discretion to allow PSP awards to vest at the normal time if an employee leaves for reason of resignation after the performance period has ended and performance has been tested, subject to the individual not joining a competing firm in a relevant role. Awards will lapse in full for participants that leave for reason of resignation before the performance has been tested. Where awards are retained after termination, vesting is still subject to malus and clawback provisions, as per normal operation of the awards.

Approach to recruitment and promotions

The remuneration package for a new Executive Director would be set in accordance with the terms of the Group approved Policy.

On recruitment, the salary may (but need not necessarily) be set lower than the relevant current Executive Director, with phased increases (which may be above the average increase for the wider employee population) as the new Executive Director gains experience. The salary would in all cases be set to reflect the individual's experience and skills and the scope of the role.

Bonus and PSP awards may each be up to 135% of salary for new Executive Directors, (as set out in the Policy table) to allow the Committee the flexibility to increase the weighting for variable pay should it be considered appropriate. The Committee will, in agreeing such a package consider the incoming Executive Director's skills and experience, the departing Executive Director's remuneration package, the remuneration package at their former employer and relevant market practice for similar roles.

The Group may take into account and compensate for remuneration foregone upon leaving a previous employer using cash awards, the Group's share plans, or awards under Listing Rule 9.4.2. This would include taking into account: the quantum foregone; the extent to which performance conditions apply; the form of award; and the time left to vesting. These would be structured in line with any regulatory requirements (such as the PRA Rulebook).

For all appointments, the Committee may agree that the Group will meet certain appropriate relocation costs.

For an internal appointment, including the situation where an Executive Director is appointed following corporate activity, any variable pay earnt whilst in their prior role would pay out according to its terms.

Should an individual be appointed to a role (Executive or Non-Executive) on an interim basis, the Company may provide additional remuneration, in line with the Policy, for the specific role for the duration the individual holds the interim role.

For the appointment of a new Chair or NED, the fee arrangement would be in accordance with the approved Policy in force at that time.

External appointments

Executive Directors may accept one directorship at another company with the consent of the Board, which will consider the time commitment required. The Executive Director would normally retain any fees from such an appointment.

Directors’ Remuneration Report continued

Remuneration Policy continued

The Remuneration Policy for the Chair and Non-Executive Directors

Element	Purpose and link to strategy	Operation and performance conditions	Maximum opportunity
Fees	To attract and retain a high-calibre Chair and NEDs by offering a market competitive fee	The Chair and NEDs are entitled to an annual fee, with supplementary fees payable for additional responsibilities including for being the Chair or member of the Group Audit, Group Nomination and Governance, Group Remuneration and People, and Group Risk Committees and for acting as the SID Fees are reviewed periodically and there are no performance conditions The Chair and NEDs are entitled to reimbursement of travel and other reasonable expenses incurred in the performance of their duties	There is no prescribed maximum annual increase. The Committee is guided by the general increase in the non-executive market but on occasion may need to recognise, for example, change in responsibility and/or time commitments

Letters of appointment

Letters of appointment set out the duties and responsibilities of NEDs. The key terms are:

Provision	Policy
Period of appointment	Initial three-year term, subject to annual re-election by shareholders. On expiry of the initial term and subject to the needs of the Board, NEDs may be invited to serve a further three years. Beyond nine years, NEDs will be appointed at the discretion of the Group Nomination and Governance Committee
Notice periods	Three months on either side. Terminable with immediate effect and without compensation or payment in lieu of notice if the Chair or NEDs are not elected or re-elected to their position as a Director of the Company by shareholders
Payment in lieu of notice	The Company is entitled to make a payment in lieu of notice on termination

Letters of appointment are available for inspection at the Company’s registered office. The effective dates of the current NEDs’ appointments are shown in the table below.

Non-Executive Director	Date of appointment
Kal Atwal	7 February 2023
Noël Harwerth	4 October 2019 (appointed to the CCFS Board in June 2017)[1]
Sarah Hedger	1 February 2019[1]
Rajan Kapoor	4 October 2019 (appointed to the CCFS Board in September 2016)[1]
Simon Walker	4 January 2022
David Weymouth	1 September 2017[1]

1. These dates reflect the date that each NED joined OneSavings Bank plc (prior to the insertion of OSB GROUP PLC as the holding company and listed entity).

Approval

This report was approved by the Board of Directors (on the recommendation of the Group Remuneration and People Committee) and signed on its behalf by:

Sarah Hedger
Chair of the Group Remuneration and People Committee
14 March 2024

Statement of Directors' Responsibilities

in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with UK-adopted International Financial Reporting Standards (IFRS) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for the year. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the UK;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and the Group enabling them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

Each of the persons who is a Director at the date of approval of this report confirms, to the best of their knowledge, that:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report/Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board and signed on its behalf by:

Jason Elphick
Group General Counsel and Company Secretary
14 March 2024

Directors' Report: other information

Share capital and rights attaching to shares

The Company had 393,187,681 ordinary shares of £0.01 each in issue as at 31 December 2023.

Further details relating to share capital can be found in note 40.

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share in the Company may be issued with such rights (including preferred, deferred or other special rights) or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine).

Authorities to allot and pre-emption rights

On 11 May 2023, shareholders re-established the general authority for the Directors to allot up to £1,434,146.62 of the nominal value of ordinary shares of £0.01 each. In addition, shareholders gave authority for the Directors to grant rights to subscribe for, or to convert any security into, regulatory capital convertible instruments up to £516,292.50 of the nominal value of ordinary shares equivalent to 12% of issued share capital.

Repurchase of shares

The Company has an unexpired authority to repurchase ordinary shares up to a maximum of 43,024,375 ordinary shares. During the year, the Company repurchased 38,243,031 ordinary shares as part of its £150m share repurchase programme announced to the market on 16 March 2023 (2022: £100m).

Employee share schemes

The details of the Company's employee share schemes are set out on pages 172-173 in the Directors' Remuneration Report and in the Employee engagement section below.

Results, dividends and dividend waiver

The results for the year are set out in the Statement of Comprehensive Income on page 193. Our dividend policy for 2023 remains a payout ratio of at least 25% of underlying profit after taxation to ordinary shareholders. The Directors recommend the payment of a final dividend of 21.8 pence per share for 2023 (2022: 21.8 pence), making a total ordinary dividend of 32.0 pence per share (2022: 30.5 pence). The recommended final dividend is subject to approval at the AGM on 9 May 2024 and, if approved, will be paid on 14 May 2024, with an ex-dividend date of 4 April 2024 and a record date of 5 April 2024.

The OSB GROUP PLC Employee Benefit Trust, which holds 188,106 shares in the Company in connection with the operation of the Group's share plans, has lodged standing instructions to waive dividends on shares held by it that have not been allocated to employees. The total amount of dividends waived during 2023 was £261,596.94.

Directors and Directors' interests

The names of the Directors who served during the year can be found in the attendance chart on page 114.

Directors' interests in the shares of the Company are set out on page 164 in the Directors' Remuneration Report. None of the Directors had interests in shares of the Company greater than 0.19% of the ordinary shares in issue. There have been no changes to Directors' interests in shares since 31 December 2023.

Equal opportunities

The Group is committed to applying its Group Diversity, Equity and Inclusion Policy at all stages of recruitment and selection. Short-listing, interviewing and selection will always be conducted without regard to gender, gender reassignment, sexual orientation, marital or civil partnership status, colour, race, nationality, ethnic or national origins, religion or belief, age, pregnancy or maternity leave or trade union membership. Any candidate with a disability will not be excluded unless it is clear that the candidate is unable to perform a duty that is intrinsic to the role, having taken into account reasonable adjustments. Reasonable adjustments to the recruitment process will be made to ensure that no applicant is disadvantaged because of disability. Line Managers conducting recruitment interviews will ensure that the questions they ask job applicants are not in any way discriminatory or unnecessarily intrusive. This commitment also applies to existing employees, with the necessary adjustments made, where there is a change in circumstances.

Employee engagement

Employees are kept informed of developments within the business and in respect of their employment through a variety of means, such as employee meetings, briefings and the intranet. Employee involvement is encouraged and views and suggestions are taken into account when planning new products and projects.

The Sharesave 'save as you earn' Scheme is an all-employee share option scheme which is open to all UK-based employees. The Sharesave Scheme allows employees to purchase options by saving a fixed amount of between £10 and £500 per month over a period of three years, at the end of which the options, subject to leaver provisions, are usually exercisable (options granted prior to 2021 have a lower limit of £5 and only three-year schemes will be offered from 2021 onwards). The Sharesave Scheme has been in operation since June 2014 and options are granted annually, with the exercise price set at a 20% discount of the share price on the date of grant.

Our Voice is in place to gather the views of the workforce to enable the Board and Group Executive Committee to consider a broadly representative range of stakeholder perspectives to guide strategic decisions for the future of the Group. Our Voice consists of volunteer representatives (of which there are 33 in total) from each of the various business areas and locations, as well as permanent members including a designated NED, Sarah Hedger (with effect from 11 May 2023); a member of the Group Executive Committee, Jason Elphick; and a representative from HR Management. Other NEDs and members of the Group Executive Committee are invited to attend meetings throughout the year and do so on a regular basis. Mary McNamara was the previous designated NED with responsibility for Our Voice until her retirement from the Board on 11 May 2023.

Members of the Board are keen to engage with employees across all locations and find the experience of visiting our branches and offices within the UK and India valuable.

Further information in relation to the Board's engagement with the Group's stakeholders including customers, intermediaries, shareholders, suppliers, regulators and communities, can be found on pages 117-126.

Directors' Report: other information continued

Four Our Voice meetings were held during 2023, with employee representatives encouraged to engage with colleagues within their nominated business areas and across all Group locations in advance of each meeting in order to identify topics impacting the workforce and which it is felt should be brought to the attention of the Board and Group Executive Committee. A number of items were considered and discussed by Our Voice, including the 2023 Bonus and Salary increase, 2023 Best Companies survey results and the governance of pay within the Group. Updates on the employee engagement networks were also considered including ESG and DE&I initiatives. The permanent members of Our Voice were particularly interested in feedback from the workforce in respect of employee morale and employee engagement.

The Group is committed to creating a great place to work, by fostering a truly inclusive culture where everyone can bring their true selves to work. Our DE&I Specialist has developed the Group's Diversity and Inclusion Strategy in line with the Respect Others value in 2023. Our Employee Engagement Network, Our Diversity, brings together a broad mix of colleagues from the UK and India, with a passion for driving our DE&I agenda.

The 2023 DE&I calendar has enabled the network to create and host a range of activities, aimed at raising awareness and providing resources, to support conversations relating to gender, ethnicity, faith/religion, disability, sexual orientation, identity, socio-economic background, and health and wellbeing. This year has seen a range of activity delivered with Group-wide contribution and engagement, such as colleague storytelling, Q&A panel discussions, face to face/online interactive sessions, external speaker and e-learning modules, that elevate the conversation around DE&I across the Group.

Further details can be found on pages 84-85.

Greenhouse gas emissions

Information relating to greenhouse gas emissions, energy consumption and actions towards energy efficiency can be found on pages 70 and 76-78

Political donations

Shareholder authority to make aggregate political donations not exceeding £50,000 was obtained at the AGM on 11 May 2023. Neither the Company nor any of its subsidiaries made any political donations during the year.

Notifiable interests in share capital

As at 31 December 2023, the Company had received the following notifications of major holdings of voting rights pursuant to the requirements of Rule 5 of the Disclosure Guidance and Transparency Rules:

	No. of ordinary shares	% of issued share capital
abrdn plc	24,874,897	5.79
GLG Partners LP[1]	20,127,566	4.99
Jupiter Fund Management PLC[2]	21,407,948	4.98
Norges Bank	17,386,770	4.05

1. Includes 0.5% of financial instruments.
2. Includes up to 0.03% of financial instruments.

No further notifications have been received since 31 December 2023.

Annual General Meeting

Accompanying this report is the Notice of the AGM which sets out the resolutions to be proposed to the meeting, together with an explanation of each. This year's AGM will be held at our offices at 90 Whitfield Street, Fitzrovia, London W1T 4EZ on 9 May 2024 at 11 am.

Shareholders may require the Directors to call a general meeting other than an AGM as provided by the Companies Act 2006.

Requests to call a general meeting may be made by members representing at least 5% of the paid-up capital of the Company as carries the right of voting at general meetings of the Company (excluding any paid-up capital held as treasury shares). A request must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. A request may be in hard copy form or in electronic form and must be authenticated by the person or persons making it. A request may be made in writing to the Company Secretary to the registered office or by sending an email to company.secretariat@osb.co.uk. At any general meeting convened on such request, no business shall be transacted, except that stated by the requisition or proposed by the Board.

Other information

Corporate sustainability

The Board has considered climate-related matters including the risks of climate change when preparing this Annual Report. 100% of the carbon dioxide equivalent emissions and energy consumption figures within this Annual Report relate to emissions in the UK and details can be found on pages 76-78.

UK Listing Authority Listing Rules (LR) – compliance with LR 9.8.4.02

The disclosures required under LR 9.8.4 are not applicable to the Group.

Likely future developments in the Group are contained in the Strategic Report on pages 21-23.

Information on financial instruments including financial risk management objectives and policies including the policy for hedging the exposure of the Group to price risk, credit risk, liquidity risk and cash flow risk can be found in the Risk review on pages 45-66.

Details on how the Company has complied with section 172 can be found throughout the Strategic and Directors' Reports and on pages 8 and 117-126.

Details relating to post-balance sheet events are set out in note 53.

Directors' Report: other information continued

Going concern statement

The Board undertakes regular rigorous assessments of whether the Group remains a going concern considering current and potential future economic conditions and all available information about future risks and uncertainties.

In assessing whether the going concern basis is appropriate, projections for the Group have been prepared, covering its future performance, capital and liquidity levels for a period in excess of 12 months from the date of approval of these Financial Statements. These forecasts have been subject to sensitivity tests utilising a range of stress scenarios, which have been compared to the latest economic scenarios provided by the Group's external economic advisors, as well as reverse stress tests.

The assessments include the following:

- Financial and capital forecasts were prepared utilising the latest economic forecasts provided by the Group's external economic advisors. Reverse stress tests were run to identify combinations of adverse movements in house prices and unemployment levels which would result in the Group breaching its minimum regulatory and total lose absorbing capital requirements. The reverse stress testing also considered what macroeconomic scenarios would be required for the Group to breach its interim 18% MREL requirement in July 2024. The Directors assessed the likelihood of those reverse stress scenarios occurring within the next 12 months and concluded that the likelihood is remote
- The latest liquidity and contingent liquidity positions and forecasts were assessed against the ILAAP stress scenarios
- The Group continues to assess the resilience of its business operating model and supporting infrastructure in the context of the emerging economic, business and regulatory environment. The key areas of focus continue to be the provision of the Group's Important Business Services, minimising the impact of any service disruptions on the Group's customers or the wider financial services industry. The Group recognises the need to continually invest in the resilience of its services, with specific focus in 2023 on ensuring that the third parties on which it depends have the appropriate levels of resilience and in further automating those processes that are sensitive to increases in volume. The Group produced its 2023 self-assessment report, which confirmed compliance with regulatory expectations, and that there were no items identified that could threaten the Group's viability over the going concern assessment time horizon

The Group's financial projections demonstrate that the Group has sufficient capital and liquidity to continue to meet its regulatory capital requirements as set out by the PRA.

The Board has therefore concluded that the Group has sufficient financial resources and expected operational resilience for a period in excess of 12 months and as a result, it is appropriate to prepare these Financial Statements on a going concern basis.

Key information in respect of the Group's ERMF and objectives and processes for mitigating risks, including liquidity risk, are set out in detail on pages 45-66.

Approved by the Board and signed on its behalf by:

Jason Elphick
Group General Counsel and Company Secretary OSB GROUP PLC

Registered number: 11976839

14 March 2024

Financial Statements

Independent Auditor's Report

to the members of OSB Group plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of OSB GROUP PLC (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company statements of cash flow;
- the related notes 1 to 53 of the consolidated financial statements; and
- the related notes 1 to 11 of the parent company financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and parent company for the year are disclosed in note 7 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • loan impairment provisions; and • effective interest rate income recognition. Within this report, key audit matters are identified as follows: Newly identified; Increased level of risk; Similar level of risk; Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £20.3m which was determined by reference to profit before tax and net assets.
Scoping	Our Group audit scope focused primarily on three subsidiaries subject to a full scope audit. The subsidiaries selected for a full scope audit were OneSavings Bank plc, Charter Court Financial Services Limited and Interbay ML Ltd. These three subsidiaries account for 98% of the Group's interest receivable and similar income, 95% of the Group's profit before tax, 97% of the Group's total assets and 99% of the Group's total liabilities. All audit work was performed by the Group engagement team.
Significant changes in our approach	In the prior year, our key audit matter in respect of effective interest rate (EIR) income recognition included estimating EIRs in respect of the Kent Reliance portfolios. The Group's income recognition on these portfolios is less sensitive to changes in customer prepayment behaviour relative to our audit materiality. This area no longer features in our EIR income recognition key audit matter which focuses on the Charter Court Financial Services Limited Precise portfolios.

Independent Auditor's Report continued

4. Conclusions relating to going concern
In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- We obtained and read management's going concern assessment, which included consideration of the Group's operational resilience, in order to understand, challenge and evidence the key judgements made by management;
- We obtained an understanding of relevant controls around management's going concern assessment;
- We obtained management's income statement, balance sheet and capital and liquidity forecasts and assessed key assumptions, including climate risk considerations, for reasonableness and their projected impact on capital and liquidity ratios, particularly with respect to loan book growth and potential credit losses;
- Supported by our in-house prudential risk specialists, we read the most recent ICAAP and ILAAP submissions, assessed management's capital and liquidity projections, assessed the results of management's capital reverse stress testing, evaluated key assumptions and methods used in the capital reverse stress testing model and tested the mechanical accuracy of the capital reverse stress testing model;
- We read correspondence with regulators to understand the capital and liquidity requirements imposed by the Group's regulators, and evidence any changes to those requirements;
- We met with the Group's lead regulator, the Prudential Regulation Authority, and discussed their views on existing and emerging risks to the Group and considered whether these were reflected appropriately in management's forecasts and stress tests;
- We assessed the historical accuracy of forecasts prepared by management;
- We assessed the impact of the ongoing economic uncertainty, including how further rises in living and borrowing costs may impact potential credit losses; and
- We evaluated the Group's disclosures on going concern against the requirements of IFRS and in view of the FRC guidance.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent Auditor's Report continued

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Loan impairment provisions

Refer to the judgements in applying accounting policies and critical accounting estimates on page 206 and Note 20 on page 219.

Key audit matter description

IFRS 9 requires loan impairment provisions to be recognised on an expected credit loss (ECL) basis. The estimation of ECL provisions in the Group's loan portfolios is inherently uncertain and requires significant judgements and estimates. We therefore consider this to be a key audit matter due to the risk of fraud or error in respect of the Group's ECL provisions. ECL provisions as at 31 December 2023 were £145.8m (2022: £130.0m), which represented 0.56% (2022: 0.54%) of loans and advances to customers. ECL provisions are calculated both for individually assessed loans and collectively on a portfolio basis which require the use of statistical models incorporating forward looking macroeconomic scenarios, probabilities of default (PD), exposures at default and assumptions on the recoverability of customers' outstanding balances.

The uncertain economic environment continues to increase the complexity in estimating ECL, particularly with regards to determining appropriate forward looking macroeconomic scenarios and identifying customers who have experienced significant increases in credit risk. Additionally, higher costs of living, rising borrowing costs and increasing arrears have increased the degree of subjectivity in estimating PDs.

We identified four specific areas in relation to ECL that require significant judgement or relate to assumptions to which the overall ECL provision is particularly sensitive.

- Significant increase in credit risk (SICR): The assessment of whether there has been a significant increase in credit risk between the date of initial recognition of the exposure and 31 December 2023. There is a risk that the Group's staging criteria does not capture SICR or are applied incorrectly.
- Macroeconomic scenarios: As set out on page 207, the Group sources economic forecasts from a third-party economics expert and then applies judgement to determine which scenarios to select and the probability weightings to assign. The Group considered four probability weighted scenarios, including base, upside, downside, and severe downside scenarios. The key economic variables used within the macroeconomics model were determined to be the house price index (HPI) and unemployment rate. The estimation of these variables involves a high degree of subjectivity and estimation uncertainty.
- Post model adjustment (PMA): As set out on page 219, the Group has assessed how costs of living and rising interest rates may impact customers' behaviour in the future and has continued to recognise a cost of living and cost of borrowing PMA to reflect the impact on the customers' affordability. The calculation of this PMA is inherently judgemental as it requires assessment of the extent of risks not captured in the expected credit loss provision models.
- Propensity to go into possession following default (PPD) and forced sale discount (FSD) assumptions: PPD measures the likelihood that a defaulted loan will progress into repossession. FSD measures the difference in sale proceeds between a sale under normal conditions and sale at auction. The loss given default (LGD) by loan assumed in the ECL provision calculation is highly sensitive to the PPD and FSD assumptions.

Independent Auditor's Report continued

How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant financial controls over the ECL provision with particular focus on controls over significant assumptions and judgements used in the ECL determination. To challenge the Group's SICR criteria, we: • Evaluated the Group's SICR policy and assessed whether it complies with IFRS 9; • Assessed the quantitative and qualitative thresholds used in the SICR assessment by reference to standard validation metrics including the proportion of transfers to stage two driven solely by being 30 days past due, the volatility of loans in stage two and the proportion of loans that spend little or no time in stage two before moving to stage three; • On a sample basis, tested the completeness and accuracy of the data used in applying the quantitative and qualitative criteria in the SICR assessment to assess whether loans were assigned to the correct stage; • Supported by our credit risk specialists, performed a review of changes to the computer codes used to perform the SICR assessment compared to the prior year; • As part of our testing of the application of the SICR criteria within the ECL model and with support from our credit risk specialists, we independently reperformed the Group's staging assessment across all three stages using our in-house analytics tool; and • Performed an independent assessment for a sample of loan accounts which exited forbearance, to determine whether they had been appropriately allocated to the correct stage. To challenge the Group's macroeconomic scenarios and the probability weightings applied, we: • Agreed the macroeconomics scenarios used in the ECL model to reports prepared by the third-party economics expert; • Assessed the competence, capability and objectivity of the third-party economics expert; • Supported by our economic specialists, assessed and challenged the scenarios considered and the probability weightings assigned to them in light of the economic environment as at 31 December 2023; • With the involvement of our economic specialists challenged the Group's economic outlook by reference to other available economic outlook data; • Compared the appropriateness of selected macroeconomic variables (HPI and unemployment) and the four probability weightings used in the macroeconomics model to those used by peer lenders; • Supported by our credit risk specialists, assessed the model methodology and performed a review of changes to the computer code used in the macroeconomics model which applies the scenarios to the relevant ECL components compared to the prior year; and • Supported by our credit risk specialists, assessed the performance of the macroeconomic model to confirm whether the economic variables previously selected were still appropriate through considering the modelled macroeconomic results relative to those observed in historical recessions. To challenge the Group's cost of living and cost of borrowing PMA, we: • Supported by our credit risk specialists, assessed whether the risks were already captured within the ECL models and determined the extent of risks to be captured by the PMA; • Evaluated the methodology, including key assumptions and assessed the computer codes used to determine the PMA; and • Tested the completeness, accuracy and relevance of the data used on a sample basis. To challenge the Group's PPD and FSD assumptions, we: • Supported by our credit risk specialists, performed a review of changes to the computer codes in the LGD models compared to the prior year; • Recalculated the PPD rates observed on defaulted loans and compared them to the rates used by the Group in the ECL models; • Recalculated the FSD observed on recent property sales on defaulted loans and compared them to the rates used by the Group in the ECL models; • Considered the findings raised in the Group's model monitoring and validation exercise and assessed the impact on the year-end provision; and • Performed a stand back test to consider potential contradictory evidence and assessed the appropriateness of PPD and FSD assumptions by comparison to industry peers.

Independent Auditor's Report continued

Key observations	We are satisfied that the SICR criteria and PPD and FSD assumptions in determining the ECL provision were reasonable. We observed that the macroeconomic scenarios selected by the directors and the probability weightings applied generate an appropriate portfolio loss distribution. We determined that the methodology assumptions used in determining the Group's cost of living and cost of borrowing PMA were reasonable. Overall, we determined that the loan impairment provisions were appropriately stated as at 31 December 2023.

5.2. Effective interest rate income recognition

Refer to the judgements in applying accounting policies and critical accounting estimates on page 207, the accounting policy on pages 200 and 201 and Notes 3 and 4 on pages 208 and 209.

Key audit matter description	In accordance with the requirements of IFRS 9, directly attributable fees, discounts, incentives and commissions on a constant yield basis (effective interest rate, EIR) are required to be spread over the expected life of the loan assets. EIR is complex and the Group's approach to determining the EIR involves the use of models and significant estimation in determining the behavioural life of loan assets. Given the complexity and judgement involved in accounting for EIR and given that revenue recognition is an area susceptible to fraud, there is an opportunity for management to manipulate the amount of interest income reported in the financial statements. The Group's net interest income for the year ended 31 December 2023 was £658.6m (2022: £709.9m). EIR adjustments arise from revisions to estimated cash receipts or payments for loan assets that occur for reasons other than a movement in market interest rates or credit losses. They result in an adjustment to the carrying amount of the loan asset, with the adjustment recognised in the income statement in interest receivable and similar income. As the EIR adjustments reflect changes to the timing and volume of forecast customer redemptions, they are inherently judgemental. The level of judgement exercised is increased where there is limited availability of historical repayment information. For the Precise loan portfolios, the EIR adjustments are sensitive to changes in the behavioural life curves. As set out on page 208, changes in the modelled behavioural life of these portfolios during the year resulted in an interest income loss of £182.5m (2022: £41.7m loss). The EIR adjustments have increased as a result of the rising interest rate environment in 2023 which accelerated customer prepayments of Precise loans compared to those originally modelled. The current economic environment continues to increase uncertainty with regards to forecasting expected behavioural lives and prepayment rates. We therefore considered there to be an increased level of risk in respect of this key audit matter in the current year.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over EIR, focusing on the calculation and review of EIR adjustments and the determination of prepayment curves. For the Precise portfolio, where the EIR adjustments were most significant and sensitive to changes in behavioural life, with the involvement of our analytics and modelling specialists, we ran the loan data for all products through our own independent EIR model, using the behavioural life curves derived by the Group. We compared our calculation of the EIR adjustment required to the amount recorded by the Group. A number of key assumptions are made to estimate the expected future behaviour of customers including consideration of recently observed behaviour. For these assumptions, we independently challenged the appropriateness of the assumptions considering the rising rate environment that has been experienced in the UK over the last year, economic forecasts of future interest rates and trends in customer behaviour observed in recent months. With the involvement of our analytics and modelling specialists, we independently derived a behavioural life curve using the Group's actual loan data over recent years, incorporating those assumptions that we considered reasonable. We used these curves in our own independent EIR model to calculate the EIR adjustments. We compared this output to the amounts recorded by the Group. We also tested the completeness and accuracy of a sample of inputs into the EIR model for originated loans.
Key observations	We determined that the EIR models and assumptions used were appropriate and that net interest income for the period is appropriately stated.

Independent Auditor's Report continued

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£20.3m (2022: £21.6m)	£17.9m (2022: £15.8m)
Basis for determining materiality	We determined materiality for the Group to be approximately 1% of net assets of £2,144.5m which equates to 5.4% of statutory profit before tax of £374.3m. The basis of materiality is consistent with prior year.	We determined materiality for the parent company by reference to 1% of net assets. This is consistent with prior year.
Rationale for the benchmark applied	Consistent with the prior year, we considered both net assets and a profit before tax based measure as benchmarks for determining materiality. We determined net assets to be the most relevant and stable benchmark to determine materiality.	The parent company is principally a holding company and we have therefore determined net assets to be the most relevant benchmark to determine materiality.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	60% (2022: 60%) of Group materiality	60% (2022: 60%) of parent company materiality
Basis and rationale for determining performance materiality	Group performance materiality was set at 60% of Group materiality (2022: 60%). In determining performance materiality, we considered a number of factors, including: our understanding of the control environment; our understanding of the business; and the low number of uncorrected misstatements identified in the prior year.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.0m (2022: £1.1m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

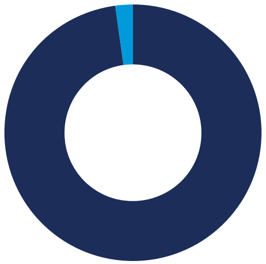
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls and assessing the risks of material misstatement at the Group level.

Our Group audit scope focused primarily on three subsidiaries: the two main banking entities OneSavings Bank plc and Charter Court Financial Services Limited, as well as Interbay ML Ltd, another significant lending subsidiary. These three subsidiaries were significant components and subject to a full scope audit (2022: three significant components subject to a full scope audit). They represent 98% (2022: 97%) of the Group's interest receivable and similar income, 95% (2022: 94%) of profit before tax, 97% (2022: 98%) of total assets and 99% (2022: 99%) of total liabilities. The subsidiaries were selected to provide an appropriate basis of undertaking audit work to address the risks of material misstatement including those identified as key audit matters above. Our audits of each of the subsidiaries were performed using lower levels of materiality based on their size relative to the Group. The materialities used for each subsidiary audit ranged from £3.8m to £17.9m (2022: £6.6m to £17.9m).

Independent Auditor's Report continued

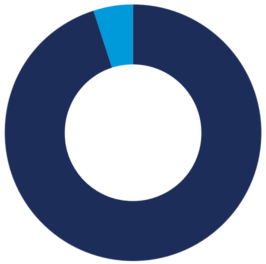
We tested the Group's consolidation process and carried out analytical procedures to confirm that there were no significant risks of material misstatement in the aggregated financial information of the remaining subsidiaries not subject to a full scope audit or specified audit procedures.

Interest receivable and similar income



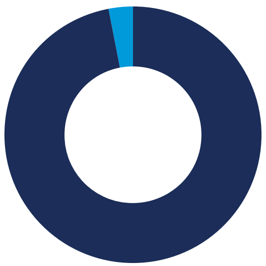
Full audit scope	98%
Review at group level	2%

Profit before tax



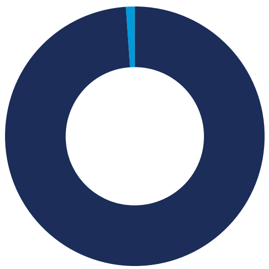
Full audit scope	95%
Review at group level	5%

Total assets



Full audit scope	97%
Review at group level	3%

Total liabilities



Full audit scope	99%
Review at group level	1%

7.2. Our consideration of the control environment

We identified the key IT systems relevant to the audit to be those used in financial reporting, lending and savings areas. For these systems, with the involvement of our IT specialists, we obtained an understanding of relevant general IT controls.

Where deficiencies were identified in the control environment, including deficiencies in IT controls, our risk assessment procedures included an assessment of those deficiencies to determine the impact on our audit plan. Where we were unable to identify or test mitigating controls, we adopted a non-controls reliance approach and performed additional substantive procedures. As a result of deficiencies identified in internal IT access controls across the Group, we amended our planned audit procedures to adopt a non-controls reliance approach over lending and related interest income, and deposit balances and related interest expense.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the impact of climate change on the Group's operations and impact on its financial statements. The Group has set out its commitments, aligned with the goals of the Paris Climate Accord, to be a net zero bank by 2050. Further information is provided in the Group's Strategic Report and Task Force on Climate-Related Financial Disclosures ("TCFD") on pages 94-102. The Group sets out its assessment of the potential impact of climate change on ECL on page 62 of the Risk Management section of the Annual Report and the potential impact on the financial statements in note 20 on page 219.

In conjunction with our climate risk specialists, we have held discussions with the Group to understand:

- the process for identifying affected operations, including the governance and controls over this process, and the subsequent effect on the financial reporting for the Group; and
- the long-term strategy to respond to climate change risks as they evolve.

Our audit work has involved:

- challenging the completeness of the physical and transition risks identified and considered in the Group's climate risk assessment and the conclusion that there is no material impact of climate change risk on current year financial reporting;
- with the involvement of our credit risk specialists, assessing management's approach to the incorporation and quantification of climate change risks within a PMA in the ECL provision, which included:
- assessing management's selected climate pathway used in order to quantify the potential impact of physical risks on the Group's loan book and in particular how the underlying property may be impacted as a result; and
- assessing the relevance of the data used in the assessment.

Assessing disclosures in the Annual Report, and challenging the consistency between the financial statements and the remainder of the Annual Report.

We have been engaged to provide limited assurance on the description of activities undertaken to meet the Recommendations of the Task Force on Climate-Related Financial Disclosures ("TCFD") and selected Environmental, Social and Governance metrics ("Selected ESG Metrics") (together the "Assured ESG Information") in the Annual Report for the year ended 31 December 2023. Please refer to page 262 for our separate assurance report.

Independent Auditor's Report continued

8. Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the board;
- results of our enquiries of management, internal audit, the directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Group's sector;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, real estate, IT, climate risk, prudential risk, economics, financial instruments, share based payments, credit risk and analytics and modelling specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: loan impairment provisions and effective interest rate income recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

Independent Auditor's Report continued

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's prudential regulatory requirements and capital, liquidity and conduct requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified loan impairment provisions and effective interest rate income recognition as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Prudential Regulation Authority, the Financial Conduct Authority and HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 181;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on pages 67 and 68;
- the directors' statement on fair, balanced and understandable set out on page 138;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 116;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 116; and
- the section describing the work of the audit committee set out on page 136 to 142.

Independent Auditor's Report continued

14. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 48 to the financial statements for the financial year ended 31 December 2023 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

15. Matters on which we are required to report by exception

15.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

16. Other matters which we are required to address

16.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the shareholders of the OSB GROUP plc on 17 November 2020 to audit the Group financial statements for the year ending 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is three years, covering the years ending 31 December 2020 to 31 December 2023.

Prior to our appointment to audit the parent company, we were auditor of the Group headed by OneSavings Bank plc, since 9 May 2019. The period of total uninterrupted engagement for OneSavings Bank plc, including previous renewals and reappointments of the firm, is four years, covering the year ended 31 December 2019 to 31 December 2023.

16.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

17. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements will form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS. We have been engaged to provide assurance on whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS and will report separately to the members on this.

Robert Topley FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
14 March 2024

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2023

	Note	2023 £m	2022 £m
Interest receivable and similar income	3	**1,767.0**	1,069.3
Interest payable and similar charges	4	**(1,108.4)**	(359.4)
Net interest income		**658.6**	709.9
Fair value (losses)/gains on financial instruments	5	**(4.4)**	58.9
Other operating income	6	**3.9**	6.6
Total income		**658.1**	775.4
Administrative expenses	7	**(234.6)**	(207.8)
Provisions	34	**(0.4)**	1.6
Impairment of financial assets	21	**(48.8)**	(29.8)
Integration costs	10	**–**	(7.9)
Profit before taxation		**374.3**	531.5
Taxation	11	**(91.7)**	(121.5)
Profit for the year		**282.6**	410.0
Other comprehensive expense			
Items which may be reclassified to profit or loss:			
Fair value changes on financial instruments measured at fair value through other comprehensive income (FVOCI):			
Arising in the year	16	**(0.2)**	0.3
Amounts reclassified to profit or loss for investment securities at FVOCI		**–**	(0.7)
Tax on items in other comprehensive expense		**0.1**	0.1
Revaluation of foreign operations		**(0.8)**	(0.2)
Other comprehensive expense		**(0.9)**	(0.5)
Total comprehensive income for the year		**281.7**	409.5

	Note	2023 £m	2022 £m
Dividend, pence per share	13	**32.0**	42.2
Earnings per share, pence per share			
Basic	12	**66.1**	90.8
Diluted	12	**65.0**	89.8

The above results are derived wholly from continuing operations.

The notes on page 197 to 250 form part of these accounts.

The financial statements on page 193 to 250 were approved by the Board of Directors on 14 March 2024.

Consolidated Statement of Financial Position

As at 31 December 2023

	Note	2023 £m	2022 £m
Assets			
Cash in hand		**0.4**	0.4
Loans and advances to credit institutions	15	**2,813.6**	3,365.7
Investment securities	16	**621.7**	412.9
Loans and advances to customers	17	**25,765.0**	23,612.7
Fair value adjustments on hedged assets	23	**(243.5)**	(789.0)
Derivative assets	22	**530.6**	888.1
Other assets	24	**27.6**	15.0
Current taxation asset		**0.6**	1.7
Deferred taxation asset	25	**3.9**	6.3
Property, plant and equipment	26	**43.8**	40.9
Intangible assets	27	**26.1**	12.0
Total assets		**29,589.8**	27,566.7
Liabilities			
Amounts owed to credit institutions	28	**3,575.0**	5,092.9
Amounts owed to retail depositors	29	**22,126.6**	19,755.8
Fair value adjustments on hedged liabilities	23	**21.9**	(55.1)
Amounts owed to other customers	30	**63.3**	113.1
Debt securities in issue	31	**818.5**	265.9
Derivative liabilities	22	**199.9**	106.6
Lease liabilities	32	**11.2**	9.9
Other liabilities	33	**39.6**	38.7
Provisions	34	**0.8**	0.4
Deferred taxation liability	35	**6.3**	22.3
Senior notes	36	**307.5**	–
Subordinated liabilities	37	**259.5**	–
Perpetual Subordinated Bonds	38	**15.2**	15.2
		27,445.3	25,365.7

	Note	2023 £m	2022 £m
Equity			
Share capital	40	**3.9**	4.3
Share premium	40	**3.8**	2.4
Other equity instruments	41	**150.0**	150.0
Retained earnings		**3,330.2**	3,389.4
Other reserves	42	**(1,343.4)**	(1,345.1)
Shareholders' funds		**2,144.5**	2,201.0
Total equity and liabilities		**29,589.8**	27,566.7

The notes on page 197 to 250 form part of these accounts. The financial statements on page 193 to 250 were approved by the Board of Directors on 14 March 2024 and signed on its behalf by

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 11976839

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

	Share capital £m	Share premium £m	Capital redemption and transfer reserve[1] £m	Own shares[2] £m	Foreign exchange reserve £m	FVOCI reserve £m	Share-based payment reserve £m	Retained earnings £m	Other equity instruments £m	Total £m
At 1 January 2022	4.5	0.7	(1,355.3)	(3.5)	(1.1)	0.6	13.4	3,215.1	150.0	2,024.4
Profit for the year	–	–	–	–	–	–	–	410.0	–	410.0
Other comprehensive expense	–	–	–	–	(0.2)	(0.4)	–	–	–	(0.6)
Tax on items in other comprehensive expense	–	–	–	–	–	0.1	–	–	–	0.1
Total comprehensive (expense)/income	–	–	–	–	(0.2)	(0.3)	–	410.0	–	409.5
Coupon paid on Additional Tier 1 (AT1) securities	–	–	–	–	–	–	–	(9.0)	–	(9.0)
Dividends paid	–	–	–	–	–	–	–	(133.1)	–	(133.1)
Share-based payments	–	1.7	–	–	–	–	(0.2)	8.4	–	9.9
Own shares[2]	–	–	–	1.3	–	–	–	(1.3)	–	–
Share repurchase	(0.2)	–	0.2	–	–	–	–	(100.7)	–	(100.7)
At 31 December 2022	4.3	2.4	(1,355.1)	(2.2)	(1.3)	0.3	13.2	3,389.4	150.0	2,201.0
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**282.6**	**–**	**282.6**
Other comprehensive expense	**–**	**–**	**–**	**–**	**(0.8)**	**(0.2)**	**–**	**–**	**–**	**(1.0)**
Tax on items in other comprehensive expense	**–**	**–**	**–**	**–**	**–**	**0.1**	**–**	**–**	**–**	**0.1**
Total comprehensive (expense)/income	**–**	**–**	**–**	**–**	**(0.8)**	**(0.1)**	**–**	**282.6**	**–**	**281.7**
Coupon paid on AT1 securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(9.0)**	**–**	**(9.0)**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(185.0)**	**–**	**(185.0)**
Share-based payments	**–**	**1.4**	**–**	**–**	**–**	**–**	**0.6**	**5.0**	**–**	**7.0**
Own shares[2]	**–**	**–**	**–**	**1.2**	**–**	**–**	**–**	**(1.2)**	**–**	**–**
Share repurchase	**(0.4)**	**–**	**0.4**	**–**	**–**	**–**	**–**	**(151.6)**	**–**	**(151.6)**
Tax recognised in equity	**–**	**–**	**–**	**–**	**–**	**–**	**0.4**	**–**	**–**	**0.4**
At 31 December 2023	**3.9**	**3.8**	**(1,354.7)**	**(1.0)**	**(2.1)**	**0.2**	**14.2**	**3,330.2**	**150.0**	**2,144.5**

1. Comprises Capital redemption reserve of £0.6m (2022: £0.2m) and Transfer reserve of £(1,355.3)m (2022: £(1,355.3)m).
2. The Group has adopted look-through accounting (see note 1 c) and recognised the Employee Benefit Trust (EBT) within OSBG.

Share capital and premium is disclosed in note 40 and the reserves are further analysed in note 42.

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	Note	2023 £m	2022 £m
Cash flows from operating activities			
Profit before taxation		**374.3**	531.5
Adjustments for non-cash and other items	49	**294.0**	63.7
Changes in operating assets and liabilities	49	**(139.5)**	(24.2)
Cash generated from operating activities		**528.8**	571.0
Net tax paid		**(103.6)**	(142.5)
Net cash generated from operating activities		**425.2**	428.5
Cash flows from investing activities			
Maturity and sales of investment securities		**366.3**	663.7
Purchases of investment securities		**(664.3)**	(596.5)
Interest received on investment securities		**22.6**	7.7
Purchases of property, plant and equipment and intangible assets	26,27	**(25.8)**	(11.7)
Net cash from investing activities		**(301.2)**	63.2
Cash flows from financing activities			
Financing received	39	**1,328.6**	429.5
Financing repaid	39	**(1,430.3)**	(324.2)
Interest paid on financing	39	**(205.4)**	(45.3)
Share repurchase[1]		**(152.4)**	(102.0)
Coupon paid on AT1 securities		**(9.0)**	(9.0)
Dividends paid	13	**(185.0)**	(133.1)
Proceeds from issuance of shares under employee Save As You Earn (SAYE) schemes		**1.4**	1.7
Repayments of principal portion of lease liabilities		**(2.0)**	(1.9)
Net cash from financing activities		**(654.1)**	(184.3)
Net (decrease)/increase in cash and cash equivalents		**(530.1)**	307.4
Cash and cash equivalents at the beginning of the year	14	**3,044.1**	2,736.7
Cash and cash equivalents at the end of the year	14	**2,514.0**	3,044.1
Movement in cash and cash equivalents		**(530.1)**	307.4

1. Includes £150.0m (2022: £100.0m) for shares repurchased, £0.8m (2022: £0.7m) transaction costs and £1.6m (2022: £1.3m) incentive fee.

Notes to the Consolidated Financial Statements

1. Accounting policies

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the United Kingdom (UK) and interpretations issued by the IFRS Interpretations Committee (IFRS IC).

The financial statements have been prepared on a historical cost basis, as modified by the revaluation of investment securities held at FVOCI and derivative contracts and other financial assets held at fair value through profit or loss (FVTPL) (see note 1 n) vi.).

The financial statements are presented in pounds sterling. All amounts in the financial statements have been rounded to the nearest £0.1m (£m). Foreign operations are included in accordance with the policies set out in this note.

b) Going concern

The Board undertakes regular rigorous assessments of whether the Group remains a going concern considering current and potential future economic conditions and all available information about future risks and uncertainties.

In assessing whether the going concern basis is appropriate, projections for the Group have been prepared, covering its future performance, capital, and liquidity levels for a period in excess of 12 months from the date of approval of these Financial Statements. These forecasts have been subject to sensitivity tests utilising a range of stress scenarios, which have been compared to the latest economic scenarios provided by the Group's external economic advisors, as well as reverse stress tests.

The assessments include the following:

- Financial and capital forecasts were prepared utilising the latest economic forecasts provided by the Group's external economic advisers. Reverse stress tests were run to identify combinations of adverse movements in house prices and unemployment levels which would result in the Group breaching its minimum regulatory and total loss absorbing capital requirements. The reverse stress testing also considered what macroeconomic scenarios would be required for the Group to breach its interim 18% MREL requirement in July 2024. The Directors assessed the likelihood of those reverse stress scenarios occurring within the next 12 months and concluded that the likelihood is remote.
- The latest liquidity and contingent liquidity positions and forecasts were assessed against the Internal Liquidity Adequacy Assessment Process (ILAAP) stress scenarios.
- The Group continues to assess the resilience of its business operating model and supporting infrastructure in the context of the emerging economic, business and regulatory environment. The key areas of focus continue to be the provision of the Group's Important Business Services, minimising the impact of any service disruptions on the firm's customers or the wider financial services industry. The Group recognises the need to continually invest in the resilience of its services, with specific focus in 2023 on ensuring that the third parties on which it depends have the appropriate levels of resilience and in further automating those processes that are sensitive to increases in volume. The Group produced it's 2023 self-assessment report, which confirmed compliance with regulatory expectations, and that there were no items identified that could threaten the Group's viability over the going concern assessment time horizon.

The Group's financial projections demonstrate that the Group has sufficient capital and liquidity to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority (PRA).

The Board has therefore concluded that the Group has sufficient financial resources and expected operational resilience for a period in excess of 12 months and as a result, it is appropriate to prepare these financial statements on a going concern basis.

c) Basis of consolidation

The Group accounts include the results of the Company and all its subsidiary undertakings. Subsidiaries are those entities, including structured entities, over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee.

Judgement is applied in assessing the relevant factors and conditions in totality when determining whether the Group controls an entity. Specifically, judgement is applied in assessing whether the Group has substantive decision-making rights over the relevant activities and whether it is exercising power as a principal or an agent.

The Group is not deemed to control an entity when it exercises power over an entity in an agency capacity. In determining whether the Group is acting as an agent, the Directors consider the overall relationship between the Group, the investee and other parties to the arrangement with respect to the following factors: (i) the scope of the Group's decision-making power; (ii) the rights held by other parties; (iii) the remuneration to which the Group is entitled; and (iv) the Group's exposure to variability of returns. The determination of control is based on the current facts and circumstances and is continuously assessed.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

c) Basis of consolidation continued

Where the Group does not retain a direct ownership interest in a securitisation entity, but the Directors have determined that the Group controls those entities, they are treated as subsidiaries and are consolidated. Control is determined to exist if the Group has the power to direct the activities of each entity (for example, managing the performance of the underlying mortgage assets and raising debt on those mortgage assets which is used to fund the Group) and, in addition to this, the Group is exposed to a variable return (for example, retaining the residual risk on the mortgage assets). Securitisation structures that do not meet these criteria are not treated as subsidiaries and are excluded from the consolidated accounts. The Group applies the net approach in accounting for securitisation structures where it retains an interest in the securitisation, netting the loan notes held against the deemed loan balance.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Upon consolidation, intercompany transactions, balances and unrealised gains on transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency, so far as is possible, with the policies adopted by the Group.

The Group's EBT is controlled and recognised by the Company using the look-through approach, i.e. as if the EBT is included within the accounts of the Company.

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less impairment. A full list of the Company's subsidiaries which are included in the Group's consolidated financial statements can be found in note 2 to the Company's financial statements on page 254 and 255.

d) Foreign currency translation

The financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the functional currency). Foreign currency transactions are translated into the functional currencies using the exchange rates prevailing at the date of the transactions. Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the period end.

e) Segmental reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports and components of the Group which are regularly reviewed by the chief operating decision maker to allocate resources to segments and to assess their performance. For this purpose, the chief operating decision maker of the Group is the Board of Directors.

The Group provides loans and asset finance within the UK and the Channel Islands only.

The Group segments its lending business and operates under two segments:

- OneSavings Bank (OSB)
- Charter Court Financial Services (CCFS)

The Group has disclosed relevant risk management tables in note 44 at a sub-segment level to provide detailed analysis of the Group's core lending business.

f) Interest income and expense

Interest income and interest expense for all interest-bearing financial instruments measured at amortised cost and FVOCI are recognised in profit or loss using the effective interest rate (EIR) method. The EIR is the rate which discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying value of the financial asset or liability.

Interest income on financial assets categorised as stage 1 or 2 are recognised on a gross basis, with interest income on stage 3 assets recognised net of expected credit losses (ECL).

For purchased or credit-impaired assets (see note 1 n) vii.), interest income is calculated by applying the credit-adjusted EIR to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis even if the credit risk of the asset improves. See note 1 n) ii. for further information on IFRS 9 stage classifications.

When calculating the EIR, the Group estimates cash flows considering all contractual terms of the instrument and behavioural aspects (for example, prepayment options) but not considering future credit losses. The calculation of the EIR includes transaction costs and fees paid or received that are an integral part of the interest rate, together with the discounts or premiums arising on the acquisition of loan portfolios. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial instrument.

The Group monitors the actual cash flows for each portfolio and resets cash flows on a monthly basis, discounted at the EIR to derive a new carrying value, with changes taken to profit or loss as interest income.

The EIR is adjusted where there is a movement in the reference interest rate (SONIA, synthetic LIBOR or base rate) affecting portfolios with a variable interest rate which will impact future cash flows. The revised EIR is the rate which exactly discounts the revised cash flows to the net carrying value of the loan portfolio.

Interest income on investment securities is included in interest receivable and similar income. Interest on derivatives is included in interest receivable and similar income or interest expense and similar charges following the underlying instrument it is hedging.

Coupons paid on AT1 securities are recognised directly in equity in the period in which they are paid.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

g) Fees and commissions

Fees and commissions which are an integral part of the EIR of a financial instrument are recognised as an adjustment to the EIR and recorded in interest income. The Group includes early redemption charges within the EIR.

Fees received on mortgage administration services and mortgage origination activities, which are not an integral part of the EIR, are recorded in other operating income and accounted for in accordance with IFRS 15 Revenue from Contracts with Customers, with income recognised when the services are delivered and the benefits are transferred to clients and customers.

Other fees and commissions are recognised on the accrual basis as services are provided or on the performance of a significant act, net of VAT and similar taxes.

h) Integration costs

Integration costs are items of income or expense arising from the merger of OSB and CCFS (the Combination) that do not relate to the Group's core operating activities, are not expected to recur and are material in the context of the Group's performance. These costs are disclosed separately within the Consolidated Statement of Comprehensive Income and the Notes to the Consolidated Financial Statements.

i) Taxation

Income tax comprises current and deferred tax. It is recognised in profit or loss, other comprehensive income (OCI) or directly in equity, consistent with the recognition of items it relates to. The Group recognises tax on coupons paid on AT1 securities directly in profit or loss.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available to utilise the asset. The recognition of deferred tax asset is mainly dependent on the projections of future taxable profits and future reversals of temporary differences. The current projections of future taxable income indicate that the Group will be able to utilise its deferred tax asset within the foreseeable future.

Deferred tax liabilities are recognised for all taxable temporary differences.

The Company and its tax-paying UK subsidiaries are in a group payment arrangement for corporation tax and show a net corporation tax liability and deferred tax liability accordingly.

The Company and its UK subsidiaries are in the same VAT group.

j) Dividends

Dividends are recognised in equity in the period in which they are paid or, if earlier, approved by shareholders.

k) Cash and cash equivalents

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents comprise cash, non-restricted balances with credit institutions and highly liquid financial assets with maturities of less than three months from date of acquisition, subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

l) Intangible assets

Purchased software and costs directly associated with the development of computer software are capitalised as intangible assets where the software is a unique and identifiable asset controlled by the Group and will generate future economic benefits. Costs to establish technological feasibility or to maintain existing levels of performance are recognised as an expense. The Group only recognises internally generated intangible assets if all of the following conditions are met:

- an asset is being created that can be identified after establishing the technical and commercial feasibility of the resulting product;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Subsequent expenditure on an internally generated intangible asset, after its purchase or completion, is recognised as an expense in the period in which it is incurred. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

An intangible asset is only recognised if:

- The Group has the contractual right to take possession of the software during the hosting period without significant penalty; and
- It is feasible for the Group to run the software on its own hardware or contract with a party unrelated to the supplier to host the software.

The costs of configuring or customising supplier application software in a Software-as-a-service (SaaS) arrangement that is determined to be a service contract is recognised as an expense or prepayment. SaaS is an arrangement that provides the Group with the right to receive access to the supplier's application software in the future which is treated as a service contract, rather than a software lease or the acquisition of a software intangible asset. Where the configuration and customisation services are not distinct from the right to receive access to the software, then the costs are recognised as an expense over the term of the arrangement.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

l) Intangible assets continued

Intangible assets are reviewed for impairment at least semi-annually, and if they are considered to be impaired, are written down immediately to their recoverable amounts. Impairment losses previously recognised for intangible assets, other than goodwill, are reversed when there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss reversal is recognised in the Consolidated Statement of Comprehensive Income and the carrying amount of the asset is increased to its recoverable amount.

Intangible assets are amortised in profit or loss over their estimated useful lives as follows:

Software licence	3–5 year straight line
Brand	4 year straight line
Broker relationships	5 year profile
Bank licence	3 year straight line

For development costs of assets that are under construction, no amortisation is applied until the asset is available for use and is calculated using a full month when available for use.

The Group reviews the amortisation period on an annual basis. If the expected useful life of an asset is different from previous assessments, the amortisation period is changed accordingly.

m) Property, plant and equipment

Property, plant and equipment comprise freehold land and buildings, major alterations to office premises, computer equipment and fixtures measured at cost less accumulated depreciation. These assets are reviewed for impairment annually, and if they are considered to be impaired, are written down immediately to their recoverable amounts.

Items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful economic lives as follows:

Buildings	50 years
Fixtures & fittings, computer hardware and vehicles	5 years
Leasehold improvements	Shorter of useful life or lease term

Land, deemed to be 25% of purchase price of buildings, is not depreciated.

n) Financial instruments

i. Recognition

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated or acquired. All other financial instruments are accounted for on the trade date which is when the Group becomes a party to the contractual provisions of the instrument.

For financial instruments classified as amortised cost or FVOCI, the Group initially recognises financial assets and financial liabilities at fair value plus transaction income or costs that are directly attributable to its origination, acquisition or issue. Financial instruments classified as amortised cost are subsequently measured using the EIR method.

Transaction costs directly attributable to the acquisition or issue of a financial instrument at FVTPL are recognised in profit or loss as incurred.

ii. Classification

The Group classifies financial instruments based on the business model and the contractual cash flow characteristics of the financial instruments. In accordance with IFRS 9, the Group classifies financial assets into one of three measurement categories:

- **Amortised cost** – assets in a business model to hold financial assets in order to collect contractual cash flows, where the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.
- **FVOCI** – assets held in a business model which collects contractual cash flows and sells financial assets, where the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.
- **FVTPL** – assets not measured at amortised cost or FVOCI. The Group measures derivatives, an acquired mortgage portfolio and an investment security under this category.

The Group reassesses its business models each reporting period.

The Group classifies non-derivative financial liabilities as measured at amortised cost.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

n) Financial instruments continued

The Group classifies certain financial instruments as equity where they meet the following conditions:

- the financial instrument includes no contractual obligation to deliver cash or another financial asset on potentially unfavourable conditions;
- the financial instrument is a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or
- the financial instrument is a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

The Group's sources of debt funding are deposits from retail customers and credit institutions, including collateralised loan advances from the Bank of England (BoE) under the Term Funding Scheme with additional incentives for SMEs (TFSME), asset-backed loan notes issued through the Group's securitisation programmes, subordinated liabilities and senior notes. Cash received under the TFSME is recorded in amounts owed to credit institutions. Financial liabilities including the Sterling Perpetual Subordinated Bonds (PSBs) and Tier 2 instruments where the terms allow no absolute discretion over the payment of interest.

During the year equity financial instruments comprised own shares and AT1 securities. AT1 securities are designated as equity instruments and recognised at fair value on the date of issuance in equity along with incremental costs directly attributable to the issuance of equity instruments. Accordingly, the coupons paid on AT1 securities are recognised directly in retained earnings when paid.

iii. Derecognition

The Group offers refinancing options to customers which have been assessed within the principles of IFRS 9 and relevant guidance. The assessment concludes the original mortgage asset is derecognised at the refinancing point with a new financial asset recognised.

The forbearance measures offered by the Group are considered a modification event as the contractual cash flows are renegotiated or otherwise modified. The Group considers the renegotiated or modified cash flows are not a substantial modification from the contractual cash flows and does not consider that forbearance measures give rise to a derecognition event.

Financial liabilities are derecognised only when the obligation is discharged, cancelled or has expired.

iv. Offsetting

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

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

v. Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, less principal payments or receipts, plus or minus the cumulative amortisation using the EIR method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment of assets.

vi. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Group measures its investment securities and PSBs at fair value using quoted market prices where available.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

The Group uses SONIA curves to value its derivatives. The fair value of the Group's derivative financial instruments incorporates credit valuation adjustments (CVA) and debit valuation adjustments (DVA). The DVA and CVA take into account the respective credit ratings of the Group's two banking entities and counterparty and whether the derivative is collateralised or not. Derivatives are valued using discounted cash flow models and observable market data and are sensitive to benchmark interest and basis rate curves.

The fair value of investment securities held at FVTPL is measured using a discounted cash flow model.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

n) Financial instruments continued

vii. Identification and measurement of impairment of financial assets

The Group assesses all financial assets for impairment.

Loans and advances to customers

The Group uses the IFRS 9 three-stage ECL approach for measuring impairment. The three impairment stages are as follows:

- **Stage 1** – a 12 month ECL allowance is recognised where there is no significant increase in credit risk (SICR) since initial recognition.
- **Stage 2** – a lifetime ECL allowance is recognised 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 recognised.

The Group measures impairment through the use of individual and modelled assessments.

Individual assessment

The Group's provisioning process requires individual assessment for high exposure or higher risk loans, where Law of Property Act (LPA) receivers have been appointed, the property is taken into possession or there are other events that suggest a high probability of credit loss. The individual assessments are carried out for all the loans associated with one counterparty.

The Group estimates cash flows from these loans, including expected interest and principal payments, rental or sale proceeds, selling and other costs.

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

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

IFRS 9 modelled impairment

Measurement of ECL

The assessment of credit risk and the estimation of ECL are unbiased and probability weighted. 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 SICR has occurred is based on quantitative relative and absolute PD thresholds and a suite of qualitative triggers.

Significant increase in credit risk (movement to stage 2)

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

At the point of initial recognition, a loan is assigned a PD estimate. For each monthly reporting date thereafter, an updated PD estimate is computed. The Group's transfer criteria analyse relative and absolute changes in PD versus the PD assigned at the point of origination, together with qualitative triggers using both internal indicators, such as forbearance, and external information, such as changes in income and adverse credit information to assess for SICR. In the event that given early warning triggers have not already identified SICR, an account more than 30 days past due is considered to have experienced a SICR.

A borrower will move back into stage 1 only if the SICR definition is no longer triggered.

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:

- If an account is more than 90 days past due.
- Accounts that have moved into an unlikely to pay position, which includes some forbearance, bankruptcy, repossession and interest-only term expiry.

A borrower will move out of stage 3 when its credit risk improves such that it no longer meets the 90 days past due and unlikely 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.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

n) Financial instruments continued

Forward-looking macroeconomic scenarios

The risk of default and ECL assessments take 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), Consumer Price Index (CPI), Gross Domestic Product (GDP), Commercial Real Estate Index (CRE) and the Bank of England Base Rate (BBR).

The Group has developed 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 sources economic forecast information from an appropriately qualified third party when determining scenarios. The Group considers four probability-weighted scenarios, base, upside, downside and severe downside scenarios. The expected scenarios, management actions and results are discussed and approved by the Board.

The base case is also utilised within the Group's impairment forecasting process which in turn feeds the wider business planning processes. The ECL models are also used to set the Group's credit risk appetite thresholds and limits.

Period over which ECL is measured

ECL 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 measuring ECL (either 12 months or 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 the Group's definition of default (90 days past due or an unlikely to pay position) at acquisition are treated as POCI assets. These assets attract a lifetime ECL allowance over the full term of the loan, even when these loans no longer meet the definition of default post-acquisition. The Group does not originate credit-impaired loans.

Write-off

Loans are written off against the related provision when the underlying security is sold and there is a shortfall amount remaining. Subsequent recoveries of amounts previously written off are taken through profit and loss. Accounts that are derecognised for accounting purposes will continue to be serviced and corresponding collection procedures are only discontinued following approval from the Group Chief Credit Officer.

Intercompany loans

Intercompany receivables in the 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 does not recognise a provision against the carrying balances.

Share repurchase

Upon Board authorisation of a share repurchase programme and signing an irrevocable agreement, a share repurchase liability is recognised in other liabilities with the offset in retained earnings. Each share repurchase reduces the provision. Upon share cancellation, share capital is debited with a credit to the capital redemption reserve equal to the nominal value of £0.01 for each share cancelled.

o) Loans and advances to customers

Loans and advances to customers are predominantly mortgage loans and advances to customers with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell in the near term. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the EIR method, less impairment losses. Where exposures are hedged by derivatives, designated and qualifying as fair value hedges, the fair value adjustment for the hedged risk to the carrying value of the hedged loans and advances is reported in fair value adjustments for hedged assets.

Loans and the related provision are written off when there is a shortfall remaining after the underlying security is sold. Subsequent recoveries of amounts previously written off are taken through profit or loss.

Loans and advances to customers over which the Group transfers its rights to the collateral thereon to the BoE under the TFSME and ILTR schemes are not derecognised from the Consolidated Statement of Financial Position, as the Group retains substantially all the risks and rewards of ownership, including all cash flows arising from the loans and advances and exposure to credit risk. The Group classifies TFSME and ILTR as amortised cost under IFRS 9 Financial Instruments.

Loans and advances to customers include a small acquired mortgage portfolio where the contractual cash flows include payments that are not SPPI and as such are measured at FVTPL.

Loans and advances to customers include the Group's asset finance lease lending. Finance leases are initially measured at an amount equal to the net investment in the lease, using the interest rate implicit in the finance lease. Direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term. Finance income is recognised over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

p) Investment securities

Investment securities include securities held for liquidity purposes (UK treasury bills, UK Gilts and Residential Mortgage-Backed Securities (RMBS)). These assets are non-derivatives that are classified on an individual basis as amortised cost, FVOCI or FVTPL.

q) Sale and repurchase agreements

Financial assets sold subject to repurchase agreements (repo) continue to be recognised in the financial statements if they fail the derecognition criteria of IFRS 9 described in paragraph n) iii. above. The financial assets that are retained in the financial statements are reflected as loans and advances to customers or investment securities and the counterparty liability is included in amounts owed to credit institutions or other customers. Financial assets purchased under agreements to resell at a predetermined price where the transaction is financing in nature (reverse repo) are accounted for as loans and advances to credit institutions. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreement using the EIR method.

r) Derivative financial instruments

The Group uses derivative financial instruments (interest rate swaps) to manage its exposure to interest rate risk. The Group does not hold or issue derivative financial instruments for proprietary trading.

The Group also uses derivatives to hedge the interest rate risk inherent in irrevocable offers to lend. This exposes the Group to movements in the fair value of derivatives until the loan is drawn. The changes to fair value are recognised in profit or loss in the period.

s) Hedge accounting

The Group has chosen to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of IFRS 9. The Group uses fair value hedge accounting for a portfolio hedge of interest rate risk.

The hedging strategy of the Group is divided into portfolio hedges, where the hedged item is a homogenous portfolio of assets (mortgage lending) or liabilities (savings products), and micro hedges, where the hedged item is a distinctly identifiable asset or liability (debt issuance). The Group applies fair value hedge accounting for both its portfolio and micro hedges.

i. Portfolio hedges

Portfolio hedge accounting allows for hedge effectiveness testing and accounting over an entire portfolio of financial assets or liabilities. The Group applies fair value portfolio hedge accounting to its fixed rate portfolio of mortgages and saving accounts. The hedged portfolio is analysed into repricing time periods based on expected repricing dates, utilising the Group Assets and Liabilities Committee (ALCO) approved prepayment curve. Interest rate swaps are designated against the repricing time periods to establish the hedge relationship.

ii. Micro hedges

The Group's micro hedging strategy entails hedge accounting on an individual instrument-by-instrument basis, which in some instances may be implemented through partial term fair value hedging where the instrument may be exercised early. The Group applies fair value micro hedge accounting to manage its exposure to the interest rate risk arising from some of its fixed rate debt issuances. Interest rate swaps are assigned to specific issuances of fixed rate notes with terms that closely align with the hedged item.

iii. Hedge effectiveness

Hedge effectiveness is calculated as a percentage of the fair value movement of the interest rate swap against the fair value movement of the hedged item over the period tested.

The Group considers the following as key sources of hedge ineffectiveness:

- the mismatch in maturity date of the swap and hedged item, as swaps with a given maturity date cover a portfolio of hedged items which may mature throughout the month;
- the actual behaviour of the hedged item differing from expectations, such as early repayments or withdrawals and arrears;
- minimal movements in the yield curve leading to ineffectiveness where hedge relationships are sensitive to small value changes; and
- the mismatch in the swap interest rate and rate used to value the hedged item where the swap rate is higher than the contractual rate of the hedged item.

Where there is an effective hedge relationship for fair value hedges, the Group recognises the change in fair value of each hedged item in profit or loss with the cumulative movement in their value being shown separately in the Consolidated Statement of Financial Position as fair value adjustments on hedged assets and liabilities. The fair value changes of both the derivative and the hedge substantially offset each other to reduce profit volatility.

The Group discontinues hedge accounting when the derivative ceases through expiry, when the derivative is cancelled or the underlying hedged item matures, is sold or is repaid.

If a derivative no longer meets the criteria for hedge accounting or is cancelled whilst still effective, including LIBOR-linked derivatives cancelled as a result of IBOR reforms, the fair value adjustment relating to the hedged assets or liabilities within the hedge relationship prior to the derivative becoming ineffective or being cancelled remains on the Consolidated Statement of Financial Position and is amortised over the remaining life of the hedged assets or liabilities. The rate of amortisation over the remaining life is in line with expected income or cost generated from the hedged assets or liabilities. Each reporting period, the expectation is compared to actual with an accelerated run-off applied where the two diverge by more than set parameters.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

t) Debit and credit valuation adjustments

The DVA and CVA are included in the fair value of derivative financial instruments. The DVA is based on the expected loss a counterparty faces due to the risk of the Group's two banking entities defaulting. The CVA reflects the Group's risk of the counterparty's default.

The methodology is based on a standard calculation, taking into account the credit rating of the swap counterparty, time to maturity, the fair value of the swap and any collateral arrangements.

u) Provisions and contingent liabilities

A provision is recognised when there is a present obligation as a result of a past event, it is probable that the obligation will be settled and the amount can be estimated reliably.

Provisions include ECLs on the Group's undrawn loan commitments.

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events which are either not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but disclosed unless they are not material or their probability is remote.

v) Employee benefits – defined contribution scheme

The Group contributes to defined contribution personal pension plans or defined contribution retirement benefit schemes for all qualifying employees who subscribe to the terms and conditions of the schemes' policies.

Obligations for contributions to defined contribution pension arrangements are recognised as an expense in profit or loss as incurred.

w) Share-based payments

Equity-settled share-based payments to employees providing services are measured at the fair value of the equity instruments at the grant date in accordance with IFRS 2. The fair value excludes the effect of non-market-based vesting conditions.

The cost of the awards is charged on a straight-line basis to profit or loss (with a corresponding increase in the share-based payment reserve within equity) over the vesting period in which the employees become unconditionally entitled to the awards. The increase within the share-based payment reserve is reclassified to retained earnings upon exercise.

The amount recognised as an expense for non-market conditions and related service conditions is adjusted each reporting period to reflect the actual number of awards expected to be met. The amount recognised as an expense for awards subject to market conditions is based on the proportion that is expected to meet the condition as assessed at the grant date. No adjustment is made to the fair value of each award calculated at grant date.

Share-based payments that are not subject to further vesting conditions (i.e. the Deferred Share Bonus Plan (DSBP) for senior managers) are expensed in the year services are received with a corresponding increase in equity.

Where the allowable cost of share-based options or awards for tax purposes is greater than the cost determined in accordance with IFRS 2, the tax effect of the excess is taken to the share-based payment reserve within equity. The tax effect is reclassified to retained earnings upon vesting.

Employer's national insurance is charged to profit or loss at the share price at the reporting date on the same service or vesting schedules as the underlying options and awards.

Own shares are recorded at cost and deducted from equity and represent shares of OSBG that are held by the EBT.

x) Leases

The Group's leases are predominantly for offices and Kent Reliance branches where the Group is a lessee. At lease commencement date, the Group recognises the right-of-use asset and lease liability on the statement of financial position, except for leases of low-value assets and short-term leases of 12 month or less are recognised directly in profit or loss on a straight-line basis over the lease term.

Lease liability payments are recognised within financing activities in the Consolidated Statement of Cash Flows.

The Group assesses the likely impact of early terminations in recognising the right-of-use asset and lease liability where an option to terminate early exists.

For modifications that increase the length of a lease; the modified lease term is determined and the lease liability remeasured by discounting the revised lease payments using a revised discount rate, at the effective date of the lease modification; a corresponding adjustment is made to the right-of-use asset. Where modifications decrease the length of a lease, the lease liability and right-of-use asset are reduced in proportion to the reduction in the lease term, with any gain or loss recognised in profit or loss.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

y) Adoption of new standards

International financial reporting standards issued and adopted for the first time in the year ended 31 December 2023

The 2023 financial statements incorporate the guidance set out in *Disclosure of Accounting Policies (Amendments to IAS 1)* which requires entities to disclose 'material' rather than 'significant' accounting policies. Accordingly, Note 1 has been amended to remove general IFRS guidance so that disclosures focus on entity-specific accounting, areas of significant judgement or assumptions and material transactions where the accounting required is complex.

The Group has applied the temporary exception issued by the International Accounting Standards Board (IASB) in May 2023 from the accounting requirements for deferred taxes in IAS 12 'Income Taxes'. Accordingly, the Group neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar 2 income taxes. There were a number of other minor amendments to financial reporting standards that are effective for the current year. There has been no material impact on the financial statements of the Group from the adoption of these financial reporting standard amendments and interpretations.

International financial reporting standards issued but not yet effective which are applicable to the Group

Certain amendments to accounting standards and interpretations that were not effective on 31 December 2023 have not been early adopted by the Group. The adoption of these amendments is not expected to have a material impact on the financial statements of the Group in future periods.

2. Judgements in applying accounting policies and critical accounting estimates

In preparing these financial statements, the Group has made judgements, estimates and assumptions which affect the reported amounts within the current and future financial years. Actual results may differ from these estimates.

As set out in Strategic report on page 94, climate change is a global challenge and an emerging risk to businesses, people and the environment. Therefore, in preparing the financial statements, the Group has considered the impact of climate-related risks on its financial position and performance, including the impact on ECL and redemption profiles included in EIR. While the effects of climate change represent a source of uncertainty, the Group does not consider there to be a material impact on its judgements and estimates from the physical or transition risks in the short term. As part of the Group's recognition of climate risk and overall ESG agenda, the Group considers the physical risks of climate change with the removal of the transitional risk to reflect Government's decision to postpone the EPC Climate Bill. The transitional risk was the most significant component of the PMA that considered properties with lower energy efficiency likely to require investment to reach minimum energy efficiency standards, and has such resulted in the reduction in the PMA where the Group held £0.5m (2022: £4.4m).

Estimates and judgements are regularly reviewed based on past experience, expectations of future events and other factors.

Judgements

The Group has made the following key judgements in applying the accounting policies:

(i) Loan book impairments

Significant increase in credit risk for classification in stage 2

The Group's SICR rules considers changes in default risk, internal impairment measures, changes in customer credit bureau files, or whether forbearance measures had been applied.

(ii) IFRS 9 classification

Application of the 'business model' requirements under IFRS 9 requires the Group to conclude on the business models that it operates and is a fundamental aspect in determining the classification of the Group's financial assets.

Management assessed the intention for holding financial assets and the contractual terms of those assets, concluding that the Group's business model is a 'held to collect' business model. This conclusion was reached on the basis that the Group originates and purchases loans and advances with the intention to collect contractual cash flows over the life of the originated or purchased financial instrument.

The Group considers whether the contractual terms of a financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding when applying the classification criteria of IFRS 9. The majority of the Group's assets being loans and advances to customers which have been accounted for under amortised cost with the exception of one acquired mortgage book of £13.7m (2022: £14.6m) that is recognised at FVTPL.

Estimates

The Group has made the following estimates in the application of the accounting policies that have a significant risk of material adjustment to the carrying amount of assets and liabilities within the next financial year:

(i) Loan book impairments

Set out below are details of the critical accounting estimates which underpin loan impairment calculations. Less significant estimates are not discussed as they do not have a material effect. The Group has recognised total impairments of £145.8m (2022: £130.0m) at the reporting date as disclosed in note 20.

Modelled impairment

Modelled provision assessments are also subject to estimation uncertainty, underpinned by a number of estimates being made by management which are utilised within impairment calculations. Key areas of estimation within modelled provisioning calculations include those regarding the LGD and forward-looking macroeconomic scenarios.

Notes to the Consolidated Financial Statements continued

2. Judgements in applying accounting policies and critical accounting estimates continued

Estimates continued

Loss given default model

The Group has a number of LGD models, which include estimates regarding propensity to go to possession given default (PPD), forced sale discount, time to sale and sale costs. The LGD is sensitive to the application of the HPI, with an 8% haircut (2022: a 10% haircut) seen to be a reasonable percentage change when reviewing historical and expected 12 month outcomes. The table below shows the resulting incremental provision required in an 8% house price haircut (2022: a 10% house price haircut) being directly applied to all exposures which not only adjust the sale discount but the propensity to go to possession.

	2023 £m	2022 £m
OSB	**25.6**	28.0
CCFS	**11.6**	10.7
Group	**37.2**	38.7

The Group's forecasts of HPI movements used in the impairment models are disclosed in the Risk profile performance review on page 62.

Forward-looking macroeconomic scenarios

The forward-looking macroeconomic scenarios affect all model components of the ECL thus the calculation remains sensitive to both the scenarios utilised and their associated probability weightings.

The Group has adopted an approach which utilises four macroeconomic scenarios. These scenarios are provided by a reputable economics advisory firm, providing management and the Board with advice on which scenarios to utilise and the probability weightings to attach to each scenario. A base case forecast is provided, together with a plausible upside scenario. Two downside scenarios are also provided (downside and a severe downside). The Group's macroeconomic scenarios can be found in the Credit Risk section of the Risk profile performance overview on page 62.

The following tables detail the ECL scenario sensitivity analysis with each scenario weighted at 100% probability. The sensitivity analysis is performed without considering the staging shifts driven by relative or absolute PD thresholds. The purpose of using multiple economic scenarios is to model the non-linear impact of assumptions surrounding macroeconomic factors and ECL calculated:

As at 31 December 2023	Weighted (see note 20)	100% Base case scenario	100% Upside scenario	100% Downside scenario	100% Severe downside scenario
Total loans before provisions, £m	**25,897.1**	**25,897.1**	**25,897.1**	**25,897.1**	**25,897.1**
Modelled ECL, £m	**97.2**	**76.8**	**60.5**	**138.1**	**206.8**
Individually assessed provisions ECL, £m	**25.1**	**25.1**	**25.1**	**25.1**	**25.1**
Post Model Adjustments ECL, £m	**23.5**	**18.3**	**12.9**	**34.4**	**55.0**
Total ECL, £m	**145.8**	**120.2**	**98.5**	**197.6**	**286.9**
ECL coverage, %	**0.56**	**0.46**	**0.38**	**0.76**	**1.11**
As at 31 December 2022					
Total loans before provisions, £m	23,728.1	23,728.1	23,728.1	23,728.1	23,728.1
Modelled ECL, £m	54.4	41.7	32.8	79.3	120.0
Individually assessed provisions ECL[1], £m	45.8	45.8	45.8	45.8	45.8
Post Model Adjustments ECL[1], £m	29.8	20.9	15.5	46.4	75.2
Total ECL, £m	130.0	108.4	94.1	171.5	241.0
ECL coverage, %	0.55	0.46	0.40	0.72	1.02

1. Individually assessed provisions and post model adjustments are split out in the current year with the related sensitivity reflected for the post model adjustments under each scenario. In the prior year, this was included collectively as 'Non-modelled ECL'.

(ii) Effective interest rate on lending

Estimates are made when calculating the EIR for newly-originated loan assets. These include the likely customer redemption profiles. Mortgage products offered by the Group include directly attributable net fee income and a period on reversion rates after the fixed/ discount period.

Products revert to the standard variable rate (SVR) or Base rate plus a margin for the Kent Reliance brand, a SONIA/Base rate plus a margin for the Precise brand and a LIBOR replacement rate/ Base rate for the Interbay brand. Subsequent to origination, changes in actual and expected customer prepayment rates are reflected as increases or decreases in the carrying value of loan assets with a corresponding increase or decrease in interest income. The Group uses historical customer behaviours, expected take-up rate of retention products and macroeconomic forecasts in its assessment of expected prepayment rates. Customer prepayments in a fixed rate or incentive period can give rise to Early Repayment Charge (ERC) income.

Notes to the Consolidated Financial Statements continued

2. Judgements in applying accounting policies and critical accounting estimates continued

Estimates continued

Judgement is used in estimating the expected average life of a mortgage, to determine the quantum and timing of prepayments that incur ERCs, the period over which net fee income is recognised and the time customers spend on reversion. Estimates are reviewed regularly, and over the first half of 2023 the Group observed a step change in how long Precise customers were spending on the reversion rate. As the Bank of England base rate (BBR) continued to rise, customers saw steep increases in the BBR-linked reversion rate. As the Group has continued to develop its Precise retention programme, customers chose to refinance earlier and spend less time on the higher reversion rate, compared to previously observed behavioural trends. There was no further material change in behaviour observed in the second half of 2023 and the total adverse Group statutory adjustment for 2023 was £210.7m (2022: £31.6m adverse) decreasing net interest income and loans and advances to customers.

A three months' movement in the weighted average time spent in the reversion period for Precise is considered to be a reasonably possible change in assumption in a sustained high interest rate environment and an uncertain macroeconomic outlook. The impact of a -/+ 3 months movement in time spent on reversion by Precise Mortgages customers is -/+ c.£82m.

As the BBR increased during 2023, the additional monthly net interest income arising from following the effective interest rate approach increased as the impact of time spent on a reversion rate became greater. If BBR decreases, this will lead to a decrease in monthly net interest income. Based on the loans and advances to customers balance as at 31 December 2023, if BBR were to reduce by 50bps, it is estimated that this would decrease monthly net interest income by £1.2m across Precise and Kent Reliance Mortgages.

3. Interest receivable and similar income

	2023 £m	2022 £m
At amortised cost:		
On OSB mortgages[1]	**757.6**	591.6
On CCFS mortgages[2]	**431.1**	411.2
On finance leases	**12.3**	9.4
On investment securities	**12.5**	4.7
On other liquid assets	**159.6**	39.3
Amortisation of fair value adjustments on CCFS loan book at Combination	**(57.4)**	(61.5)
Amortisation of fair value adjustments on hedged assets[3]	**(2.6)**	(34.1)
	1,313.1	960.6
At FVTPL:		
Net income on derivative financial instruments – lending activities	**442.8**	106.6
At FVOCI:		
On investment securities	**11.1**	2.1
	1,767.0	1,069.3

1. Includes EIR behavioural related reset gains of £1.0m (2022: £18.5m gains).
2. Includes EIR behavioural related reset losses of £182.5m (2022: £41.7m losses).
3. The amortisation relates to hedged assets where the hedges were terminated before maturity and were effective at the point of termination.

Notes to the Consolidated Financial Statements continued

4. Interest payable and similar charges

	2023 £m	2022 £m
At amortised cost:		
On retail deposits	**762.3**	257.7
On BoE borrowings	**196.5**	64.8
On wholesale borrowings	**29.9**	3.9
On debt securities in issue	**21.5**	7.7
On subordinated liabilities	**17.1**	1.1
On senior notes	**9.1**	–
On PSBs	**0.7**	0.7
On lease liabilities	**0.2**	0.2
Amortisation of fair value adjustments on CCFS customer deposits at Combination	**(0.5)**	(1.0)
Amortisation of fair value adjustments on hedged liabilities[1]	**(0.6)**	(0.8)
	1,036.2	334.3
At FVTPL:		
Net expense on derivative financial instruments – savings activities	**71.5**	25.1
Net expense on derivative financial instruments – subordinated liabilities and senior notes	**0.7**	–
	1,108.4	359.4

1. The amortisation relates to hedged liabilities where the hedges were terminated before maturity and were effective at the point of termination.

5. Fair value (losses)/gains on financial instruments

	2023 £m	2022 £m
Fair value changes in hedged assets	**580.3**	(620.6)
Hedging of assets	**(590.2)**	621.9
Fair value changes in hedged liabilities	**(82.7)**	33.0
Hedging of liabilities	**94.6**	(42.4)
Ineffective portion of hedges	**2.0**	(8.1)
Net (losses)/gains on unmatched swaps	**(11.1)**	57.1
Amortisation of inception adjustments[1]	**(4.3)**	1.2
Amortisation of acquisition-related inception adjustments[2]	**6.4**	10.2
Amortisation of de-designated hedge relationships[3]	**–**	(0.1)
Fair value movements on mortgages at FVTPL	**0.6**	(0.9)
Fair value movements on loans and advances to credit institutions at FVTPL	**0.5**	–
Debit and credit valuation adjustment	**1.5**	(0.5)
	(4.4)	58.9

1. The amortisation of inception adjustment relates to the amortisation of the hedging adjustments arising when hedge accounting commences, primarily on derivative instruments previously taken out against the mortgage pipeline and on derivative instruments previously taken out against new retail deposits.
2. Relates to hedge accounting assets and liabilities recognised on the Combination. The inception adjustments are being amortised over the life of the derivative instruments acquired on Combination subsequently designated in hedging relationships.
3. Relates to the amortisation of hedged items where hedge accounting has been discontinued due to ineffectiveness.

6. Other operating income

	2023 £m	2022 £m
Interest received on mortgages held at FVTPL	**0.9**	0.6
Fees and commissions receivable	**3.0**	6.0
	3.9	6.6

Notes to the Consolidated Financial Statements continued

7. Administrative expenses

	2023 £m	2022 £m
Staff costs	**122.2**	109.3
Facilities costs	**7.9**	6.4
Marketing costs	**5.8**	4.5
Support costs	**43.0**	31.2
Professional fees	**32.9**	30.2
Other costs	**10.9**	12.8
Depreciation (see note 26)	**6.2**	5.2
Amortisation (see note 27)	**5.7**	8.2
	234.6	207.8

Included in professional fees are amounts paid to the Company's auditor as follows:

	2023 £'000	2022 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**81**	75
Fees payable to the Company's auditor for the audit of the accounts of subsidiaries	**3,788**	3,340
Total audit fees	**3,869**	3,415
Audit-related assurance services[1]	**487**	254
Other assurance services[2]	**366**	259
Other non-audit services[3]	**42**	33
Total non-audit fees	**895**	546
Total fees payable to the Company's auditor	**4,764**	3,961

1. Includes review of interim financial information and profit verifications.
2. Costs comprise assurance reviews of Alternative Performance Measures (APMs), Environmental, social and governance (ESG) and European Single Electronic Format (ESEF) tagging (2022: assurance reviews of APMs, ESG and ESEF tagging).
3. Costs in 2023 and 2022 primarily comprise work related to the Euro Medium Term Note (EMTN) programme.

Staff costs comprise the following:

	2023 £m	2022 £m
Salaries, incentive pay and other benefits	**101.2**	87.3
Share-based payments	**5.6**	8.1
Social security costs	**10.5**	9.5
Other pension costs	**4.9**	4.4
	122.2	109.3

The average number of people employed by the Group (including Executive Directors) during the year is analysed below.

	2023	2022
UK	**1,461**	1,274
India	**811**	622
	2,272	1,896

8. Directors' emoluments and transactions

	2023 £'000	2022 £'000
Short-term employee benefits[1]	**3,207**	3,213
Post-employment benefits	**114**	109
Share-based payments[2]	**1,421**	2,291
	4,742	5,613

1. Short-term employee benefits comprise Directors' salary costs, Non-Executive Directors' fees and other short-term incentive benefits, which are disclosed in the Annual Report on Remuneration.
2. Share-based payments represent the amounts received by Directors for schemes that vested during the year.

In addition to the total Directors' emoluments above, the Executive Directors were granted deferred bonuses of £642k (2022: £642k) in the form of shares.

The Executive Directors received a further share award under the Performance Share Plan (PSP) with a grant date fair value of £1,592k (2022: £1,516k) using a share price of £4.98 (2022: £5.58) (the mid-market quotation on the day preceding the date of grant). These shares vest annually from year three in tranches of 20 per cent, subject to performance conditions discussed in note 9 and the Annual Report on Remuneration.

Notes to the Consolidated Financial Statements continued

8. Directors' emoluments and transactions continued

The Directors of the Company are employed and compensated by OneSavings Bank plc.

No compensation was paid for loss of office during 2023 and 2022.

There were no outstanding loans granted in the ordinary course of business to Directors and their connected persons as at 31 December 2023 and 2022.

The Annual Report on Remuneration and note 9 Share-based payments provide further details on Directors' emoluments.

9. Share-based payments

The share-based expense for the year includes a charge in respect of the Sharesave Scheme, DSBP and PSP. All charges are included in employee expenses within note 7 Administrative expenses.

A summary of the share-based schemes operated by the Group is set out below.

Sharesave Scheme

Sharesave Scheme is a share option scheme which is available to all UK-based employees. The Sharesave Scheme allows employees to purchase options by saving a fixed amount of between £10 and £500 per month over a period of three years at the end of which the options, subject to leaver provisions, are usually exercisable. If not exercised, the amount saved is returned to the employee. The Sharesave Scheme has been in operation since 2014 and an invitation to join the scheme is usually extended annually, with the option price calculated using the mid-market price of an OSBG ordinary share over the three dealing days prior to the Invitation Date and applying a discount of 20%.

Deferred Share Bonus Plan

DSBP awards are granted to Executive Directors and certain senior managers to allow a portion of their performance bonuses to be deferred in shares for up to three to seven years for Executive Directors and typically one year for senior managers. There are no further performance or vesting conditions attached to deferred awards for senior managers, which also applies to Executive Directors for awards granted from April 2021. The share awards are subject to clawback provisions. The DSBP awards are expensed in the year services are received with a corresponding increase in equity. Awards granted to Executive Directors in March 2020 and prior, are subject to vesting conditions and are expensed over the vesting period.

DSBP awards for senior managers carry entitlements to dividend equivalents, which are paid when the awards vest. DSBP awards granted from April 2021 to Executive Directors are entitled to dividend equivalents. Awards granted in prior years were not entitled to dividend equivalents.

Performance Share Plan

PSP awards are typically made annually at the discretion of the Group Remuneration and People Committee with Executive Directors and certain senior managers being eligible for awards. The vesting of PSP awards is determined based on a mixture of internal financial performance targets, risk based measures, and relative total shareholder returns (TSR) with awards vesting in tranches up to three to seven years.

The performance conditions that apply to PSP awards from 2020 are based on a combination of weighting earnings per share (EPS) at 35%, TSR at 35%, risk-based at 15% and return on equity (ROE) at 15%. Prior to 2020, PSP awards were based on a combination weighting of EPS at 40%, TSR at 40% and ROE at 20%. The PSP conditions are assessed independently. The EPS element assesses the EPS growth rate over the performance period. For the TSR element, the performance of the Company's ordinary shares is measured against the constituents of the FTSE 250 (excluding investment trusts). The risk-based measure is assessed against the risk management performance with regard to all relevant risks. For the ROE element, performance is assessed based on the Group's underlying profit after taxation as a percentage of average shareholders' equity.

The share-based payment expense during the year comprised the following:

	2023 £m	2022 £m
Sharesave Scheme	**0.9**	0.6
Deferred Share Bonus Plan	**3.0**	4.2
Performance Share Plan	**1.7**	3.3
	5.6	8.1

Notes to the Consolidated Financial Statements continued

9. Share-based payments continued

Movements in the number of share awards and their weighted average exercise prices are set out below:

	Sharesave Scheme		Deferred Share Bonus Plan	Performance Share Plan
	Number	Weighted average exercise price, £	Number	Number
At 1 January 2023	**2,147,972**	**3.08**	**763,390**	**5,391,269**
Granted	**1,851,510**	**2.72**	**652,227**	**2,381,500**
Exercised/Vested	**(729,619)**	**2.31**	**(518,524)**	**(568,782)**
Forfeited	**(468,276)**	**3.90**	**(1,931)**	**(456,719)**
At 31 December 2023	**2,801,587**	**2.91**	**895,162**	**6,747,268**
Exercisable at:				
31 December 2023	**200,676**	**2.31**	–	–
At 1 January 2022	2,421,260	2.65	797,116	5,225,080
Granted	596,692	4.29	478,901	1,761,174
Exercised/Vested	(624,664)	2.67	(511,034)	(1,181,949)
Forfeited	(245,316)	2.82	(1,593)	(413,036)
At 31 December 2022	2,147,972	3.08	763,390	5,391,269
Exercisable at:				
31 December 2022	35,015	2.85	–	–

For the share-based awards granted during the year, the weighted average grant date fair value was 275 pence (2022: 396 pence).

The range of exercise prices and weighted average remaining contractual life of outstanding awards are as follows:

	2023		2022	
Exercise price	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
Sharesave Scheme				
229 – 429 pence (2022: 229 – 429 pence)	**2,801,587**	**2.3**	2,147,972	1.8
Deferred Share Bonus Plan				
Nil	**895,162**	**1.1**	763,390	0.9
Performance Share Plan				
Nil	**6,747,268**	**2.5**	5,391,269	2.7
	10,444,017	**2.3**	8,302,631	2.3

Sharesave Scheme

	2023	2022	2021	2020		2019		2018	2017
Contractual life, years	**3**	3	3	3	5	3	5	5	5
Share price at issue, £	**3.40**	5.36	5.13	2.86	2.86	3.32	3.32	4.19	3.93
Exercise price, £	**2.72**	4.29	3.96	2.29	2.29	2.65	2.65	3.35	3.15
Expected volatility, %	**46.5**	31.4	37.9	57.6	57.6	31.9	31.9	16.5	17.3
Risk-free rate, %	**4.8**	5.3	1.3	0.1	0.2	0.8	0.8	1.4	1.2
Dividend yield, %	**9.9**	7.3	4.5	3.3	3.3	4.8	4.8	4.4	4.1
Grant date fair value, £	**0.85**	0.68	1.46	1.22	1.34	0.90	0.91	0.43	0.70

Notes to the Consolidated Financial Statements continued

9. Share-based payments continued

The Sharesave Schemes are not entitled to dividends between the option and exercise date. A Black Scholes model is used to determine the grant date fair value with two inputs:

- Expected volatility – from 2019, the expected volatility is based on the Company's share price. Prior to this the Group used the FTSE 350 diversified financials volatility as insufficient history was available for the Company's share price.
- Risk-free rate – based on long-term Government bonds.
- Dividend yield – based on the average dividend yield across external analyst reports for the quarter prior to scheme grant date.

Deferred Share Bonus Plan

	2020	2019	2017
Contractual life, years	3	3	5
Mid-market share price, £	2.58	3.96	4.04
Attrition rate, %	–	8.4	11.8
Dividend yield, %	5.6	4.7	4.0
Grant date fair value, £	2.21	3.47	3.37

For awards granted from 2021, there are no further performance or vesting conditions attached to deferred awards, for further details see DSBP above.

For DSBP awards where conditions exist, these schemes carry no rights to dividend equivalents and a Black Scholes model is used to determine the grant date fair value with a dividend yield input applied – based on the average dividend yield across external analyst reports for the quarter prior to scheme grant date.

Performance Share Plan

Non-market performance conditions also exist for the scheme, notably that a participant is employed by the Company at the vesting date with good leaver exceptions, and an attrition rate is applied as an estimate of the actual number of awards that will meet the related conditions at the vesting date.

The awards are not entitled to a dividend equivalent between grant date and vesting and a Black Scholes model is used to determine the grant date fair value with a dividend yield input applied – based on the average dividend yield across external analyst reports for the quarter prior to the scheme grant date.

The fair value of the portion of awards that is subject to market conditions (i.e. the relative TSR element of the PSP) is determined at the grant date using a Monte Carlo model.

The inputs into the models are as follows:

	2023	2022	2021	2020	2019
Contractual life, years	**3–7**	3–7	3–7	3–7	3
Mid-market share price, £	**5.01**	5.58	4.94	2.58	3.96
Attrition rate, %	**6**	6.9	12.8	7.3	8.4
Expected volatility, %	**35.4**	37.4	59.5	43.9	26.8
Dividend yield, %	**8.7**	4.7	3.8	5.6	4.7
Vesting rate – TSR %	**62.7**	32.3	40.8	27.8	44.9
Grant date fair value, £	**3.08**	4.64	4.26	2.06	3.47

10. Integration costs

	2023 £m	2022 £m
Consultant fees	–	4.9
Staff costs	–	3.0
	–	7.9

At Combination in October 2019, the Group announced a quantified financial benefits statement for meaningful cost synergies to be achieved by the third anniversary of the Combination. Following the third anniversary in October 2022, the Group ceased recognising expenses as integration related.

The 2022 consultant fees related to advice on the Group's future operating structure and staff costs related to personnel who had left the Group through the transition of operations to the new operating model.

Notes to the Consolidated Financial Statements continued

11. Taxation

The Group publishes its tax strategy on its corporate website. The table below shows the components of the Group's tax charge for the year:

	2023 £m	2022 £m
Corporation tax	**105.7**	141.4
Corporation taxation - prior year adjustments	**(0.4)**	(0.9)
Total current tax	**105.3**	140.5
Deferred tax		
Deferred taxation	**0.7**	(1.2)
Deferred taxation – prior year adjustments	**–**	(0.3)
Release of deferred tax on CCFS Combination[1]	**(14.3)**	(17.5)
Total deferred tax	**(13.6)**	(19.0)
Total tax charge	**91.7**	121.5

1. Release of deferred tax on CCFS Combination relates to the unwind of the deferred tax liabilities recognised on the fair value adjustments of the CCFS assets and liabilities at the acquisition date £(14.3)m (2022: £(17.5)m which included £(4.7)m from the bank surcharge decrease).

The charge for taxation on the Group's profit before taxation differs from the charge based on the weighted average standard rate of UK Corporation Tax of 23.5% (2022: 19%) as follows:

	2023 £m	2022 £m
Profit before taxation	**374.3**	531.5
Profit multiplied by the standard rate of UK Corporation Tax 23.5% (2022: 19%)	**88.0**	101.0
Bank surcharge[1]	**8.4**	30.2
Taxation effects of:		
Expenses not deductible for taxation purposes	**0.3**	0.5
Securitisation profits not taxable[2]	**(2.5)**	(2.2)
Timing differences on capital items	**(0.8)**	(0.4)
Utilisation of brought forward tax losses	**(0.3)**	(0.3)
Tax adjustments in respect of share based payments	**0.4**	0.3
Fair value adjustments on acquisition amounts[3]	**14.3**	14.0
Adjustments in respect of earlier years	**(0.4)**	(0.9)
Tax on coupon paid on AT1 securities[4]	**(2.1)**	(1.7)
Total current tax charge	**105.3**	140.5
Movements in deferred taxes	**0.7**	(0.8)
Deferred taxation – prior year adjustments	**–**	(0.3)
Release of deferred taxation on CCFS Combination[3]	**(14.3)**	(12.8)
Impact of deferred tax rate change	**–**	(5.1)
Total tax charge	**91.7**	121.5

1. Tax charge for the two banking entities of £9.6m (2022: £34.3m) offset by the tax impact of unwinding CCFS Combination items of £2.2m (2022: £4.1m).
2. Securitisation companies are taxed in accordance with the Taxation of Securitisation Companies Regulation 2006, such that they are subject to tax on their retained profits rather than their tax adjusted profit before tax.
3. The unwinding of the fair value adjustments of the CCFS assets and liabilities acquired as part of the CCFS combination are not deductible for tax purposes. A deferred tax liability has been recognised in relation to these amounts which is released as they unwind.
4. The Group has issued AT1 capital instruments that are classified as Hybrid Capital Instruments ('HCI') for tax purposes. The coupons paid under HCI are deductible under UK tax legislation despite being charged to equity.

Factors affecting tax charge for the year

From 1 April 2023, the corporation tax rate in the UK increased from 19% to 25%, the bank surcharge rate decreased from 8% to 3% and the bank surcharge allowance (the level of taxable profits above which are subject to the surcharge) increased from £25m to £100m. Therefore, for year ended 31 December 2023 the main rate of corporation tax is 23.5%, the bank surcharge rate is 4.25% and the bank surcharge allowance is £81.3m.

The effective tax rate for the year ended 31 December 2023, excluding the impact of adjustments in respect of earlier years and the deferred tax rate change, was 24.6% (2022: 24.0%). This is higher than the standard rate of UK corporation tax, principally due to the impact of the bank surcharge payable by the two banking entities, offset by the impact of swap movements in securitisation companies that are not subject to tax, and deductions available for the coupon paid on AT1 instruments that are charged to equity.

Notes to the Consolidated Financial Statements continued

11. Taxation continued

Factors that may affect future tax charges

During 2022, the UK Government confirmed its intention to implement the OECD Inclusive Framework Pillar 2 rules in the UK, including a Qualified Domestic Minimum Top-Up Tax rule. This legislation, which was enacted in 2023, will seek to ensure that UK headed multinational groups pay a minimum tax rate of 15 per cent on UK and overseas profits arising after 31 December 2023. Given the headline tax rates in the countries that the Group operates in, and the nature of the Group's business in those countries, these rules are not currently expected to have any impact on the Group.

12. Earnings per share

EPS is based on the profit for the year and the weighted average number of ordinary shares in issue. Basic EPS are calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Diluted EPS take into account share options and awards which can be converted to ordinary shares.

For the purpose of calculating EPS, profit attributable to ordinary shareholders is arrived at by adjusting profit for the year for the coupon on securities classified as equity:

	2023 £m	2022 £m
Statutory profit after tax	**282.6**	410.0
Less: Coupon on AT1 securities classified as equity	**(9.0)**	(9.0)
Statutory profit attributable to ordinary shareholders	**273.6**	401.0

	2023	2022
Weighted average number of shares, millions		
Basic	**414.2**	441.5
Dilutive impact of share-based payment schemes	**7.0**	5.1
Diluted	**421.2**	446.6
Earnings per share, pence per share		
Basic	**66.1**	90.8
Diluted	**65.0**	89.8

13. Dividends

	2023		2022	
	£m	Pence per share	£m	Pence per share
Final dividend for the prior year	**93.8**	**21.8**	94.8	21.1
Special dividend for the prior year	**50.3**	**11.7**	–	–
Interim dividend for the current year	**40.9**	**10.2**	38.3	8.7
	185.0		133.1	

The Directors recommend a final dividend of £85.7m, 21.8 pence per share (2022: £93.7m, 21.8 pence per share) payable on 14 May 2024 with an ex-dividend date of 4 April 2024 and a record date of 5 April 2024. This dividend is not reflected in these financial statements as it is subject to approval by shareholders at the AGM on 9 May 2024.

No special dividend has been announced (2022: £50.3m, 11.7 pence per share).

If the final dividend is approved this will make up the total dividend for 2023 of £126.6m, 32.0 pence per share (2022: £182.0m, 42.2 pence per share).

A summary of the Company's distributable reserves is shown below:

	2023 £m	2022 £m
Retained earnings	**1,358.6**	1,359.3
Own shares[1]	**(1.0)**	(2.2)
Distributable reserves	**1,357.6**	1,357.1

1. Own Shares comprises own shares held in the Group's EBT of £1.0m (2022: £2.2m) which are recognised within OSBG under look-through accounting.

Further additional distributable reserves can be realised over time from dividend receipts from profits generated from the subsidiaries including two regulated banks within the Group.

Notes to the Consolidated Financial Statements continued

14. Cash and cash equivalents

The following table analyses the cash and cash equivalents disclosed in the Consolidated Statement of Cash Flows:

	2023 £m	2022 £m
Cash in hand	**0.4**	0.4
Unencumbered loans and advances to credit institutions	**2,513.6**	2,953.7
Investment securities	**–**	90.0
	2,514.0	3,044.1

15. Loans and advances to credit institutions

	2023 £m	2022 £m
Unencumbered:		
BoE call account	**2,256.3**	2,806.5
Call accounts	**92.2**	73.2
Cash held in special purpose vehicles (SPVs)[1]	**147.8**	63.8
Term deposits	**17.3**	10.2
Encumbered:		
BoE cash ratio deposit	**69.6**	62.8
Cash held in SPVs[1]	**31.8**	111.8
Cash margin given	**198.6**	237.4
	2,813.6	3,365.7

1. Cash held in SPVs is ring-fenced for use in managing the Group's securitised debt facilities under the terms of securitisation agreements. Cash held in SPVs is treated as unencumbered in proportion to the retained interest in the SPV, based on the nominal value of the bonds held by the Group to total bonds in the securitisation, and is included in cash and cash equivalents. Cash retained in SPVs designated as cash reserve credit enhancement is treated as encumbered in proportion to the external holdings in the SPV and excluded from cash and cash equivalents.

16. Investment securities

	2023 £m	2022 £m
Held at amortised cost:		
RMBS loan notes	**325.4**	262.6
Less: Expected credit losses	**–**	–
	325.4	262.6
Held at FVOCI:		
UK Sovereign debt[1]	**296.0**	149.8
Held at FVTPL:		
RMBS loan notes	**0.3**	0.5
	621.7	412.9

1. In 2022, includes £90.0m of UK Treasury bills which had a maturity of less than three months from date of acquisition.

At 31 December 2023, the Group had no RMBS held at FVOCI or FVTPL or at amortised cost (2022: £11.5m held at amortised cost) sold under repos.

The Directors consider that the primary purpose of holding investment securities is prudential. These securities are held as liquid assets with the intention of use on a continuing basis in the Group's activities and are classified as amortised cost, FVOCI and FVTPL in accordance with the Group's business model for each security.

The credit risk on investment securities held at amortised cost has not significantly increased since initial recognition and are categorised as stage 1. At 31 December 2023, the Group had no ECL (2022: less than £0.1m).

Notes to the Consolidated Financial Statements continued

16. Investment securities continued

Movements during the year in investment securities held by the Group are analysed as follows:

	2023 £m	2022 £m
At 1 January	**412.9**	491.4
Additions[1]	**664.3**	686.5
Disposals and maturities[2]	**(456.3)**	(764.4)
Movement in accrued interest	**1.0**	(0.9)
Changes in fair value	**(0.2)**	0.3
At 31 December	**621.7**	412.9

1. In 2023 there were additions of £233.9m of UK Treasury bills which had a maturity of less than three months from date of acquisition (2022: £90.0m).
2. Disposals and maturities includes £323.9m of UK Treasury bills which had a maturity of less than three months from date of acquisition (2022: £100.0m).

At 31 December 2023, investment securities included investments in unconsolidated structured entities (see note 44) of £100.7m notes in PMF 2020-1B (2022: £100.7m notes in PMF 2020-1B). The investments represent the maximum exposure to loss from unconsolidated structured entities.

17. Loans and advances to customers

	2023 £m	2022 £m
Held at amortised cost:		
Loans and advances (see note 18)	**25,674.4**	23,564.9
Finance leases (see note 19)	**222.7**	163.2
	25,897.1	23,728.1
Less: Expected credit losses (see note 20)	**(145.8)**	(130.0)
	25,751.3	23,598.1
Held at FVTPL:		
Residential mortgages	**13.7**	14.6
	25,765.0	23,612.7

18. Loans and advances

	2023			2022		
	OSB £m	CCFS £m	Total £m	OSB £m	CCFS £m	Total £m
Gross carrying amount						
Stage 1	**11,048.7**	**9,313.8**	**20,362.5**	10,188.4	8,375.5	18,563.9
Stage 2	**2,712.6**	**1,819.3**	**4,531.9**	2,508.9	1,907.4	4,416.3
Stage 3	**491.9**	**217.2**	**709.1**	345.7	156.0	501.7
Stage 3 (POCI)	**33.4**	**37.5**	**70.9**	38.5	44.5	83.0
	14,286.6	**11,387.8**	**25,674.4**	13,081.5	10,483.4	23,564.9

The mortgage loan balances pledged as collateral for liabilities are:

	2023 £m	2022 £m
BoE under TFSME and ILTR	6,092.4	6,439.7
Securitisation	841.7	265.4
	6,934.1	6,705.1

The Group's securitisation programmes and use of TFSME and ILTR result in certain assets being encumbered as collateral against such funding. As at 31 December 2023, the percentage of the Group's gross loans and advances to customers that are encumbered was 27% (2022: 28%).

Notes to the Consolidated Financial Statements continued

18. Loans and advances continued

The table below show the movement in loans and advances to customers by IFRS 9 stage during the year:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2022	18,078.9	2,412.1	459.5	97.4	21,047.9
Originations[1]	5,829.6	–	–	–	5,829.6
Repayments and write-offs[2]	(2,855.3)	(353.6)	(89.3)	(14.4)	(3,312.6)
Transfers:					
– To Stage 1	1,121.6	(1,098.0)	(23.6)	–	–
– To Stage 2	(3,524.0)	3,574.6	(50.6)	–	–
– To Stage 3	(86.9)	(118.8)	205.7	–	–
At 31 December 2022	18,563.9	4,416.3	501.7	83.0	23,564.9
Originations[1]	**4,561.7**	**–**	**–**	**–**	**4,561.7**
Acquisitions[3]	**175.8**	**–**	**–**	**–**	**175.8**
Repayments and write-offs[2]	**(2,041.6)**	**(447.2)**	**(127.1)**	**(12.1)**	**(2,628.0)**
Transfers:					
– To Stage 1	**1,534.7**	**(1,520.4)**	**(14.3)**	**–**	**–**
– To Stage 2	**(2,299.0)**	**2,347.5**	**(48.5)**	**–**	**–**
– To Stage 3	**(133.0)**	**(264.3)**	**397.3**	**–**	**–**
At 31 December 2023	**20,362.5**	**4,531.9**	**709.1**	**70.9**	**25,674.4**

1. Originations include further advances and drawdowns on existing commitments.
2. Repayments and write-offs include customer redemptions and £33.6m (2022: £2.1m) of write-offs during the year.
3. The Group repurchased £175.8m of own originated UK residential and buy to let mortgages from deconsolidated SPVs at par.

The contractual amount outstanding on loans and advances that were written off during the reporting period and are still subject to collections and recovery activity is £0.3m at 31 December 2023 (2022: £0.8m).

As at 31 December 2023 £126.7m of loans and advances (2022: £110.0m) are in a probation period before they can move out of Stage 3, see note 1 n) for further details.

Where a borrower has multiple facilities, all facilities are considered in default when a minimum threshold of the borrower's exposure has been classified as defaulted. As at 31 December 2023 £55.7m of loans and advances are in this category of default (2022: £32.1m).

19. Finance leases

The Group provides asset finance lending through InterBay Asset Finance Limited.

	2023 £m	2022 £m
Gross investment in finance leases, receivable		
Less than one year	**83.6**	60.7
Between one and two years	**68.6**	49.5
Between two and three years	**51.7**	36.0
Between three and four years	**31.4**	23.4
Between four and five years	**12.0**	9.9
More than five years	**2.3**	1.3
	249.6	180.8
Unearned finance income	**(26.9)**	(17.6)
Net investment in finance leases	**222.7**	163.2
Net investment in finance leases, receivable		
Less than one year	**71.7**	52.4
Between one and two years	**60.4**	44.4
Between two and three years	**47.1**	33.2
Between three and four years	**29.7**	22.3
Between four and five years	**11.6**	9.6
More than five years	**2.2**	1.3
	222.7	163.2

The Group has recognised £3.0m of ECLs on finance leases as at 31 December 2023 (2022: £4.8m).

Notes to the Consolidated Financial Statements continued

20. Expected credit losses

The ECL has been calculated based on various scenarios as set out below:

	2023			2022		
	ECL provision £m	**Weighting %**	**Weighted ECL provision £m**	ECL provision £m	Weighting %	Weighted ECL provision £m
Scenarios						
Upside	**60.5**	**30**	**18.2**	32.8	30	9.8
Base case	**76.8**	**40**	**30.7**	41.7	40	16.7
Downside scenario	**138.1**	**20**	**27.6**	79.3	20	15.9
Severe downside scenario	**206.8**	**10**	**20.7**	120.0	10	12.0
Total weighted provisions			**97.2**			54.4
Other Provisions:						
Individually assessed provisions			**25.1**			45.8
Post model adjustments			**23.5**			29.8
Total provision			**145.8**			130.0

The Group continued to recognise the increases in credit risk due to the cost of living and cost of borrowing stresses caused by high inflation and increases in interest rates. As a result, the Group held £9.4m (2022: £16.0m) of ECL in PMA for risks not sufficiently accounted for in the IFRS 9 framework. The approach to quantify the PMA for the cost of living estimated an increase in PD by analysing the effect of the increases in living costs, such as household bills and groceries, on affordability, which is used to increase the default risk to all customers, with those on lower income more impacted. The cost of living PMA has reduced since 31 December 2022, reflecting the inflation peak has been observed and forecasts are for decreases in inflation.

The cost of borrowing PMA specifically identified those that are more at risk of default due to coming to the end of an initial interest rate in the near future, causing a payment increase through either a new product or reverting onto a variable rate, and becoming a higher affordability risk. This is used to apply an additional stress on the PD which in some cases results in a stage 2 criteria trigger. The PMA has reduced since 31 December 2022, reflecting that both the inflation and interest rate peaks are considered to have been observed and forecasts are for decreases.

The Group continued to observe an elongated time to sale, which was in excess of modelled expectations and observations prior to the pandemic which accounted for £10.0m (2022: £8.7m) as a PMA. Whilst the Group expects the process delays to reduce in time, a PMA is held against all accounts to reflect an extended time to sale in line with most recent observations whilst considering the Land Registry's strategic plan to increase automation in 2024/2025 to remove the backlog.

As part of the Group's recognition of climate risk and overall ESG agenda, the Group considers the physical risks of climate change with the removal of the transitional risk to reflect Government's decision to postpone the EPC Climate Bill. The transitional risk was the most significant component of the PMA that considered properties with lower energy efficiency likely to require investment to reach minimum energy efficiency standards, and has such resulted in the reduction in the PMA where the Group held £0.5m (2022: £4.4m).

To reflect the ongoing cladding concerns, the Group identified a valuation risk to a small number of properties and accounted for a further sale discount for these properties by recognising a PMA of £1.1m (2022: £0.7m).

In addition to the above PMAs, the Group has identified accounts within the OSB second charge portfolio whereby the arrears balances, fees and other charges will be written off. An ECL of £2.5m (2022: nil) has been recognised for the expected losses.

The Group's ECL by segment and IFRS 9 stage is shown below:

	2023			2022		
	OSB £m	**CCFS £m**	**Total £m**	OSB £m	CCFS £m	Total £m
Stage 1	**15.8**	**6.6**	**22.4**	5.9	1.3	7.2
Stage 2	**39.2**	**15.1**	**54.3**	35.3	15.6	50.9
Stage 3	**55.1**	**11.6**	**66.7**	60.5	7.8	68.3
Stage 3 (POCI)	**1.0**	**1.4**	**2.4**	1.5	2.1	3.6
	111.1	**34.7**	**145.8**	103.2	26.8	130.0

Notes to the Consolidated Financial Statements continued

20. Expected credit losses continued

The tables below show the movement in the ECL by IFRS 9 stage during the year. ECLs on originations and acquisitions reflect the IFRS 9 stage of loans originated or acquired during the year as at 31 December and not the date of origination. Re-measurement of loss allowance relates to existing loans which did not redeem during the year and includes the impact of loans moving between IFRS 9 stages.

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2022	12.1	25.0	60.4	4.0	101.5
Originations	6.9	–	–	–	6.9
Repayments and write-offs	(1.3)	(3.0)	(6.9)	(0.3)	(11.5)
Re-measurement of loss allowance	(15.1)	26.4	17.5	(0.7)	28.1
Transfers:					
– To Stage 1	10.0	(9.2)	(0.8)	–	–
– To Stage 2	(2.0)	3.9	(1.9)	–	–
– To Stage 3	(0.1)	(2.1)	2.2	–	–
Changes in assumptions and model parameters	(3.3)	9.9	(2.2)	0.6	5.0
At 31 December 2022	7.2	50.9	68.3	3.6	130.0
Originations	**10.2**	**–**	**–**	**–**	**10.2**
Acquisitions	**1.2**	**–**	**–**	**–**	**1.2**
Repayments and write-offs	**(0.6)**	**(4.1)**	**(39.7)**	**(0.7)**	**(45.1)**
Re-measurement of loss allowance	**(9.7)**	**30.1**	**29.9**	**0.2**	**50.5**
Transfers:					
– To Stage 1	**13.0**	**(12.4)**	**(0.6)**	**–**	**–**
– To Stage 2	**(0.8)**	**2.2**	**(1.4)**	**–**	**–**
– To Stage 3	**(0.2)**	**(6.7)**	**6.9**	**–**	**–**
Changes in assumptions and model parameters	**2.1**	**(5.7)**	**3.3**	**(0.7)**	**(1.0)**
At 31 December 2023	**22.4**	**54.3**	**66.7**	**2.4**	**145.8**

The table below shows the stage 2 ECL balances by transfer criteria:

	2023			2022		
	Carrying value £m	**ECL £m**	**Coverage %**	Carrying value £m	ECL £m	Coverage %
Criteria:						
Relative/absolute PD movement	**4,343.5**	**53.2**	**1.22**	3,090.2	42.9	1.39
Qualitative measures	**139.3**	**0.8**	**0.57**	1,277.6	7.5	0.59
30 days past due backstop	**55.1**	**0.3**	**0.54**	49.3	0.5	1.01
Total	**4,537.9**	**54.3**	**1.20**	4,417.1	50.9	1.15

The Group has a number of qualitative measures to determine whether a SICR has taken place. These triggers utilise both internal performance information, to analyse whether an account is in distress but not yet in arrears, and external credit bureau information, to determine whether the customer is experiencing financial difficulty with an external credit obligation.

21. Impairment of financial assets

The charge for impairment of financial assets in the Consolidated Statement of Comprehensive Income comprises:

	2023 £m	2022 £m
Write-offs in year	**33.6**	2.1
Increase in ECL provision	**15.2**	27.7
	48.8	29.8

The charge for provisions of £48.8m (2022: £29.8m) shown in the Consolidated Statement of Comprehensive Income also includes a £4.6m credit (2022: nil) in respect of insurance recoveries.

Notes to the Consolidated Financial Statements continued

22. Derivatives

The table below reconciles the gross amount of derivative contracts to the carrying balance shown in the Consolidated Statement of Financial Position:

	Gross amount of recognised financial assets / (liabilities) £m	Net amount of financial assets / (liabilities) presented in the Consolidated Statement of Financial Position £m	Contracts subject to master netting agreements not offset in the Consolidated Statement of Financial Position £m	Cash collateral paid / (received) not offset in the Consolidated Statement of Financial Position £m	Net amount £m
At 31 December 2023					
Derivative assets:					
Interest rate risk hedging	**530.6**	**530.6**	**(45.7)**	**(212.8)**	**272.1**
Derivative liabilities:					
Interest rate risk hedging	**(199.9)**	**(199.9)**	**45.7**	**216.1**	**61.9**
At 31 December 2022					
Derivative assets:					
Interest rate risk hedging	888.1	888.1	(104.9)	(545.7)	237.5
Derivative liabilities:					
Interest rate risk hedging	(106.6)	(106.6)	104.9	206.9	205.2

Derivative assets and liabilities include an initial margin of £198.4m with swap counterparties (2022: £198.6m). Margin is posted daily in respect of derivatives transacted with swap counterparties.

Included within the Group's derivative assets is £112.0m (2022: £203.4m) relating to derivative contracts not covered by master netting agreements on which no cash collateral has been paid.

The table below profiles the maturity of nominal amounts for interest rate risk hedging derivatives based on contractual maturity:

	Total nominal £m	Less than 3 months £m	3 – 12 months £m	1 – 5 years £m	More than 5 years £m
At 31 December 2023					
Derivative assets	**17,568.6**	**812.3**	**8,181.3**	**8,560.0**	**15.0**
Derivative liabilities	**8,913.6**	**1,148.0**	**2,300.0**	**5,108.6**	**357.0**
	26,482.2	**1,960.3**	**10,481.3**	**13,668.6**	**372.0**
At 31 December 2022					
Derivative assets	15,662.6	464.8	3,400.3	11,590.5	207.0
Derivative liabilities	9,518.0	1,503.0	6,001.0	1,789.0	225.0
	25,180.6	1,967.8	9,401.3	13,379.5	432.0

The Group has 944 (2022: 916) derivative contracts with an average fixed rate of 2.70% (2022: 1.34%).

23. Hedge accounting

	2023 £m	2022 £m
Hedged assets		
Current hedge relationships	**(253.1)**	(827.9)
Swap inception adjustment	**40.4**	44.1
Cancelled hedge relationships	**(30.8)**	(5.2)
Fair value adjustments on hedged assets	**(243.5)**	(789.0)
Hedged liabilities		
Current hedge relationships	**(22.2)**	58.0
Swap inception adjustment	**0.3**	(2.3)
Cancelled hedge relationships	**–**	(0.6)
Fair value adjustments on hedged liabilities	**(21.9)**	55.1

The swap inception adjustment relates to hedge accounting adjustments arising when hedge accounting commences, primarily on derivative instruments previously taken out against the mortgage pipeline and on derivative instruments previously taken out against new retail deposits.

Notes to the Consolidated Financial Statements continued

23. Hedge accounting continued

De-designated hedge relationships relate to hedge accounting adjustments on failed hedge accounting relationships. These adjustments are amortised over the remaining lives of the original hedged items.

Cancelled hedge relationships predominantly represent the unamortised fair value adjustment for interest rate risk hedges that have been cancelled and replaced due to IBOR transition, securitisation activities and legacy long-term fixed rate mortgages (c. 25 years at origination).

The tables below analyse the Group's portfolio hedge accounting for fixed rate loans and advances to customers:

	2023		2022	
Loans and advances to customers	Hedged item £m	Hedging instrument £m	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**15,390.4**	**15,425.6**	14,493.8	14,667.7
Cumulative fair value adjustments of hedged item/fair value of hedging instrument	**(253.1)**	**312.7**	(827.9)	833.2
Changes in the fair value adjustment of hedged item/hedging instrument used for recognising the hedge ineffectiveness for the period	**580.3**	**(590.5)**	(620.6)	621.9
Cumulative fair value on cancelled hedge relationships	**(30.8)**	**–**	(5.2)	–

In the Consolidated Statement of Financial Position, £469.9m (2022: £854.3m) of hedging instruments were recognised within derivative assets; and £157.2m (2022: £21.1m) within derivative liabilities.

The movement in cancelled hedge relationships is as follows:

Hedged assets	2023 £m	2022 £m
At 1 January	**(5.2)**	78.2
New cancellations[1]	**(23.0)**	(49.3)
Amortisation	**(2.6)**	(34.1)
At 31 December	**(30.8)**	(5.2)

1. The new cancellations are predominately from securitisation of mortgages during the year where, the Group cancels swaps which were effective prior to the event, replacing with new swaps within SPV structures, with the designated hedge moved to cancelled hedge relationships to be amortised over the original life of the swap.

The tables below analyse the Group's portfolio hedge accounting for fixed rate amounts owed to retail depositors:

	2023		2022	
Customer deposits	Hedged item £m	Hedging instrument £m	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**8,955.5**	**8,947.0**	9,167.3	9,180.0
Cumulative fair value adjustments of hedged item/fair value of hedging instrument	**(6.7)**	**16.9**	58.0	(67.9)
Changes in the fair value adjustment of hedged item/hedging instrument used for recognising the hedge ineffectiveness for the period	**(67.2)**	**78.8**	33.0	(42.4)

In the Consolidated Statement of Financial Position, £40.3m (2022: £2.4m) of hedging instruments were recognised within derivative assets; and £23.4m (2022: £70.3m) within derivative liabilities.

The table below analyses the Group's 'micro' hedge accounting for fixed rate senior notes and subordinated liabilities:

	2023		2022	
Senior notes and subordinated liabilities	Hedged item £m	Hedging instrument £m	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**365.0**	**365.0**	–	–
Cumulative fair value adjustments of hedged item/fair value of hedging instrument	**(15.5)**	**15.6**	–	–
Changes in the fair value adjustment of hedged item/hedging instrument used for recognising the hedge ineffectiveness for the period	**(15.5)**	**15.8**	–	–

The Group has elected to partially hedge the senior notes up to the optional redemption date which reflects management's expectations about the exercise of the call option. In the Consolidated Statement of Financial Position, £15.6m (2022: nil) of hedging instruments were recognised within derivative assets.

Notes to the Consolidated Financial Statements continued

24. Other assets

	2023 £m	2022 £m
Falling due within one year:		
Prepayments	**9.9**	7.8
Other assets	**11.9**	1.8
Falling due more than one year:		
Prepayments	**5.8**	5.4
	27.6	15.0

25. Deferred taxation asset

	Losses carried forward £m	Accelerated depreciation £m	Share-based payments £m	IFRS 9 transitional adjustments £m	Others[1] £m	Total £m
At 1 January 2022	0.5	0.5	5.0	0.7	(1.1)	5.6
Profit or loss (charge)/credit[2]	–	(0.5)	0.5	(0.1)	1.6	1.5
Tax taken directly to OCI	–	–	–	–	0.1	0.1
Tax taken directly to equity	–	–	(0.9)	–	–	(0.9)
At 31 December 2022	0.5	–	4.6	0.6	0.6	6.3
Profit or loss (charge)/credit	**(0.2)**	**(0.6)**	**0.2**	**(0.1)**	**–**	**(0.7)**
Transferred from deferred tax liability[3]	**–**	**–**	**–**	**–**	**(1.7)**	**(1.7)**
Tax taken directly to OCI	**–**	**–**	**–**	**–**	**0.1**	**0.1**
Tax taken directly to equity	**–**	**–**	**(0.1)**	**–**	**–**	**(0.1)**
At 31 December 2023	**0.3**	**(0.6)**	**4.7**	**0.5**	**(1.0)**	**3.9**

1. Others includes deferred taxation assets recognised on financial assets classified as FVOCI, derivatives and short-term timing differences.
2. In 2023 there was no prior year deferred tax (2022 £0.3m).
3. £1.7m relating to other deferred tax assets, and previously shown within the Deferred tax liability (see Note 35) has been transferred to the Deferred tax asset.

In 2022, the profit or loss credit for deferred tax includes a credit of £0.2m from the corporation tax rate change.

As at 31 December 2023, the Group had £3.5m (2022: £3.5m) of losses for which a deferred tax asset has not been recognised as the Group does not expect sufficient future profits to be available to utilise the losses.

As at 31 December 2023 deferred tax assets of £2.0m (2022: £2.3m) are expected to be utilised within 12 months and £1.8m (2022: £4.0m) utilised after 12 months.

26. Property, plant and equipment

	Freehold land and buildings £m	Leasehold improvements £m	Equipment and fixtures £m	Right of use assets: Property leases £m	Right of use assets: Other leases £m	Total £m
Cost						
At 1 January 2022	16.5	2.9	15.2	13.2	1.2	49.0
Additions[1]	3.5	0.1	2.9	0.9	3.5	10.9
Disposals and write-offs[2]	–	–	(1.7)	(0.3)	(0.1)	(2.1)
Foreign exchange difference	–	–	0.1	–	–	0.1
At 31 December 2022	20.0	3.0	16.5	13.8	4.6	57.9
Additions[1]	**0.3**	**–**	**5.7**	**2.0**	**1.2**	**9.2**
Disposals and write-offs[2]	**–**	**–**	**(3.3)**	**–**	**(0.1)**	**(3.4)**
Foreign exchange difference	**–**	**–**	**(0.1)**	**–**	**–**	**(0.1)**
At 31 December 2023	**20.3**	**3.0**	**18.8**	**15.8**	**5.7**	**63.6**
Depreciation						
At 1 January 2022	1.5	1.0	7.6	3.6	0.2	13.9
Charged in year	0.2	0.2	3.0	1.6	0.2	5.2
Disposals and write-offs[2]	–	–	(1.7)	(0.3)	(0.1)	(2.1)
At 31 December 2022	1.7	1.2	8.9	4.9	0.3	17.0
Charged in year	**0.3**	**0.3**	**3.5**	**1.9**	**0.2**	**6.2**
Disposals and write-offs[2]	**–**	**–**	**(3.3)**	**–**	**(0.1)**	**(3.4)**
At 31 December 2023	**2.0**	**1.5**	**9.1**	**6.8**	**0.4**	**19.8**
Net book value						
At 31 December 2023	**18.3**	**1.5**	**9.7**	**9.0**	**5.3**	**43.8**
At 31 December 2022	18.3	1.8	7.6	8.9	4.3	40.9

1. Additions include property leases modifications of £0.5m (2022: £0.5m) and other leases modifications of £1.5m (2022: nil) of right of use assets.
2. During the year the Group derecognised fully depreciated assets.

Notes to the Consolidated Financial Statements continued

27. Intangible assets

	Development costs[1] £m	Computer software and licences £m	Assets arising on Combination[2] £m	Total £m
Cost				
At 1 January 2022	3.7	16.0	23.4	43.1
Additions	0.1	1.7	–	1.8
Disposals and write-offs[3]	–	(3.6)	(1.9)	(5.5)
At 31 December 2022	3.8	14.1	21.5	39.4
Additions	**19.1**	**0.7**	**–**	**19.8**
Transfer during the year	**(2.2)**	**2.2**	**–**	**–**
Disposals and write-offs[3]	**–**	**(3.4)**	**(0.1)**	**(3.5)**
At 31 December 2023	**20.7**	**13.6**	**21.4**	**55.7**
Amortisation				
At 1 January 2022	0.6	8.8	15.3	24.7
Charged in year	0.7	3.2	4.3	8.2
Disposals and write-offs[3]	–	(3.6)	(1.9)	(5.5)
At 31 December 2022	1.3	8.4	17.7	27.4
Charged in year	**0.7**	**2.8**	**2.2**	**5.7**
Disposals and write-offs[3]	**–**	**(3.4)**	**(0.1)**	**(3.5)**
At 31 December 2023	**2.0**	**7.8**	**19.8**	**29.6**
Net book value				
At 31 December 2023	**18.7**	**5.8**	**1.6**	**26.1**
At 31 December 2022	2.5	5.7	3.8	12.0

1. Increase in development costs is largely due to the modernisation project.
2. Assets arising on Combination include broker relationships of £0.7m (2022: £2.0m), technology of nil (2022: £0.4m), brand names of nil (2022: £0.3m) and £0.4m development costs relating to IRB costs.
3. During the year the Group derecognised fully amortised assets.

The Directors have considered the carrying value of intangible assets and determined that there are no indications of impairment at the year end.

28. Amounts owed to credit institutions

	2023 £m	2022 £m
BoE TFSME	**3,352.0**	4,232.0
BoE ILTR	**10.1**	300.9
Commercial repo	**0.1**	10.2
Loans from credit institutions	**–**	0.1
	3,362.2	4,543.2
Cash collateral and margin received	**212.8**	549.7
	3,575.0	5,092.9

29. Amounts owed to retail depositors

	2023			2022		
	OSB £m	CCFS £m	Total £m	OSB £m	CCFS £m	Total £m
Fixed rate deposits	**8,846.6**	**7,493.9**	**16,340.5**	8,085.9	5,899.6	13,985.5
Variable rate deposits	**3,399.9**	**2,386.2**	**5,786.1**	3,046.3	2,724.0	5,770.3
	12,246.5	**9,880.1**	**22,126.6**	11,132.2	8,623.6	19,755.8

30. Amounts owed to other customers

	2023 £m	2022 £m
Fixed rate deposits	**58.8**	100.9
Variable rate deposits	**4.5**	12.2
	63.3	113.1

Notes to the Consolidated Financial Statements continued

31. Debt securities in issue

	2023 £m	2022 £m
Asset-backed loan notes at amortised cost	**818.5**	265.9
Amount due for settlement within 12 months	**109.5**	–
Amount due for settlement after 12 months	**709.0**	265.9
	818.5	265.9

The asset-backed loan notes are secured on fixed and variable rate mortgages and are redeemable in part from time to time, but such redemptions are mainly from the net principal received from borrowers in respect of underlying mortgage assets. The maturity date of the funds matches the contractual maturity date of the underlying mortgage assets. The Group expects that a large proportion of the underlying mortgage assets, and therefore these notes, will be repaid within five years.

Where the Group own the call rights for a transaction, they may repurchase the asset-backed loan notes on any interest payment date on or after the call dates, or on any interest payment date when the current balance of the mortgages outstanding is less than or equal to 10% of the principal amount outstanding on the loan notes on the date they were issued.

Interest is payable at fixed margins above SONIA.

As at 31 December 2023, notes were issued through the following funding vehicles:

	2023 £m	2022 £m
Canterbury Finance No.3 plc	**–**	21.0
Canterbury Finance No.4 plc	**167.5**	103.1
CMF 2020-1 plc	**109.5**	141.8
CMF 2023-1 plc	**291.3**	–
Keys Warehouse No.1 Limited	**250.2**	–
	818.5	265.9

32. Lease liabilities

	2023 £m	2022 £m
At 1 January	**9.9**	10.7
New leases	**3.3**	0.9
Lease repayments	**(2.2)**	(1.9)
Interest accruals	**0.2**	0.2
At 31 December	**11.2**	9.9

During the year, the Group incurred expenses of £0.1m (2022: £0.3m) in relation to short-term leases.

33. Other liabilities

	2023 £m	2022 £m
Falling due within one year:		
Accruals	**26.5**	28.0
Deferred income	**0.4**	0.6
Other creditors	**12.7**	10.1
	39.6	38.7

Notes to the Consolidated Financial Statements continued

34. Provisions and contingent liabilities

The Financial Services Compensation Scheme (FSCS) provides protection of deposits for the customers of authorised financial services firms, should a firm collapse. FSCS protects retail deposits of up to £85k for single account holders and £170k for joint holders. As OSB and CCFS both hold banking licences, the full FSCS protection is available to customers of each Bank.

The compensation paid out to consumers is initially funded through loans from the BoE and HM Treasury. In order to repay the loans and cover its costs, the FSCS charges levies on firms regulated by the PRA and the Financial Conduct Authority (FCA). The Group is among those firms and pays the FSCS a levy based on its share of total UK deposits.

The Group released its £1.5m provision for conduct related exposures in 2022 following completion of an internal review.

An analysis of the Group's FSCS and other provisions is presented below:

	2023				2022			
	FSCS £m	**Other regulatory provisions £m**	**ECL on undrawn loan facilities £m**	**Total £m**	FSCS £m	Other regulatory provisions £m	ECL on undrawn loan facilities £m	Total £m
At 1 January	**–**	**–**	**0.4**	**0.4**	0.1	1.5	0.4	2.0
Charge/(credit)	**–**	**–**	**0.4**	**0.4**	(0.1)	(1.5)	–	(1.6)
At 31 December	**–**	**–**	**0.8**	**0.8**	–	–	0.4	0.4

In January 2020, the Group was contacted by the FCA in connection with a multi-firm thematic review into forbearance measures adopted by lenders in respect of a portion of the mortgage market. The Group has responded to information requests from the FCA. In addition, the Group has reviewed and is enhancing its collections processes and how mortgage customers in arrears are managed and undertaking a retrospective review of the Group's application of forbearance measures and associated outcomes for certain cohorts of customers. It is not possible to reliably predict or estimate the outcome of the retrospective review and therefore its financial effect, if any, on the Group.

35. Deferred taxation liability

The deferred tax liability recognised on the Combination relates to the timing differences of the recognition of assets and liabilities at fair value, where the fair values will unwind in future periods in line with the underlying asset or liability. The deferred tax liability has been measured using the relevant rates for the expected periods of utilisation.

	CCFS Combination £m
At 1 January 2022	39.8
Profit or loss credit[1]	(17.5)
At 31 December 2022	22.3
Profit or loss credit	**(14.3)**
Transfer to Deferred tax asset[2]	**(1.7)**
At 31 December 2023	**6.3**

1. In 2022, the profit or loss credit includes £4.7m impact of the corporation tax rate changes.
2. £1.7m relating to other deferred tax assets, and previously shown within the Deferred tax liability has been transferred to the Deferred tax asset (see Note 25).

As at 31 December 2023 deferred tax liabilities of £3.8m (2022: £5.6m) are expected to be due within 12 months and £2.5m (2022: £16.7m) due after 12 months.

36. Senior notes

During the current financial year, the Group issued senior notes amounting to £300m under the planned MREL qualifying debt issuance as follows:

	2023 £m	2022 £m
Fixed rate:		
Senior notes 2028 (9.5%)	**307.5**	–

The senior notes comprise fixed rate notes denominated in pounds sterling and are listed on the official list of the FCA and admitted to trading on the main market of the London Stock Exchange plc.

Notes to the Consolidated Financial Statements continued

36. Senior notes continued

The principal terms of the senior notes are as follows:

- **Interest:** Interest on the senior notes is fixed at an initial rate until the reset date (7 September 2027). If the senior notes are not redeemed prior to the reset date, the interest rate will be reset and fixed based on a benchmark gilt rate plus a spread of 4.985%.
- **Redemption:** The Issuer may redeem the senior notes in whole (but not in part) in its sole discretion on 7 September 2027. Optional redemption may also take place for certain regulatory or tax reasons. Any optional redemption requires the prior consent of the PRA.
- **Ranking:** The senior notes constitute direct, unsubordinated and unsecured obligations of OSBG and rank at least *pari passu*, without any preference, among themselves as senior notes. The notes rank behind the claims of depositors, but in priority to holders of Tier 1 and Tier 2 capital as well as equity holders of OSBG.

The table below shows a reconciliation of the Group's senior notes during the year.

	2023 £m	2022 £m
At 1 January	–	–
Addition[1]	298.4	–
Movement in accrued interest	9.1	–
At 31 December	**307.5**	–

1. Addition includes £1.6m towards transaction costs which has been amortised through the EIR of the loan notes.

37. Subordinated liabilities

The Group's outstanding subordinated liabilities are summarised below:

	2023 £m	2022 £m
Fixed rate:		
Subordinated liabilities 2033 (9.993%)	259.5	–

All subordinated liabilities are denominated in pounds sterling and are listed on the official list of the FCA and admitted to trading on the main market of the London Stock Exchange plc.

The principal terms of the subordinated debt liabilities are as follows:

- **Interest:** Interest on the notes is fixed at an initial rate until the reset date (27 July 2028). If the notes are not redeemed prior to the reset date, the interest rate will be reset and fixed based on a benchmark gilt rate plus a spread of 6.296%.
- **Redemption:** The Issuer may redeem the Tier 2 notes in whole (but not in part) in its sole discretion on any day from (and including) 27 April 2028 to (and including) 27 July 2028 (the reset date) as specified in the terms of the agreement. Optional redemption may also take place for certain regulatory or tax reasons. Any optional redemption requires the prior consent of the PRA.
- **Ranking:** The notes constitute direct, unsecured and subordinated obligations of OSBG and rank at least pari passu, without any preference, among themselves as Tier 2 capital. The notes rank behind the claims of depositors and other unsecured and unsubordinated creditors, but rank in priority to holders of Tier 1 capital and of equity of OSBG.

The table below shows a reconciliation of the Group's subordinated liabilities during the year:

	2023 £m	2022 £m
At 1 January	–	10.3
Addition[1]	248.7	–
Movement in accrued interest	10.8	–
Repayment of debt	–	(10.3)
At 31 December	**259.5**	–

1. Addition includes £1.3m towards transaction costs which has been amortised through the EIR of the loan notes.

In 2022 the fixed rate subordinated liabilities were fully repaid at a premium of £0.7m, which was recognised in interest payable and similar charges.

The LIBOR linked subordinated liabilities were redeemed in September 2022.

Notes to the Consolidated Financial Statements continued

38. Perpetual Subordinated Bonds

	2023 £m	2022 £m
Sterling PSBs (4.6007%)	**15.2**	15.2

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 is 4.6007% until the next reset date on 27 August 2024.

39. Reconciliation of cash flows from financing activities

The tables below show a reconciliation of the Group's liabilities classified as financing activities within the Consolidated Statement of Cash Flows:

	Amounts owed to credit institutions (see note 28) £m	Debt securities in issue (see note 31) £m	Senior notes (see note 36) £m	Subordinated liabilities (see note 37) £m	PSBs (see note 38) £m	Total £m
At 1 January 2022	4,204.2	460.3	–	10.3	15.2	4,690.0
Cash movements:						
Principal drawdowns	429.5	–	–	–	–	429.5
Principal repayments	(120.5)	(193.6)	–	(10.1)	–	(324.2)
Interest paid	(34.8)	(8.5)	–	(1.3)	(0.7)	(45.3)
Non-cash movements:						
Interest charged	64.8	7.7	–	1.1	0.7	74.3
At 31 December 2022	4,543.2	265.9	–	–	15.2	4,824.3
Cash movements:						
Principal drawdowns	**189.9**	**591.6**	**298.4**	**248.7**	**–**	**1,328.6**
Principal repayments	**(1,390.2)**	**(40.1)**	**–**	**–**	**–**	**(1,430.3)**
Interest paid	**(178.0)**	**(20.4)**	**–**	**(6.3)**	**(0.7)**	**(205.4)**
Non-cash movements:						
Interest charged	**197.3**	**21.5**	**9.1**	**17.1**	**0.7**	**245.7**
At 31 December 2023	**3,362.2**	**818.5**	**307.5**	**259.5**	**15.2**	**4,762.9**

40. Share capital

Ordinary shares	Number of shares issued and fully paid	Nominal value £m	Premium £m
At 1 January 2022	448,627,855	4.5	0.7
Shares cancelled under repurchase programme	(20,671,224)	(0.2)	–
Shares issued under OSBG employee share plans	1,911,994	–	1.7
At 31 December 2022	429,868,625	4.3	2.4
Shares cancelled under repurchase programme	**(38,243,031)**	**(0.4)**	**–**
Shares issued under OSBG employee share plans	**1,562,087**	**–**	**1.4**
At 31 December 2023	**393,187,681**	**3.9**	**3.8**

The Group's share repurchase programme commenced on 17 March 2023 (2022: 18 March 2022), and allowed the Group to repurchase a maximum of 43,024,375 shares (2022: 44,799,505 shares), restricted by a total cost of £150.0m (2022: £100.0m). The programme completed during the year and 38,243,031 shares (2022: 20,671,224), representing 8.9% (2022: 4.6%) of the issued share capital, have been repurchased and cancelled at an average price of £3.92 (2022: £4.84) per share and a total cost of £150.0m (2022: £100.0m) excluding transaction costs.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

All ordinary shares issued in the current and prior year were fully paid.

Notes to the Consolidated Financial Statements continued

41. Other equity instruments

The Group's other equity instruments are as follows:

Additional Tier 1 securities	2023 £m	2022 £m
6% Perpetual subordinated contingent convertible securities	**150.0**	150.0

AT1 Securities

On 5 October 2021, OSBG issued AT1 securities. AT1 securities comprise £150.0m of Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities that qualify as AT1 capital under CRD IV. The securities will be subject to full conversion into ordinary shares of OSBG in the event that the Group's Common Equity Tier 1 (CET1) capital ratio falls below 7%. The securities will pay interest at a rate of 6% per annum until the first reset date of 7 April 2027, with the reset interest rate equal to 539.3 basis points over the 5-year Gilt Rate (benchmark gilt) for such a period. Interest is paid semi-annually in April and October.

OSBG may, at any time, cancel any interest payment at its full discretion and must cancel interest payments in certain circumstances specified in the terms and conditions of the securities. The securities are perpetual with no fixed redemption date. OSBG may, in its discretion and subject to satisfying certain conditions, redeem all (but not some) of the AT1 securities at the principal amount outstanding plus any accrued but unpaid interest from the first reset date and on any interest payment date thereafter. AT1 securities which were previously presented within 'other reserves' have been re-presented as 'other equity instruments'.

42. Other reserves

The Group's other reserves are as follows:

	2023 £m	2022 £m
Share-based payment	**14.2**	13.2
Capital redemption & transfer	**(1,354.7)**	(1,355.1)
Own shares	**(1.0)**	(2.2)
FVOCI	**0.2**	0.3
Foreign exchange	**(2.1)**	(1.3)
	(1,343.4)	(1,345.1)

Capital redemption and transfer reserve

The capital redemption reserve represents the shares cancelled through the Group's share repurchase programme.

On 27 November 2020, a new ultimate parent company was inserted into the Group, being OSBG. The share capital generated from issuing 447,304,198 nominal shares at £3.04 per share, replacing the nominal shares of £0.01 in OSB previously recognised in share capital at the consolidation level, created a transfer reserve of £1,355.3m.

Own shares

The Company has adopted the look-through approach for the EBT, including the EBT within the Company. As at 31 December 2023, the EBT held 188,106 OSBG shares (2022: 442,568 OSBG shares). The Group and Company show these shares as a deduction from equity, being the cost at which the shares were acquired of £1.0m (2022: £2.2m).

FVOCI reserve

The FVOCI reserve represents the cumulative net change in the fair value of investment securities measured at FVOCI.

Foreign exchange reserve

The foreign exchange reserve relates to the revaluation of the Group's Indian subsidiary, OSB India Private Limited.

43. Financial commitments and guarantees

a) The Group had £0.1m of contracted capital expenditure commitments not provided for as at 31 December 2023 (2022: nil).

b) The Group's minimum lease commitments under leases for low-value assets and short-term leases of 12 months or less are summarised in the table below:

	2023 £m	2022 £m
Land and buildings: due within:		
One year	**0.2**	0.3
Two to five years	**0.2**	0.3
	0.4	0.6

Notes to the Consolidated Financial Statements continued

c) Undrawn loan facilities:

	2023 £m	2022 £m
OSB mortgages	**580.2**	741.6
CCFS mortgages	**391.8**	455.1
Asset finance	**27.4**	15.5
	999.4	1,212.2

Undrawn loan facilities are approved loan applications which have not yet been exercised. They are payable on demand and are usually drawn down or expire within three months.

d) The Group did not have any issued financial guarantees as at 31 December 2023 (2022: nil).

44. Risk management

Overview

Financial instruments form the vast majority of the Group's assets and liabilities. The Group manages risk on a consolidated basis and risk disclosures that follow are provided on this basis.

Types of financial instruments

Financial instruments are a broad definition which includes financial assets, financial liabilities and equity instruments. The main financial assets of the Group are loans to customers and liquid assets, which in turn consist of cash in the BoE call accounts, call accounts with other credit institutions, RMBS and UK sovereign debt. These are funded by a combination of financial liabilities and equity instruments. Financial liability funding comes predominantly from retail deposits and drawdowns under the BoE TFSME and ILTR, supported by debt securities, subordinated debts, wholesale and other funding. Equity instruments include own shares and AT1 securities meeting the equity classification criteria. The Group's main activity is mortgage lending; it raises funds or invests in particular types of financial assets to meet customer demand and manage the risks arising from its operations. The Group does not trade in financial instruments for speculative purposes.

The Group uses derivative instruments to manage its financial risks. Derivatives are used by the Group solely to reduce (hedge) the risk of loss arising from changes in market rates. The Group only uses interest rate swaps. Derivatives are not used for speculative purposes.

Types of derivatives and uses

The derivative instruments used by the Group in managing its risk exposures are interest rate swaps. Interest rate swaps convert fixed interest rates to floating or vice versa. As with other derivatives, the underlying product is not sold and payments are based on notional principal amounts.

Unhedged fixed rate liabilities create the risk of paying above-the-market rate if interest rates subsequently decrease. Unhedged fixed rate mortgages and liquid assets bear the opposite risk of income below-the-market rate when rates go up. While fixed rate assets and liabilities naturally hedge each other to a certain extent, this hedge is usually never perfect because of maturity mismatches and principal amounts.

The Group uses swaps to convert its instruments, such as mortgages, deposits and liquid assets, from fixed or base rate-linked rates to reference linked variable rates. This ensures a guaranteed margin between the interest income and interest expense, regardless of changes in the market rates.

Types of risk

The principal financial risks to which the Group is exposed are credit, liquidity and market risks, the latter comprising interest and exchange rate risk. In addition to financial risks, the Group is exposed to various other risks, most notably operational, conduct and compliance/regulatory, which are covered in the Risk review on page 45 to 66.

Credit risk

Credit risk is the risk that losses may arise as a result of the Group's borrowers or market counterparties failing to meet their obligations to repay.

The Group has adopted the Standardised Approach for assessment of credit risk regulatory capital requirements. This approach considers risk weightings as defined under Basel II and Basel III principles.

The classes of financial instruments to which the Group is most exposed are loans and advances to customers, loans and advances to credit institutions, cash in the BoE call account, call and current accounts with other credit institutions and investment securities. The maximum credit risk exposure equals the total carrying amount of the above categories plus off-balance sheet undrawn committed mortgage facilities.

The change, during the period and cumulatively, in the fair value of investments in debt securities and loans and advances to customers at FVOCI and FVTPL that is attributable to changes in credit risk is not material.

Notes to the Consolidated Financial Statements continued

44. Risk management continued

Credit risk – loans and advances to customers

Credit risk associated with mortgage lending is largely driven by the housing market and level of unemployment. A recession and/or high interest rates could cause pressure within the market, resulting in rising levels of arrears and repossessions.

All loan applications are assessed with reference to the Group's Lending Policy. Changes to the policy are approved by the Group Risk Committee, with mandates set for the approval of loan applications.

The Group Credit Committee and ALCO regularly monitor lending activity, taking appropriate actions to reprice products and adjust lending criteria in order to control risk and manage exposure. Where necessary and appropriate, changes to the Lending Policy are recommended to the Group Risk Committee.

The following tables show the Group's maximum exposure to credit risk and the impact of collateral held as security, capped at the gross exposure amount, by impairment stage. Capped collateral excludes the impact of forced sale discounts and costs to sell. The collateral value is determined by indexing against House Price Index data.

	2023					
	OSB		CCFS		Total	
	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m
Stage 1	**11,263.0**	**11,228.7**	**9,313.8**	**9,313.8**	**20,576.8**	**20,542.5**
Stage 2	**2,718.6**	**2,717.0**	**1,819.3**	**1,818.6**	**4,537.9**	**4,535.6**
Stage 3	**494.3**	**488.8**	**217.2**	**217.2**	**711.5**	**706.0**
Stage 3 (POCI)	**33.4**	**33.0**	**37.5**	**37.4**	**70.9**	**70.4**
	14,509.3	**14,467.5**	**11,387.8**	**11,387.0**	**25,897.1**	**25,854.5**

	2022					
	OSB		CCFS		Total	
	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m
Stage 1	10,346.8	10,320.4	8,375.5	8,374.4	18,722.3	18,694.8
Stage 2	2,509.7	2,508.5	1,907.4	1,907.1	4,417.1	4,415.6
Stage 3	349.7	319.2	156.0	156.0	505.7	475.2
Stage 3 (POCI)	38.5	37.5	44.5	44.4	83.0	81.9
	13,244.7	13,185.6	10,483.4	10,481.9	23,728.1	23,667.5

The Group's main form of collateral held is property, based in the UK and the Channel Islands.

The Group uses indexed loan to value (LTV) ratios to assess the quality of the uncapped collateral held. Property values are updated to reflect changes in the HPI. A breakdown of loans and advances to customers by indexed LTV is as follows:

	2023				2022			
	OSB £m	CCFS £m	Total £m	%	OSB £m	CCFS £m	Total £m	%
Band								
0% – 50%	**2,454.7**	**1,105.5**	**3,560.2**	**14**	2,768.8	914.7	3,683.5	16
50% – 60%	**2,275.8**	**1,454.5**	**3,730.3**	**14**	2,770.7	1,361.1	4,131.8	17
60% – 70%	**4,414.4**	**3,244.0**	**7,658.4**	**30**	4,647.5	3,561.7	8,209.2	35
70% – 80%	**3,822.1**	**5,000.9**	**8,823.0**	**34**	2,150.7	4,277.3	6,428.0	26
80% – 90%	**1,045.7**	**573.2**	**1,618.9**	**6**	548.3	365.5	913.8	4
90% – 100%	**222.0**	**8.8**	**230.8**	**1**	181.3	2.5	183.8	1
>100%	**274.6**	**0.9**	**275.5**	**1**	177.4	0.6	178.0	1
Total loans before provisions	**14,509.3**	**11,387.8**	**25,897.1**	**100**	13,244.7	10,483.4	23,728.1	100

Notes to the Consolidated Financial Statements continued

The table below shows the LTV banding for the OSB segments' two major lending streams:

OSB	2023 BTL/SME £m	2023 Residential £m	2023 Total £m	2023 %	2022 BTL/SME £m	2022 Residential £m	2022 Total £m	2022 %
Band								
0% – 50%	**1,078.1**	**1,376.6**	**2,454.7**	**17**	1,301.4	1,467.4	2,768.8	21
50% – 60%	**2,027.5**	**248.3**	**2,275.8**	**16**	2,497.2	273.5	2,770.7	21
60% – 70%	**4,181.4**	**233.0**	**4,414.4**	**30**	4,386.0	261.5	4,647.5	36
70% – 80%	**3,616.9**	**205.2**	**3,822.1**	**26**	1,977.1	173.6	2,150.7	16
80% – 90%	**826.3**	**219.4**	**1,045.7**	**7**	418.1	130.2	548.3	4
90% – 100%	**174.8**	**47.2**	**222.0**	**2**	167.3	14.0	181.3	1
>100%	**270.1**	**4.5**	**274.6**	**2**	172.9	4.5	177.4	1
Total loans before provisions	**12,175.1**	**2,334.2**	**14,509.3**	**100**	10,920.0	2,324.7	13,244.7	100

The tables below show the LTV analysis of the OSB BTL/SME sub-segment:

OSB	2023 Buy-to-Let £m	2023 Commercial £m	2023 Residential development £m	2023 Funding lines £m	2023 Total £m
Band					
0% – 50%	**968.1**	**93.4**	**8.2**	**8.4**	**1,078.1**
50% – 60%	**1,857.3**	**106.6**	**61.1**	**2.5**	**2,027.5**
60% – 70%	**3,800.3**	**169.7**	**210.5**	**0.9**	**4,181.4**
70% – 80%	**3,271.4**	**323.6**	**–**	**21.9**	**3,616.9**
80% – 90%	**596.0**	**230.3**	**–**	**–**	**826.3**
90% – 100%	**68.7**	**106.1**	**–**	**–**	**174.8**
>100%	**202.7**	**66.0**	**1.0**	**0.4**	**270.1**
Total loans before provisions	**10,764.5**	**1,095.7**	**280.8**	**34.1**	**12,175.1**

OSB	2022 Buy-to-Let £m	2022 Commercial £m	2022 Residential development £m	2022 Funding lines £m	2022 Total £m
Band					
0% – 50%	1,137.6	114.7	16.1	33.0	1,301.4
50% – 60%	2,324.1	112.8	57.2	3.1	2,497.2
60% – 70%	4,111.4	164.4	110.2	–	4,386.0
70% – 80%	1,741.5	235.6	–	–	1,977.1
80% – 90%	232.8	151.6	–	33.7	418.1
90% – 100%	77.1	63.8	–	26.4	167.3
>100%	130.5	38.4	1.0	3.0	172.9
Total loans before provisions	9,755.0	881.3	184.5	99.2	10,920.0

The tables below show the LTV analysis of the OSB Residential sub-segment:

OSB	2023 First charge £m	2023 Second charge £m	2023 Total £m	2022 First charge £m	2022 Second charge £m	2022 Total £m
Band						
0% – 50%	**1,292.6**	**84.0**	**1,376.6**	1,357.6	109.8	1,467.4
50% – 60%	**219.9**	**28.4**	**248.3**	238.1	35.4	273.5
60% – 70%	**218.3**	**14.7**	**233.0**	242.9	18.6	261.5
70% – 80%	**199.5**	**5.7**	**205.2**	168.3	5.3	173.6
80% – 90%	**218.1**	**1.3**	**219.4**	128.8	1.4	130.2
90% – 100%	**46.8**	**0.4**	**47.2**	13.4	0.6	14.0
>100%	**3.9**	**0.6**	**4.5**	3.8	0.7	4.5
Total loans before provisions	**2,199.1**	**135.1**	**2,334.2**	2,152.9	171.8	2,324.7

Notes to the Consolidated Financial Statements continued

44. Risk management continued

The table below shows the LTV analysis of the four CCFS sub-segment:

CCFS	Buy-to-Let £m	Residential £m	Bridging £m	Second charge lending £m	Total £m	%
	2023					
Band						
0% – 50%	**360.3**	**573.9**	**138.1**	**33.2**	**1,105.5**	**10**
50% – 60%	**838.1**	**527.7**	**66.8**	**21.9**	**1,454.5**	**13**
60% – 70%	**2,365.6**	**782.7**	**79.9**	**15.8**	**3,244.0**	**28**
70% – 80%	**4,098.0**	**849.2**	**43.4**	**10.3**	**5,000.9**	**44**
80% – 90%	**271.7**	**296.0**	**2.3**	**3.2**	**573.2**	**5**
90% – 100%	**3.5**	**3.3**	**2.0**	**–**	**8.8**	**–**
>100%	**–**	**0.3**	**0.6**	**–**	**0.9**	**–**
Total loans before provisions	**7,937.2**	**3,033.1**	**333.1**	**84.4**	**11,387.8**	**100**

CCFS	Buy-to-Let £m	Residential £m	Bridging £m	Second charge lending £m	Total £m	%
	2022					
Band						
0% – 50%	308.6	498.3	62.9	44.9	914.7	9
50% – 60%	799.5	501.8	29.9	29.9	1,361.1	13
60% – 70%	2,587.6	924.2	25.6	24.3	3,561.7	34
70% – 80%	3,613.8	622.9	26.9	13.7	4,277.3	41
80% – 90%	215.1	146.8	2.4	1.2	365.5	3
90% – 100%	0.2	0.8	1.5	–	2.5	–
>100%	–	0.1	0.5	–	0.6	–
Total loans before provisions	7,524.8	2,694.9	149.7	114.0	10,483.4	100

Forbearance measures undertaken

The Group has a range of options available where borrowers experience financial difficulties that impact their ability to service their financial commitments under the loan agreement. These options are explained in the Risk review on page 45 to 66.

A summary of the forbearance measures undertaken during the year is shown below. The balances disclosed reflect the year-end balance of the accounts where a forbearance measure was undertaken during the year.

Forbearance type	Number of accounts 2023	At 31 December 2023 £m	Number of accounts 2022	At 31 December 2022 £m
Interest-only switch	**384**	**62.9**	70	12.2
Interest rate reduction	**290**	**36.5**	91	7.5
Term extension	**164**	**15.6**	53	2.9
Payment deferral	**459**	**89.9**	194	34.0
Voluntary-assisted sale	**–**	**–**	5	1.2
Payment concession (reduced monthly payments)	**112**	**22.9**	55	12.0
Capitalisation of interest	**17**	**2.4**	27	9.0
Full or partial debt forgiveness	**126**	**4.5**	359	9.6
Total	**1,552**	**234.7**	854	88.4
Loan type				
First charge owner-occupier	**880**	**116.5**	217	27.8
Second charge owner-occupier	**252**	**6.9**	460	8.9
Buy-to-Let	**279**	**79.2**	107	37.1
Commercial	**141**	**32.1**	70	14.6
Total	**1,552**	**234.7**	854	88.4

Notes to the Consolidated Financial Statements continued

Geographical analysis by region

An analysis of loans, excluding asset finance leases, by region is provided below:

	2023				2022			
Region	OSB £m	CCFS £m	Total £m	%	OSB £m	CCFS £m	Total £m	%
East Anglia	**480.1**	**1,236.2**	**1,716.3**	**7**	453.5	1,136.4	1,589.9	7
East Midlands	**723.4**	**774.7**	**1,498.1**	**6**	609.9	691.6	1,301.5	6
Greater London	**6,185.6**	**3,416.4**	**9,602.0**	**37**	5,559.3	3,293.0	8,852.3	38
Guernsey	**18.2**	**–**	**18.2**	**–**	21.5	–	21.5	–
Jersey	**67.8**	**–**	**67.8**	**–**	75.6	–	75.6	–
North East	**195.7**	**299.6**	**495.3**	**2**	169.8	274.5	444.3	2
North West	**983.4**	**1,031.0**	**2,014.4**	**8**	906.6	921.8	1,828.4	7
Northern Ireland	**9.4**	**–**	**9.4**	**–**	10.0	–	10.0	–
Scotland	**61.1**	**298.1**	**359.2**	**1**	36.9	261.3	298.2	1
South East	**2,907.8**	**1,834.0**	**4,741.8**	**18**	2,802.8	1,681.5	4,484.3	19
South West	**959.4**	**751.2**	**1,710.6**	**7**	893.7	659.6	1,553.3	7
Wales	**327.4**	**315.0**	**642.4**	**3**	297.5	284.7	582.2	2
West Midlands	**992.6**	**851.0**	**1,843.6**	**7**	908.9	761.3	1,670.2	7
Yorks and Humberside	**374.7**	**580.6**	**955.3**	**4**	335.5	517.7	853.2	4
Total loans before provisions	**14,286.6**	**11,387.8**	**25,674.4**	**100**	13,081.5	10,483.4	23,564.9	100

Approach to measurement of credit quality

The Group categorises the credit quality of loans and advances to customers into internal risk grades based on the 12 month PD calculated at the reporting date. The PDs include a combination of internal behavioural and credit bureau characteristics and are aligned with Capital models to generate the risk grades which are then further grouped into the following credit quality segments:

- **Excellent quality** – where there is a very high likelihood the asset will be recovered in full with a negligible or very low risk of default.
- **Good quality** – where there is a high likelihood the asset will be recovered in full with a low risk of default.
- **Satisfactory quality** – where the assets demonstrate a moderate default risk.
- **Lower quality** – where the assets require closer monitoring and the risk of default is of greater concern.

The following tables disclose the credit risk quality ratings of loans and advances to customers by IFRS 9 stage. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period for the life of the loan. Loans and advances to customers initially booked on very low PDs and graded as excellent quality loans can experience a SICR and therefore be moved to Stage 2. Such loans may still be graded as excellent quality, if they meet the overall criteria.

2023	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m	PD lower range %	PD upper range %
OSB							
Excellent	**4,609.0**	**257.1**	**–**	**–**	**4,866.1**	**–**	**0.3**
Good	**6,062.0**	**1,397.6**	**–**	**–**	**7,459.6**	**0.3**	**2.0**
Satisfactory	**543.1**	**505.9**	**–**	**–**	**1,049.0**	**2.0**	**7.4**
Lower	**48.9**	**558.0**	**–**	**–**	**606.9**	**7.4**	**100.0**
Impaired	**–**	**–**	**494.3**	**–**	**494.3**	**100.0**	**100.0**
POCI	**–**	**–**	**–**	**33.4**	**33.4**	**100.0**	**100.0**
CCFS							
Excellent	**6,204.6**	**633.1**	**–**	**–**	**6,837.7**	**–**	**0.3**
Good	**2,934.3**	**653.7**	**–**	**–**	**3,588.0**	**0.3**	**2.0**
Satisfactory	**168.2**	**213.5**	**–**	**–**	**381.7**	**2.0**	**7.4**
Lower	**6.7**	**319.0**	**–**	**–**	**325.7**	**7.4**	**100.0**
Impaired	**–**	**–**	**217.2**	**–**	**217.2**	**100.0**	**100.0**
POCI	**–**	**–**	**–**	**37.5**	**37.5**	**100.0**	**100.0**
	20,576.8	**4,537.9**	**711.5**	**70.9**	**25,897.1**		

Notes to the Consolidated Financial Statements continued

44. Risk management continued

Geographical analysis by region continued

2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m	PD lower range %	PD upper range %
OSB							
Excellent	4,136.6	470.6	–	–	4,607.2	–	0.3
Good	5,848.5	1,248.4	–	–	7,096.9	0.3	2.0
Satisfactory	331.8	374.2	–	–	706.0	2.0	7.4
Lower	29.9	416.5	–	–	446.4	7.4	100.0
Impaired	–	–	349.7	–	349.7	100.0	100.0
POCI	–	–	–	38.5	38.5	100.0	100.0
CCFS							
Excellent	5,800.2	910.1	–	–	6,710.3	–	0.3
Good	2,394.2	668.2	–	–	3,062.4	0.3	2.0
Satisfactory	151.4	143.9	–	–	295.3	2.0	7.4
Lower	29.7	185.2	–	–	214.9	7.4	100.0
Impaired	–	–	156.0	–	156.0	100.0	100.0
POCI	–	–	–	44.5	44.5	100.0	100.0
	18,722.3	4,417.1	505.7	83.0	23,728.1		

The tables below show the Group's other financial assets and derivatives by credit risk rating grade. The credit grade is based on the external credit rating of the counterparty; AAA to AA- are rated Excellent; A+ to A- are rated Good; and BBB+ to BBB- are rated Satisfactory.

2023	Excellent £m	Good £m	Satisfactory £m	Total £m
Investment securities	**621.7**	**–**	**–**	**621.7**
Loans and advances to credit institutions	**2,446.7**	**357.7**	**9.2**	**2,813.6**
Derivative assets	**239.7**	**290.9**	**–**	**530.6**
	3,308.1	**648.6**	**9.2**	**3,965.9**

2022	Excellent £m	Good £m	Satisfactory £m	Total £m
Investment securities	412.9	–	–	412.9
Loans and advances to credit institutions	2,923.2	435.4	7.1	3,365.7
Derivative assets	400.1	488.0	–	888.1
	3,736.2	923.4	7.1	4,666.7

Credit risk – loans and advances to credit institutions and investment securities

The Group holds treasury instruments in order to meet liquidity requirements and for general business purposes. The credit risk arising from these investments is closely monitored and managed by the Group's Treasury function. In managing these assets, Group Treasury operates within guidelines laid down in the Group Market and Liquidity Risk Policy approved by ALCO and performance is monitored and reported to ALCO monthly, including through the use of an internally developed rating model based on counterparty credit default swap spreads.

The Group has limited exposure to emerging markets (Indian operations) and non-investment grade debt. ALCO is responsible for approving treasury counterparties.

During the year, the average balance of cash in hand, loans and advances to credit institutions and investment securities on a monthly basis was £3,848.3m (2022: £3,496.9m).

Notes to the Consolidated Financial Statements continued

Credit risk – loans and advances to credit institutions and investment securities continued

The tables below show the industry sector of the Group's loans and advances to credit institutions and investment securities:

	2023		2022	
	£m	%	£m	%
BoE[1]	**2,325.9**	**68**	2,869.3	76
Other banks	**487.7**	**14**	496.4	13
Central government	**296.0**	**9**	149.8	4
Securitisation	**325.7**	**9**	263.1	7
Total	**3,435.3**	**100**	3,778.6	100

1. Balances with the BoE include £69.6m (2022: £62.8m) held in the cash ratio deposit.

The tables below show the geographical exposure of the Group's loans and advances to credit institutions and investment securities:

	2023		2022	
	£m	%	£m	%
United Kingdom	**3,418.0**	**99**	3,765.7	100
India	**17.3**	**1**	12.9	–
Total	**3,435.3**	**100**	3,778.6	100

The Group monitors exposure concentrations against a variety of criteria, including asset class, sector and geography. To avoid refinancing risks associated with any one counterparty, sector or geographical region, the Board has set appropriate limits.

For further information on Credit risk please refer to page 62.

Liquidity risk

Liquidity risk is the risk of having insufficient liquid assets to fulfil obligations as they become due or the cost of raising liquid funds becoming too expensive.

The Group's approach to managing liquidity risk is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations as they fall due. This is achieved through maintaining a prudent level of liquid assets and control of the growth of the business. The Group has established call accounts with the BoE and has access to its contingent liquidity facilities.

The Board has delegated the responsibility for liquidity management to the Chief Executive Officer, assisted by ALCO, with day-to-day management delegated to Treasury as detailed in the Group Market and Liquidity Risk Policy. The Board is responsible for setting risk appetite limits over the level and maturity profile of funding and for monitoring the composition of the Group financial position.

The Group also monitors a range of triggers, defined in the recovery plan, which are designed to capture liquidity stresses in advance in order to allow sufficient time for management action to take effect. These are monitored daily by the Risk team, with breaches immediately reported to the Group Chief Risk Officer, Chief Executive Officer, Chief Financial Officer and the Group Treasurer.

Notes to the Consolidated Financial Statements continued

44. Risk management continued

Liquidity risk continued

The tables below show the maturity profile for the Group's financial assets and liabilities based on contractual maturities at the reporting date:

2023	Carrying amount £m	On demand £m	Less than 3 months £m	3 – 12 months £m	1 – 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	**22,126.6**	**4,220.7**	**6,119.6**	**9,110.9**	**2,675.4**	**–**
Amounts owed to credit institutions	**3,575.0**	**–**	**106.4**	**10.0**	**3,458.6**	**–**
Amounts owed to other customers	**63.3**	**–**	**45.1**	**18.2**	**–**	**–**
Derivative liabilities	**199.9**	**–**	**6.0**	**18.9**	**164.9**	**10.1**
Debt securities in issue	**818.5**	**–**	**–**	**–**	**818.5**	**–**
Lease liabilities	**11.2**	**–**	**0.4**	**1.7**	**7.9**	**1.2**
Senior notes	**307.5**	**–**	**9.0**	**–**	**298.5**	**–**
Subordinated liabilities	**259.5**	**–**	**10.7**	**–**	**248.8**	**–**
PSBs	**15.2**	**–**	**–**	**15.2**	**–**	**–**
Total liabilities	**27,376.7**	**4,220.7**	**6,297.2**	**9,174.9**	**7,672.6**	**11.3**
Financial asset by type						
Cash in hand	**0.4**	**0.4**	**–**	**–**	**–**	**–**
Loans and advances to credit institutions	**2,813.6**	**2,623.7**	**19.7**	**–**	**128.8**	**41.4**
Investment securities	**621.7**	**–**	**101.2**	**301.7**	**218.8**	**–**
Loans and advances to customers	**25,765.0**	**–**	**249.6**	**469.1**	**1,383.1**	**23,663.2**
Derivative assets	**530.6**	**–**	**6.6**	**79.4**	**444.6**	**–**
Total assets	**29,731.3**	**2,624.1**	**377.1**	**850.2**	**2,175.3**	**23,704.6**
Cumulative liquidity gap		**(1,596.6)**	**(7,516.7)**	**(15,841.4)**	**(21,338.7)**	**2,354.6**

2022	Carrying amount £m	On demand £m	Less than 3 months £m	3 – 12 months £m	1 – 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	19,755.8	6,770.7	2,632.4	7,807.7	2,545.0	–
Amounts owed to credit institutions	5,092.9	–	191.4	310.3	4,218.9	372.3
Amounts owed to other customers	113.1	–	29.7	76.5	6.9	–
Derivative liabilities	106.6	–	7.5	46.3	43.8	9.0
Debt securities in issue	265.9	–	0.3	–	265.6	–
Lease liabilities	9.9	–	–	–	0.9	9.0
Subordinated liabilities	–	–	–	–	–	–
PSBs	15.2	–	–	–	15.2	–
Total liabilities	25,359.4	6,770.7	2,861.3	8,240.8	7,096.3	390.3
Financial asset by type						
Cash in hand	0.4	0.4	–	–	–	–
Loans and advances to credit institutions	3,365.7	3,104.0	71.4	–	–	190.3
Investment securities	412.9	0.5	144.8	22.1	245.5	–
Loans and advances to customers	23,612.7	2.3	223.8	421.8	1,341.6	21,623.2
Derivative assets	888.1	–	2.7	55.5	828.2	1.7
Total assets	28,279.8	3,107.2	442.7	499.4	2,415.3	21,815.2
Cumulative liquidity gap		(3,663.5)	(6,082.1)	(13,823.5)	(18,504.5)	2,920.4

Notes to the Consolidated Financial Statements continued

Liquidity risk – undiscounted contractual cash flows

The following tables provide an analysis of the Group's gross contractual undiscounted cash flows, derived using interest rates and contractual maturities at the reporting date and excluding impacts of early payments or non-payments:

2023	Carrying amount £m	Gross inflow/ outflow £m	Up to 3 months £m	3 – 12 months £m	1 – 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	**22,126.6**	**22,453.2**	**10,385.4**	**9,313.9**	**2,753.9**	**–**
Amounts owed to credit institutions	**3,575.0**	**3,888.6**	**106.4**	**122.1**	**3,660.1**	**–**
Amounts owed to other customers	**63.3**	**63.3**	**45.1**	**18.2**	**–**	**–**
Derivative liabilities	**199.9**	**195.7**	**2.3**	**4.7**	**186.1**	**2.6**
Debt securities in issue	**818.5**	**1,048.4**	**151.5**	**103.4**	**793.5**	**–**
Lease liabilities	**11.2**	**12.6**	**0.4**	**1.7**	**8.3**	**2.2**
Senior notes	**307.5**	**414.1**	**14.3**	**14.3**	**385.5**	**–**
Subordinated liabilities	**259.5**	**368.7**	**12.5**	**12.5**	**343.7**	**–**
PSBs	**15.2**	**15.6**	**0.3**	**15.3**	**–**	**–**
Total liabilities	**27,376.7**	**28,460.2**	**10,718.2**	**9,606.1**	**8,131.1**	**4.8**
Off-balance sheet loan commitments	**999.4**	**999.4**	**999.4**	**–**	**–**	**–**
Financial asset by type						
Cash in hand	**0.4**	**0.4**	**0.4**	**–**	**–**	**–**
Loans and advances to credit institutions	**2,813.6**	**2,813.6**	**2,643.4**	**–**	**128.8**	**41.4**
Investment securities	**621.7**	**678.9**	**106.4**	**320.0**	**252.5**	**–**
Loans and advances to customers	**25,765.0**	**66,593.7**	**561.8**	**1,931.8**	**9,532.1**	**54,568.0**
Derivative assets	**530.6**	**540.7**	**99.1**	**247.5**	**193.6**	**0.5**
Total assets	**29,731.3**	**70,627.3**	**3,411.1**	**2,499.3**	**10,107.0**	**54,609.9**

2022	Carrying amount £m	Gross inflow/ outflow £m	Up to 3 months £m	3 – 12 months £m	1 – 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	19,755.8	20,083.0	9,566.2	7,911.0	2,605.8	–
Amounts owed to credit institutions	5,092.9	5,459.8	227.1	410.9	4,449.5	372.3
Amounts owed to other customers	113.1	113.1	29.7	76.5	6.9	–
Derivative liabilities	106.6	103.9	16.2	39.1	46.7	1.9
Debt securities in issue	265.9	277.3	34.4	64.5	178.4	–
Lease liabilities	9.9	11.4	0.5	1.5	8.8	0.6
Subordinated liabilities	–	–	–	–	–	–
PSBs	15.2	16.1	0.3	0.3	15.5	–
Total liabilities	25,359.4	26,064.6	9,874.4	8,503.8	7,311.6	374.8
Off-balance sheet loan commitments	1,212.2	1,212.2	1,212.2	–	–	–
Financial asset by type						
Cash in hand	0.4	0.4	0.4	–	–	–
Loans and advances to credit institutions	3,365.7	3,365.7	3,175.4	–	–	190.3
Investment securities	412.9	444.3	148.2	30.2	265.9	–
Loans and advances to customers	23,612.7	57,940.1	430.7	1,657.2	8,028.9	47,823.3
Derivative assets	888.1	820.5	76.9	259.4	484.6	(0.4)
Total assets	28,279.8	62,571.0	3,831.6	1,946.8	8,779.4	48,013.2

The actual repayment profile of retail deposits may differ from the analysis above due to the option of early withdrawal with a penalty.

Cash flows on PSBs are disclosed up to the next interest rate reset date.

The actual repayment profile of loans and advances to customers may differ from the analysis above since many mortgage loans are repaid prior to the contractual end date.

Notes to the Consolidated Financial Statements continued

44. Risk management continued

Liquidity risk – asset encumbrance

Asset encumbrance levels are monitored by ALCO. The following tables provide an analysis of the Group's encumbered and unencumbered assets:

	2023				
	Encumbered		Unencumbered		
	Pledged as collateral £m	Other[1] £m	Available as collateral £m	Other £m	Total £m
Cash in hand	–	–	**0.4**	–	**0.4**
Loans and advances to credit institutions	**198.6**	**101.4**	**2,256.3**	**257.3**	**2,813.6**
Investment securities	**27.1**	–	**594.6**	–	**621.7**
Loans and advances to customers[2]	**6,934.1**	–	**17,808.8**	**1,022.1**	**25,765.0**
Derivative assets	–	–	–	**530.6**	**530.6**
Non-financial assets	–	–	–	**(141.5)**	**(141.5)**
	7,159.8	**101.4**	**20,660.1**	**1,668.5**	**29,589.8**

	2022				
	Encumbered		Unencumbered		
	Pledged as collateral £m	Other[1] £m	Available as collateral £m	Other £m	Total £m
Cash in hand	–	–	0.4	–	0.4
Loans and advances to credit institutions	237.4	174.6	2,806.5	147.2	3,365.7
Investment securities	46.4	–	366.5	–	412.9
Loans and advances to customers[2]	6,705.1	–	16,424.5	483.1	23,612.7
Derivative assets	–	–	–	888.1	888.1
Non-financial assets	–	–	–	(713.1)	(713.1)
	6,988.9	174.6	19,597.9	805.3	27,566.7

1. Represents assets that are not pledged but that the Group believes it is restricted from using to secure funding for legal or other reasons.
2. Unencumbered loans and advances to customers classified as other are restricted for use as collateral as they are; registered outside of UK (Jersey and Guernsey), not secured by immovable property or are non-performing.

Liquidity risk – liquidity reserves

The tables below analyse the Group's liquidity reserves, where carrying value is considered to be equal to fair value:

	2023 £m	2022 £m
Unencumbered balances with central banks	**2,256.3**	2,806.5
Unencumbered cash and balances with other banks	**257.3**	147.2
Other cash and cash equivalents	**0.4**	0.4
Unencumbered investment securities	**594.6**	366.5
	3,108.6	3,320.6

Market risk

Market risk is the risk of an adverse change in the Group's income or the Group's net worth arising from movement in interest rates, exchange rates or other market prices. Market risk exists, to some extent, in all the Group's businesses. The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings and preservation of shareholder value.

Interest rate risk

The primary market risk faced by the Group is interest rate risk. Interest rate risk is 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. The Group does not run a trading book or take speculative interest rate positions and therefore all interest rate risk resides in the banking book (interest rate risk in the banking book (IRRBB)). IRRBB is most prevalent in mortgage lending and in fixed rate retail deposits. Exposure is mitigated on a continuous basis through the use of natural offsets between mortgages and savings with a similar tenure, interest rate derivatives and reserve allocations.

Currently interest rate risk is managed separately for OSB and CCFS due to the use of different treasury management and asset and liability management (ALM) systems. However, the methodology applied to the setting of risk appetites was aligned across the Group in 2020. Both Banks apply an economic value at risk approach as well as an earnings at risk approach for interest rate risk and basis risk. The interest rate sensitivity is impacted by behavioural assumptions used by the Group; the most significant of which are prepayments and pipeline take up. Expected prepayments are monitored and modelled on a regular basis based upon historical analysis. The reserve allocation strategy is approved by ALCO and set to reflect the current balance sheet and future plans. The earnings at risk excludes the EIR accounting impact of lower base rates in reversion that is shown as a separate sensitivity in note 2: Judgements in applying accounting policies and critical accounting estimates.

Notes to the Consolidated Financial Statements continued

Economic value at risk is measured using the impact of six different internally derived interest rate scenarios. The internal scenarios are defined by ALCO and are based on three 'shapes' of curve movement (shift, twist and flex). Historical data is used to calibrate the severity of the scenarios to the Group's risk appetite. The Board has set limits on interest rate risk exposure of 2.25% and 1% of CET1 for OSB and CCFS, respectively. The table below shows the maximum decreases to net interest income under these scenarios after taking into account the derivatives:

	2023 £m	2022 £m
OSB	**2.3**	13.5
CCFS	**1.8**	1.9
	4.1	15.4

Exposure for earnings at risk as at 31 December 2023 is measured by the impact of a +/-100bps parallel shift in interest rates on the expected profitability of the Group in the next 12 months. The risk appetite limit is 4% of full year net interest income. The table below shows the maximum decreases after taking into account the derivatives:

	2023 £m	2022 £m
OSB	**6.5**	7.5
CCFS	**9.2**	8.8
	15.7	16.3

Exposure for earnings at risk measured by the impact of a +/-100bps parallel shift in interest rates on the expected profitability of the Group in the next 3 years. The risk appetite limit is 4% of full year net interest income.

	2023 £m	2022 £m
OSB	**24.6**	26.2
CCFS	**25.6**	24.1
	50.2	50.3

The Group is also exposed to basis risk. Basis risk is 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 or SONIA) or administered (e.g. the Group's SVR, other discretionary variable rates, or that received on call accounts with other banks).

The Group measures basis risk using the impact of four scenarios on net interest income over a one-year period including movements such as diverging base, overnight and term SONIA rates. Historical data is used to calibrate the severity of the scenarios to the Group's risk appetite. The Board has set a limit on basis risk exposure of 2.5% of full year net interest income. The table below shows the maximum decreases to net interest income at 31 December 2023 and 2022:

	2023 £m	2022 £m
OSB	**7.7**	5.8
CCFS	**4.8**	4.5
	12.5	10.3

Foreign exchange rate risk

The Group has limited exposure to foreign exchange risk in respect of its Indian operations. A 5% increase in exchange rates would result in a £0.9m (2022: £0.7m) effect in profit or loss and £0.6m (2022: £0.5m) in equity.

Structured entities

The structured entities consolidated within the Group at 31 December 2023 were Canterbury Finance No.2 plc, Canterbury Finance No.3 plc, Canterbury Finance No.4 plc, Canterbury Finance No.5 plc, CMF 2020-1 plc, CMF 2023-1 plc and Keys Warehouse No.1 Limited. These entities hold legal title to a pool of mortgages which are used as a security for issued debt. The transfer of mortgages fails derecognition criteria because the Group retained the subordinated notes and residual certificates issued and as such did not transfer substantially the risks and rewards of ownership of the securitised mortgages. Therefore, the Group is exposed to credit, interest rate and other risks on the securitised mortgages.

Cash flows generated from the structured entities are ring-fenced and are used to pay interest and principal of the issued debt securities in a waterfall order according to the seniority of the bonds. The structured entities are self-funded and the Group is not contractually or constructively obliged to provide further liquidity or financial support.

The structured entities consolidated within the Group at 31 December 2022 were Canterbury Finance No.2 plc, Canterbury Finance No.3 plc, Canterbury Finance No.4 plc, Canterbury Finance No.5 plc and CMF 2020-1 plc.

Notes to the Consolidated Financial Statements continued

44. Risk management continued

Unconsolidated structured entities

Structured entities, which were sponsored by the Group include Precise Mortgage Funding 2017-1B plc, Charter Mortgage Funding 2017-1 plc, Precise Mortgage Funding 2018-1B plc, Charter Mortgage Funding 2018-1 plc, Precise Mortgage Funding 2019-1B plc, Canterbury Finance No.1 plc and Precise Mortgage Funding 2020-1B plc.

These structured entities are not consolidated by the Group, as the Group does not control the entities and is not exposed to the risks and rewards of ownership from the securitised mortgages. The Group has no contractual arrangements with the unconsolidated structured entities other than the investments disclosed in note 16 and servicing the structured entities' mortgage portfolios.

The Group has not provided any support to the unconsolidated structured entities listed and has no obligation or intention to do so.

During 2023 the Group received £5.3m interest income (2022: £2.6m) and £2.6m servicing income (2022: £4.3m) from unconsolidated structured entities.

45. Financial instruments and fair values

i. Financial assets and financial liabilities

The following table sets out the classification of financial instruments in the Consolidated Statement of Financial Position:

		2023				
	Note	Designated FVTPL £m	Mandatorily FVTPL £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Assets						
Cash in hand		–	–	–	**0.4**	**0.4**
Loans and advances to credit institutions	15	**10.7**	–	–	**2,802.9**	**2,813.6**
Investment securities	16	**0.3**	–	**296.0**	**325.4**	**621.7**
Loans and advances to customers	17	**13.7**	–	–	**25,751.3**	**25,765.0**
Derivative assets	22	–	**530.6**	–	–	**530.6**
Other assets[1]	24	–	–	–	**11.9**	**11.9**
		24.7	**530.6**	**296.0**	**28,891.9**	**29,743.2**

		2023				
	Note	Designated FVTPL £m	Mandatorily FVTPL £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Liabilities						
Amounts owed to retail depositors	29	–	–	–	**22,126.6**	**22,126.6**
Amounts owed to credit institutions	28	–	–	–	**3,575.0**	**3,575.0**
Amounts owed to other customers	30	–	–	–	**63.3**	**63.3**
Debt securities in issue	31	–	–	–	**818.5**	**818.5**
Derivative liabilities	22	–	**199.9**	–	–	**199.9**
Other liabilities[2]	33	–	–	–	**39.2**	**39.2**
Senior notes	36	–	–	–	**307.5**	**307.5**
Subordinated liabilities	37	–	–	–	**259.5**	**259.5**
PSBs	38	–	–	–	**15.2**	**15.2**
		–	**199.9**	–	**27,204.8**	**27,404.7**

1. Balance excludes prepayments.
2. Balance excludes deferred income.

Notes to the Consolidated Financial Statements continued

		2022				
	Note	Designated FVTPL £m	Mandatorily FVTPL £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Assets						
Cash in hand		–	–	–	0.4	0.4
Loans and advances to credit institutions	15	–	–	–	3,365.7	3,365.7
Investment securities	16	0.5	–	149.8	262.6	412.9
Loans and advances to customers	17	14.6	–	–	23,598.1	23,612.7
Derivative assets	22	–	888.1	–	–	888.1
Other assets[1]	24	–	–	–	1.8	1.8
		15.1	888.1	149.8	27,228.6	28,281.6
Liabilities						
Amounts owed to retail depositors	29	–	–	–	19,755.8	19,755.8
Amounts owed to credit institutions	28	–	–	–	5,092.9	5,092.9
Amounts owed to other customers	30	–	–	–	113.1	113.1
Debt securities in issue	31	–	–	–	265.9	265.9
Derivative liabilities	22	–	106.6	–	–	106.6
Other liabilities[2]	33	–	–	–	38.1	38.1
Subordinated liabilities	37	–	–	–	–	–
PSBs	38	–	–	–	15.2	15.2
		–	106.6	–	25,281.0	25,387.6

1. Balance excludes prepayments.
2. Balance excludes deferred income.

The Group has no non-derivative financial assets or financial liabilities classified as held for trading.

ii. Fair values

The following tables summarise the carrying value and estimated fair value of financial instruments not measured at fair value in the Consolidated Statement of Financial Position:

	2023		2022	
	Carrying value £m	**Estimated fair value £m**	Carrying value £m	Estimated fair value £m
Assets				
Cash in hand	**0.4**	**0.4**	0.4	0.4
Loans and advances to credit institutions	**2,802.9**	**2,802.9**	3,365.7	3,365.7
Investment securities	**325.4**	**325.2**	262.6	260.5
Loans and advances to customers	**25,751.3**	**24,900.0**	23,598.1	22,746.0
Other assets[1]	**11.9**	**11.9**	1.8	1.8
	28,891.9	**28,040.4**	27,228.6	26,374.4
Liabilities				
Amounts owed to retail depositors	**22,126.6**	**22,125.4**	19,755.8	19,693.0
Amounts owed to credit institutions	**3,575.0**	**3,575.0**	5,092.9	5,092.9
Amounts owed to other customers	**63.3**	**63.3**	113.1	113.1
Debt securities in issue	**818.5**	**818.5**	265.9	265.9
Other liabilities[2]	**39.2**	**39.2**	38.1	38.1
Senior notes	**307.5**	**309.1**	–	–
Subordinated liabilities	**259.5**	**246.0**	–	–
PSBs	**15.2**	**14.4**	15.2	14.0
	27,204.8	**27,190.9**	25,281.0	25,217.0

1. Balance excludes prepayments.
2. Balance excludes deferred income.

The fair values in these tables are estimated using the valuation techniques below. The estimated fair value is stated as at 31 December and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of each financial instrument.

Notes to the Consolidated Financial Statements continued

45. Financial instruments and fair values continued

ii. Fair values continued

Cash in hand

This represents physical cash across the Group's branch network where fair value is considered to be equal to carrying value.

Loans and advances to credit institutions

This mainly represents the Group's working capital current accounts and call accounts with central governments and other banks with an original maturity of less than three months. Fair value is not considered to be materially different to carrying value.

Investment securities

Investment securities' fair values are provided by a third party and are based on the market values of similar financial instruments. The fair value of investment securities held at FVTPL is measured using a discounted cash flow model.

Loans and advances to customers

This mainly represents secured mortgage lending to customers. The fair value of fixed rate mortgages has been estimated by discounting future cash flows at current market rates of interest. Future cash flows include the impact of ECL. The interest rate on variable rate mortgages is considered to be equal to current market product rates and as such fair value is estimated to be equal to carrying value.

Other assets

Other assets disclosed in the table above exclude prepayments and the fair value is considered to be equal to carrying value.

Amounts owed to retail depositors

The fair value of fixed rate retail deposits has been estimated by discounting future cash flows at current market rates of interest. Retail deposits at variable rates and deposits payable on demand are considered to be at current market rates and as such fair value is estimated to be equal to carrying value.

Amounts owed to credit institutions

This mainly represents amounts drawn down under the BoE TFSME, ILTR and commercial repos. Fair value is considered to be equal to carrying value.

Amounts owed to other customers

This represents saving products to corporations and local authorities. The fair value of fixed rate deposits is estimated by discounting future cash flows at current market rates of interest. Deposits at variable rates are considered to be at current market rates and the fair value is estimated to be equal to carrying value.

Debt securities in issue

While the Group's debt securities in issue are listed, the quoted prices for an individual note may not be indicative of the fair value of the issue as a whole, due to the specialised nature of the market in such instruments and the limited number of investors participating in it. Fair value is not considered to be materially different to carrying value.

Other liabilities

Other liabilities disclosed in the table above exclude deferred income and the fair value is considered to be equal to carrying value.

Senior notes, Subordinated liabilities and PSBs

The senior notes, subordinated liabilities and PSBs are listed on the London Stock Exchange with fair value being the quoted market price at the reporting date.

iii. Fair value classification

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The following tables provide an analysis of financial assets and financial liabilities measured at fair value in the Consolidated Statement of Financial Position grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

2023	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Loans and advances to credit institutions	10.7	10.1	–	10.7	–	10.7
Investment securities	296.3	300.3	296.0	–	0.3	296.3
Loans and advances to customers	13.7	16.3	–	–	13.7	13.7
Derivative assets	530.6	17,568.6	–	530.6	–	530.6
	851.3	17,895.3	296.0	541.3	14.0	851.3
Financial liabilities						
Derivative liabilities	199.9	8,913.6	–	199.9	–	199.9

Notes to the Consolidated Financial Statements continued

2022	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	150.3	150.5	149.8	–	0.5	150.3
Loans and advances to customers	14.6	17.7	–	–	14.6	14.6
Derivative assets	888.1	15,662.6	–	888.1	–	888.1
	1,053.0	15,830.8	149.8	888.1	15.1	1,053.0
Financial liabilities						
Derivative liabilities	106.6	9,518.0	–	106.6	–	106.6

Level 1: Fair values that are based entirely on quoted market prices (unadjusted) in an actively traded market for identical assets and liabilities that the Group has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on readily available observable market prices, this makes them most reliable, reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values.

Level 2: Fair values that are based on one or more quoted prices in markets that are not active or for which all significant inputs are taken from directly or indirectly observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are no quoted prices available for similar instruments in active markets.

Level 3: Fair values for which any one or more significant input is not based on observable market data and the unobservable inputs have a significant effect on the instrument's fair value. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determining the fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instruments being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and the selection of appropriate discount rates.

The following tables provide an analysis of financial assets and financial liabilities not measured at fair value in the Consolidated Statement of Financial Position grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

			Estimated fair value			
2023	**Carrying amount £m**	**Principal amount £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets						
Cash in hand	**0.4**	**0.4**	**–**	**0.4**	**–**	**0.4**
Loans and advances to credit institutions	**2,802.9**	**2,785.8**	**–**	**2,802.9**	**–**	**2,802.9**
Investment securities	**325.4**	**323.7**	**–**	**325.2**	**–**	**325.2**
Loans and advances to customers	**25,751.3**	**25,928.2**	**–**	**2,112.9**	**22,787.1**	**24,900.0**
Other assets[1]	**11.9**	**11.9**	**–**	**11.9**	**–**	**11.9**
	28,891.9	**29,050.0**	**–**	**5,253.3**	**22,787.1**	**28,040.4**
Financial liabilities						
Amounts owed to retail depositors	**22,126.6**	**21,766.3**	**–**	**5,786.2**	**16,339.2**	**22,125.4**
Amounts owed to credit institutions	**3,575.0**	**3,524.8**	**–**	**3,575.0**	**–**	**3,575.0**
Amounts owed to other customers	**63.3**	**61.6**	**–**	**–**	**63.3**	**63.3**
Debt securities in issue	**818.5**	**818.2**	**–**	**818.5**	**–**	**818.5**
Other liabilities[2]	**39.2**	**39.2**	**–**	**39.2**	**–**	**39.2**
Senior notes	**307.5**	**300.0**	**–**	**309.1**	**–**	**309.1**
Subordinated liabilities	**259.5**	**250.0**	**–**	**246.0**	**–**	**246.0**
PSBs[3]	**15.2**	**15.0**	**–**	**14.4**	**–**	**14.4**
	27,204.8	**26,775.1**	**–**	**10,788.4**	**16,402.5**	**27,190.9**

1. Balance excludes prepayments.
2. Balance excludes deferred income.
3. The Group has reviewed the trading frequency of the PSBs and determined there is insufficient frequency and volume to provide pricing information on an ongoing basis in the market and have therefore categorised as level 2 fair value (2022: level 1).

Notes to the Consolidated Financial Statements continued

45. Financial instruments and fair values continued

iii. Fair value classification continued

2022	Carrying amount £m	Principal amount £m	Estimated fair value Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Cash in hand	0.4	0.4	–	0.4	–	0.4
Loans and advances to credit institutions	3,365.7	3,360.9	–	3,365.7	–	3,365.7
Investment securities	262.6	262.1	–	260.5	–	260.5
Loans and advances to customers	23,598.1	23,646.2	–	2,515.0	20,231.0	22,746.0
Other assets[1]	1.8	1.8	–	1.8	–	1.8
	27,228.6	27,271.4	–	6,143.4	20,231.0	26,374.4
Financial liabilities						
Amounts owed to retail depositors	19,755.8	19,620.8	–	5,770.3	13,922.7	19,693.0
Amounts owed to credit institutions	5,092.9	5,057.8	–	5,092.9	–	5,092.9
Amounts owed to other customers	113.1	112.1	–	–	113.1	113.1
Debt securities in issue	265.9	265.4	–	265.9	–	265.9
Other liabilities[2]	38.1	38.1	–	38.1	–	38.1
Subordinated liabilities	–	–	–	–	–	–
PSBs	15.2	15.0	14.0	–	–	14.0
	25,281.0	25,109.2	14.0	11,167.2	14,035.8	25,217.0

1. Balance excludes prepayments.
2. Balance excludes deferred income.

46. Pension scheme

Defined contribution scheme

The amount charged to profit or loss in respect of contributions to the Group's defined contribution and stakeholder pension arrangements is the contribution payable in the period. The total pension cost in the year amounted to £4.9m (2022: £4.4m).

47. Operating segments

The Group segments its lending business and operates under two segments in line with internal reporting to the Board:

- OSB
- CCFS

The Group separately discloses the impact of Combination accounting but does not consider this a business segment.

The financial position and results of operations of the above segments are summarised below:

2023	OSB £m	CCFS £m	Combination £m	Total £m
Balances at the reporting date				
Gross loans and advances to customers	**14,509.3**	**11,377.2**	**24.3**	**25,910.8**
Expected credit losses	**(111.1)**	**(35.8)**	**1.1**	**(145.8)**
Loans and advances to customers	**14,398.2**	**11,341.4**	**25.4**	**25,765.0**
Capital expenditure	**25.6**	**0.2**	**–**	**25.8**
Depreciation and amortisation	**6.9**	**3.3**	**1.7**	**11.9**
Profit or loss for the year				
Net interest income/(expense)	**473.8**	**240.9**	**(56.1)**	**658.6**
Other (expense)/income	**(3.1)**	**(3.8)**	**6.4**	**(0.5)**
Total income/(expense)	**470.7**	**237.1**	**(49.7)**	**658.1**
Impairment of financial assets	**(41.6)**	**(6.9)**	**(0.3)**	**(48.8)**
Contribution to profit	**429.1**	**230.2**	**(50.0)**	**609.3**
Administrative expenses	**(132.5)**	**(100.4)**	**(1.7)**	**(234.6)**
Provisions	**(0.3)**	**(0.1)**	**–**	**(0.4)**
Profit/(loss) before taxation	**296.3**	**129.7**	**(51.7)**	**374.3**
Taxation[1]	**(75.6)**	**(30.7)**	**14.6**	**(91.7)**
Profit/(loss) for the year	**220.7**	**99.0**	**(37.1)**	**282.6**

1. The taxation on Combination credit includes release of deferred taxation on CCFS Combination relating to the unwind of the deferred tax liabilities recognised on the fair value adjustments of the CCFS assets and liabilities at the acquisition date of £14.3m and the release of other deferred tax assets on Combination adjustments of £0.3m.

Notes to the Consolidated Financial Statements continued

2022	OSB £m	CCFS £m	Combination £m	Total £m
Balances at the reporting date				
Gross loans and advances to customers	13,244.7	10,416.3	81.7	23,742.7
Expected credit losses	(103.2)	(28.0)	1.2	(130.0)
Loans and advances to customers	13,141.5	10,388.3	82.9	23,612.7
Capital expenditure	7.6	0.7	–	8.3
Depreciation and amortisation	6.2	3.4	3.8	13.4
Profit or loss for the year				
Net interest income/(expense)	460.7	308.4	(59.2)	709.9
Other income	8.9	46.2	10.4	65.5
Total income/(expense)	469.6	354.6	(48.8)	775.4
Impairment of financial assets	(22.3)	(8.4)	0.9	(29.8)
Contribution to profit	447.3	346.2	(47.9)	745.6
Administrative expenses	(130.9)	(73.1)	(3.8)	(207.8)
Provisions	1.6	–	–	1.6
Integration costs	(6.8)	(1.1)	–	(7.9)
Profit/(loss) before taxation	311.2	272.0	(51.7)	531.5
Taxation[1]	(70.1)	(70.2)	18.8	(121.5)
Profit/(loss) for the year	241.1	201.8	(32.9)	410.0

1. The taxation on Combination credit includes release of deferred taxation on CCFS Combination relating to the unwind of the deferred tax liabilities recognised on the fair value adjustments of the CCFS assets and liabilities at the acquisition date of £17.5m and the release of other deferred tax assets on Combination adjustments of £1.3m.

48. Country by country reporting (CBCR)

CBCR was introduced through Article 89 of CRD IV, aimed at the banking and capital markets industry. The name, nature of activities and geographic location of the Group's companies are presented below:

Jurisdiction	Country	Name	Activities
UK[1]	England	OSB GROUP PLC	Holding company
		OneSavings Bank plc	Mortgage lending and deposit taking
		5D Finance Limited	Mortgage servicer and provider
		Broadlands Finance Limited	Mortgage administration services
		Charter Court Financial Services Group Plc	Intermediate holding company
		Charter Court Financial Services Limited	Mortgage lending and deposit taking
		Charter Mortgages Limited	Mortgage administration and analytical services
		Easioption Limited	Intermediate holding company
		Exact Mortgage Experts Limited	Group service company
		Guernsey Home Loans Limited	Mortgage provider
		Heritable Development Finance Limited	Mortgage originator and servicer
		Inter Bay Financial I Limited	Intermediate holding company
		InterBay Asset Finance Limited	Asset finance and mortgage provider
		Interbay Funding, Ltd	Mortgage servicer
		Interbay ML, Ltd	Mortgage provider
		Jersey Home Loans Limited	Mortgage provider
		Prestige Finance Limited	Mortgage originator and servicer
		Reliance Property Loans Limited	Mortgage provider
		Rochester Mortgages Limited	Mortgage provider
	Guernsey	Guernsey Home Loans Limited	Mortgage provider
	Jersey	Jersey Home Loans Limited	Mortgage provider

Notes to the Consolidated Financial Statements continued

48. Country by country reporting (CBCR) continued

Jurisdiction	Country	Name	Activities
UK	England	Canterbury Finance No. 2 plc	Special purpose vehicle
		Canterbury Finance No. 3 plc	
		Canterbury Finance No. 4 plc	
		Canterbury Finance No. 5 plc	
		CMF 2020-1 plc	
		CMF 2023-1 plc	
		Keys Warehouse No.1 Limited	
UK	England	WSE Bourton Road Limited	Land lease investment
India	India	OSB India Private Limited	Back office processing

I. Guernsey Home Loans Limited (Guernsey) and Jersey Home Loans Limited (Jersey) are incorporated in Guernsey and Jersey respectively, but are considered to be located in the UK as they are managed and controlled in the UK with no permanent establishments in Guernsey or Jersey.

Other disclosures required by the CBCR directive are provided below:

2023	UK	India	Consolidation[2]	Total
Average number of employees	**1,461**	**811**	**–**	**2,272**
Turnover[1], £m	**657.3**	**18.7**	**(17.9)**	**658.1**
Profit/(loss) before tax, £m	**373.5**	**3.1**	**(2.3)**	**374.3**
Corporation tax paid, £m	**102.8**	**0.8**	**–**	**103.6**

2022	UK	India	Consolidation[2]	Total
Average number of employees	1,274	622	–	1,896
Turnover[1], £m	775.1	13.6	(13.3)	775.4
Profit/(loss) before tax, £m	531.2	2.2	(1.9)	531.5
Corporation tax paid, £m	142.0	0.5	–	142.5

1. Turnover represents total income before impairment of financial and intangible assets, regulatory provisions and operating costs, but after net interest income, gains and losses on financial instruments and other operating income.
2. Relates to a management fee to Indian subsidiaries from OneSavings Bank plc for providing back office processing.

The tables below reconcile tax charged and tax paid during the year.

2023	UK £m	India £m	Total £m
Tax charge	**90.9**	**0.8**	**91.7**
Effects of:			
Other timing differences	**13.6**	**–**	**13.6**
Tax outside of profit or loss	**(0.5)**	**–**	**(0.5)**
Prior year tax included within tax charge	**0.4**	**–**	**0.4**
Tax in relation to future periods prepaid	**(1.6)**	**–**	**(1.6)**
Tax paid	**102.8**	**0.8**	**103.6**

2022	UK £m	India £m	Total £m
Tax charge	121.0	0.5	121.5
Effects of:			
Other timing differences	19.0	–	19.0
Tax outside of profit or loss	(0.9)	–	(0.9)
Prior year tax paid during the year	1.0	–	1.0
Prior year tax included within tax charge	0.9	–	0.9
Tax in relation to future periods prepaid	1.0	–	1.0
Tax paid	142.0	0.5	142.5

Notes to the Consolidated Financial Statements continued

49. Adjustments for non-cash items and changes in operating assets and liabilities

	2023 £m	2022 £m
Adjustments for non-cash and other items:		
Depreciation and amortisation	**11.9**	13.4
Interest on investment securities	**(23.6)**	(6.8)
Interest on subordinated liabilities	**17.1**	1.1
Interest on PSBs	**0.7**	0.7
Interest on securitised debt	**21.5**	7.7
Interest on senior notes	**9.1**	–
Interest on financing debt	**197.3**	68.7
Impairment charge on loans	**48.8**	29.8
Administrative expenses	**0.8**	1.3
Provisions	**0.4**	(1.6)
Interest on lease liabilities	**–**	0.2
Fair value losses/(gains) on financial instruments	**4.4**	(58.9)
Share-based payments	**5.6**	8.1
Total adjustments for non-cash and other items	**294.0**	63.7
Changes in operating assets and liabilities:		
Decrease/(increase) in loans and advances to credit institutions	**112.5**	(204.6)
Increase in loans and advances to customers	**(2,200.5)**	(2,563.1)
Increase in amounts owed to retail depositors	**2,370.8**	2,229.4
(Decrease)/increase in cash collateral and margin received	**(336.9)**	434.3
Net increase in other assets	**(12.6)**	(4.7)
Net (decrease)/increase in derivatives and hedged items	**(23.2)**	59.1
Net (decrease)/increase in amounts owed to other customers	**(49.8)**	16.6
Net increase in other liabilities	**0.9**	9.1
Exchange differences on working capital	**(0.7)**	(0.3)
Total changes in operating assets and liabilities	**(139.5)**	(24.2)

50. Controlling party

As at 31 December 2023 there was no controlling party of the ultimate parent company of the Group, OSB GROUP PLC.

51. Transactions with key management personnel

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions. During the year, there were no related party transactions between the key management personnel and the Group other than as described below.

The Directors and Group Executive team are considered to be key management personnel.

Directors' remuneration is disclosed in note 8 and in the Directors' Remuneration Report on page 147. The Group Executive team are all employees of OSB, the table below shows their aggregate remuneration:

	2023 £'000	2022 £'000
Short-term employee benefits	**4,451**	4,000
Post-employment benefits	**62**	62
Share-based payments	**1,291**	2,667
	5,804	6,729

Key management personnel and connected persons held deposits with the Group of £2.3m (2022: £2.1m).

52. Capital management

The Group's capital management approach is to provide a sufficient capital base to cover business risks and support future business development. The Group remained, throughout the year, compliant with its capital requirements as set out by the PRA, the Group's primary prudential supervisor.

The Group manages and reports its capital at a number of levels including Group level and for the two regulated banking entities within the Group, on an individual consolidation and on an individual basis. The capital position of the two regulated banking entities are not separately disclosed.

The Group's capital management is based on the three 'pillars' of Basel III.

Under Pillar 1, the Group calculates its minimum capital requirements based on 8% of risk-weighted assets.

Under Pillar 2, the Group, and its regulated entities, complete an annual self-assessment of risks known as the ICAAP. The PRA applies additional requirements to this assessment amount to cover risks under Pillar 2 to generate a Total Capital Requirement and also sets capital buffers for the Group.

Notes to the Consolidated Financial Statements continued

52. Capital management continued

Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on the Group's capital, risk exposures and risk assessment process. The Group's Pillar 3 disclosures can be found on the Group's website.

On 30 November 2022, the PRA issued a consultation paper on the implementing Basel 3.1 in the UK. The Group has taken account of this in planning for future capital requirements.

The ultimate responsibility for capital adequacy rests with the Board of Directors. The Group's ALCO is responsible for the management of the capital process within the risk appetite defined by the Board, including approving policy, overseeing internal controls and setting internal limits over capital ratios.

The Group actively manages its capital position and reports this on a regular basis to the Board and senior management via the ALCO and other governance committees. Capital requirements are included within budgets, forecasts and strategic plans with initiatives being executed against this plan.

The Group's Pillar 1 capital information is presented below:

	(Unaudited) 2023 £m	(Unaudited) 2022 £m
CET1 capital		
Called up share capital	**3.9**	4.3
Share premium, capital contribution and share-based payment reserve	**18.0**	15.6
Retained earnings	**3,330.2**	3,389.4
Transfer reserve	**(1,354.7)**	(1,355.1)
Other reserves	**(2.9)**	(3.2)
Total equity attributable to ordinary shareholders	**1,994.5**	2,051.0
Foreseeable dividends[1]	**(85.7)**	(144.0)
IFRS 9 transitional adjustment[2]	**–**	1.4
COVID-19 ECL transitional adjustment[3]	**23.8**	25.9
Deductions from CET1 capital		
Prudent valuation adjustment[4]	**(0.5)**	(1.0)
Intangible assets	**(26.1)**	(12.0)
Deferred tax asset	**(0.3)**	(0.6)
CET1 capital	**1,905.7**	1,920.7
AT1 capital		
AT1 securities	**150.0**	150.0
Total Tier 1 capital	**2,055.7**	2,070.7
Tier 2 capital		
Tier 2 securities	**250.0**	–
Total Tier 2 capital	**250.0**	–
Total regulatory capital	**2,305.7**	2,070.7
Risk-weighted assets (unaudited)	**11,845.6**	10,494.7

1. 2022 includes special dividend of £50.3m (£50.0m announced by the Board rounded up on a pence per share basis totals £50.3m).
2. The IFRS 9 transitional arrangements expired at 31 December 2022.
3. The COVID-19 ECL transitional adjustment relates to 50% of the Group's increase in stage 1 and stage 2 ECL following the impacts of COVID-19 and for which transitional rules were adopted for regulatory capital purposes.
4. The Group has adopted the simplified approach under the Prudent Valuation rules, recognising a deduction equal to sum of absolute value equal to 0.1% of relevant fair value assets and liabilities.

The movement in CET1 during the year was as follows:

	(Unaudited) 2023 £m	(Unaudited) 2022 £m
At 1 January	**1,920.7**	1,781.7
Movement in retained earnings	**(59.2)**	174.3
Share premium from Sharesave Scheme vesting	**1.4**	1.7
Movement in other reserves	**1.3**	0.6
Movement in foreseeable dividends	**58.3**	(49.3)
IFRS 9 transitional adjustment	**(1.4)**	(1.5)
COVID-19 ECL transitional adjustment	**(2.1)**	6.9
Movement in prudent valuation adjustment	**0.5**	–
Net (increase)/decrease in intangible assets	**(14.1)**	6.4
Movement in deferred tax asset for carried forward losses	**0.3**	(0.1)
At 31 December	**1,905.7**	1,920.7

Notes to the Consolidated Financial Statements continued

The Group's minimum requirements for own funds and eligible liabilities (MREL) information is presented below:

	(Unaudited) 2023 £m	(Unaudited) 2022 £m
Total regulatory capital	**2,305.7**	2,070.7
Eligible liabilities	**300.0**	–
Total own funds and eligible liabilities	**2,605.7**	2,070.7

On 7 September 2023, the Group issued £300 million of senior unsecured callable notes through OSB Group PLC which, while not included in total regulatory capital, is eligible to meet MREL.

The Group has been granted a preferred resolution strategy of a single point of entry bail-in at the holding company level by the PRA and was initially given an interim MREL requirement of 18% of RWAs plus regulatory buffers, and an end-state MREL of the higher of:

(i) two times the sum of Pillar 1 and Pillar 2A plus regulatory buffers; or

(ii) if subject to a leverage ratio, two times the applicable requirement plus regulatory buffers.

The interim and end-state deadlines for the requirements are July 2024 and July 2026 respectively.

53. Events after the reporting date

On 16 January 2024 the Group issued senior notes amounting to £400m under the £3bn EMTN programme of OSBG. The EMTN programme is used as part of the Group's capital management and funding activities.

The Board has authorised a share repurchase of up to £50.0m of shares in the market from 15 March 2024. Any purchases made under this programme will be announced to the market each day in line with regulatory requirements.

Company Statement of Financial Position

As at 31 December 2023

	Note	2023 £m	2022 £m
Assets			
Investments in subsidiaries and intercompany loans	2	**2,160.1**	1,590.7
Current taxation asset		**0.1**	–
Total assets		**2,160.2**	1,590.7
Liabilities			
Intercompany loans	2	**–**	0.8
Senior notes	3	**307.5**	–
Subordinated liabilities	4	**259.5**	–
		567.0	0.8
Equity			
Share capital	6	**3.9**	4.3
Share premium	6	**3.8**	2.4
Other equity instruments	7	**150.0**	150.0
Retained earnings		**1,358.6**	1,359.3
Other reserves	8	**76.9**	73.9
Shareholders' funds		**1,593.2**	1,589.9
Total equity and liabilities		**2,160.2**	1,590.7

The profit after tax for the year ended 31 December 2023 of OSBG was £343.0m (2022: £240.8m). As permitted by section 408 of the Companies Act 2006, no separate Statement of Comprehensive Income is presented in respect of the Company.

The notes on page 254 to 258 form an integral part of the Company financial statements.

The financial statements were approved by the Board of Directors on 14 March 2024 and were signed on its behalf by:

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 11976839

Company Statement of Changes in Equity

For the year ended 31 December 2023

	Share capital £m	Share premium £m	Capital redemption and transfer reserve[1] £m	Own shares[2] £m	Share-based payment reserve £m	Other equity instruments £m	Retained earnings £m	Total £m
At 1 January 2022	4.5	0.7	65.7	(3.5)	6.3	150.0	1,358.4	1,582.1
Profit for the year	–	–	–	–	–	–	240.8	240.8
Dividend paid	–	–	–	–	–	–	(133.1)	(133.1)
Share-based payments	–	1.7	–	–	3.9	–	4.2	9.8
Own shares[2]	–	–	–	1.3	–	–	(1.3)	–
Coupon paid on AT1 securities	–	–	–	–	–	–	(9.0)	(9.0)
Share repurchase	(0.2)	–	0.2	–	–	–	(100.7)	(100.7)
At 31 December 2022	4.3	2.4	65.9	(2.2)	10.2	150.0	1,359.3	1,589.9
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**343.0**	**343.0**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**(185.0)**	**(185.0)**
Share-based payments	**–**	**1.4**	**–**	**–**	**1.4**	**–**	**3.1**	**5.9**
Own shares[2]	**–**	**–**	**–**	**1.2**	**–**	**–**	**(1.2)**	**–**
Coupon paid on AT1 securities	**–**	**–**	**–**	**–**	**–**	**–**	**(9.0)**	**(9.0)**
Share repurchase	**(0.4)**	**–**	**0.4**	**–**	**–**	**–**	**(151.6)**	**(151.6)**
At 31 December 2023	**3.9**	**3.8**	**66.3**	**(1.0)**	**11.6**	**150.0**	**1,358.6**	**1,593.2**

1. Includes Capital redemption reserve of £0.6m (2022: £0.2m) and Transfer reserve of £65.7m (2022: £65.7m).
2. The Company has adopted look-through accounting (see note 1 to the Group's consolidated financial statements) and recognised the EBT within OSBG.

Company Statement of Cash Flows

For the year ended 31 December 2023

	Note	2023 £m	2022 £m
Cash flows from operating activities			
Profit before taxation		**342.9**	240.8
Adjustments for non-cash and other items:			
Interest on subordinated liabilities		**17.1**	–
Interest on senior notes		**9.1**	–
Administrative expenses		**0.8**	1.3
Changes in operating assets and liabilities:			
Net decrease in other liabilities		**–**	(0.2)
Change in intercompany loans[1]		**(565.7)**	0.5
Cash (used)/generated in operating activities		**(195.8)**	242.4
Cash flows from investing activities			
Change in investments in subsidiaries		**–**	–
Net cash from investing activities		**–**	–
Cash flows from financing activities			
Issuance of subordinated liabilities	5	**248.7**	–
Issuance of senior notes	5	**298.4**	–
Interest paid on financing	5	**(6.3)**	–
Share repurchase[2]		**(152.4)**	(102.0)
Dividend paid		**(185.0)**	(133.1)
Coupon paid on AT1 securities		**(9.0)**	(9.0)
Proceeds from issuance of shares under employee SAYE scheme		**1.4**	1.7
Net cash from financing activities		**195.8**	(242.4)
Net increase in cash and cash equivalents		**–**	–

	Note	2023 £m	2022 £m
Cash and cash equivalents at the beginning of the year		**–**	–
Cash and cash equivalents at the end of the year[3]		**–**	–
Movement in cash and cash equivalents		**–**	–
Cash flows from operating activities include:			
Dividends received from subsidiary[4]		**335.0**	233.1

1. Includes less than £0.1m (2022: £0.3m) of current taxation asset surrendered to OSB.
2. Includes £150.0m (2022: £100.0m) for shares repurchased, £0.8m (2022: £0.7m) transaction costs and £1.6m (2022: £1.3m) success fee.
3. The Company's bank balance is swept to OneSavings Bank plc daily resulting in a nil balance.
4. The Company's principal activity is to hold the investment in its wholly-owned subsidiary, OneSavings Bank plc. Dividends received are treated as operating income.

Notes to the Company Financial Statements

For the year ended 31 December 2023

1. Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with IFRS as adopted by the UK, and are presented in pounds sterling.

The financial statements have been prepared on the historical cost basis. The financial statements are presented in pounds sterling. All amounts in the financial statements have been rounded to the nearest £0.1m (£m). The functional currency of the Company is pounds sterling, which is the currency of the primary economic environment in which the Company operates.

The principal accounting policies adopted are the same as those set out in note 1 to the Group's consolidated financial statements, aside from accounting policy 1 w), Share-based payments. For the Company, the cost of the awards are recognised on a straight-line basis to investment in subsidiaries (with a corresponding increase in the share-based payment reserve within equity) over the vesting period in which the employees become unconditionally entitled to the awards.

There are no critical judgements and estimates that apply to the Company.

2. Investments in subsidiaries and intercompany loans

The Company holds an investment in ordinary shares of £1,445.0m (2022: £1,440.7m) and in AT1 securities of £90.0m (2022: £90.0m) in its direct subsidiary, OneSavings Bank plc (OSB). The Company also holds an investment in AT1 securities of £60.0m (2022: £60.0m) in an indirect subsidiary, Charter Court Financial Services Limited. The investment in shares and AT1 securities are carried at cost.

	Investment in subsidiaries £m	Intercompany loans (payable)/ receivable £m
At 1 January 2022	1,582.6	(0.6)
Additions[1]	8.1	(2.1)
Repayments	–	1.9
At 31 December 2022	1,590.7	(0.8)
Additions[1]	**4.3**	**571.3**
Repayments	**–**	**(5.4)**
At 31 December 2023	**1,595.0**	**565.1**

1. Additions in investment in subsidiaries include £4.3m relating to share-based payments (2022: includes £8.1m relating to share-based payments).

The transactions with subsidiaries comprise a subordinated liabilities issuance of £250m, a senior notes issuance of £300m, £19.6m of accrued interest movement on subordinated liabilities and senior notes and £1.7m of cash received from issuing shares under SAYE. Repayments include £2.4m of share repurchase costs, issuance cost of £1.6m and £1.3m on senior notes and subordinated liabilities respectively funded by OSB (2022: £2.1m of additions in relation to costs on shares repurchased funded by OSB and repayments of £1.9m comprised £1.6m cash received from issuing shares under SAYE and £0.3m of tax losses surrendered to OSB).

Investments in AT1 securities are financial assets and intercompany loans are financial liabilities. Intercompany loans payable are payable on demand and no interest is charged on these loans. Intercompany loans receivable includes subordinated liabilities and senior notes issued by subsidiaries. The rates and other terms and conditions are same as the Company's external issued senior notes and subordinated liabilities. For details refer note 3 and note 4.

A list of the Company's direct and indirect subsidiaries as at 31 December 2023 is shown below:

Direct investments	Activity	Registered office	Ownership
OneSavings Bank plc	Mortgage lending and deposit taking	Reliance House	100%

Indirect investments	Activity	Registered office	Ownership
5D Finance Limited	Mortgage servicer and provider	Reliance House	100%
Broadlands Finance Limited	Mortgage administration services	Charter Court	100%
Canterbury Finance No.2 plc	Special purpose vehicle	Churchill Place	–
Canterbury Finance No.3 plc	Special purpose vehicle	Churchill Place	–
Canterbury Finance No.4 plc	Special purpose vehicle	Churchill Place	–
Canterbury Finance No.5 plc	Special purpose vehicle	Churchill Place	–
Keys Warehouse No.1 Limited	Special purpose vehicle	Churchill Place	–
Charter Court Financial Services Group Plc	Holding company	Charter Court	100%
Charter Court Financial Services Limited	Mortgage lending and deposit taking	Charter Court	100%
Charter Mortgages Limited	Mortgage administration and analytical services	Charter Court	100%
CMF 2020-1 plc	Special purpose vehicle	Churchill Place	–
CMF 2023-1 plc	Special purpose vehicle	Churchill Place	–

Notes to the Company Financial Statements continued

2. Investments in subsidiaries and intercompany loans continued

Indirect investments	Activity	Registered office	Ownership
Easioption Limited	Holding company	Reliance House	100%
Exact Mortgage Experts Limited	Group service company	Charter Court	100%
Guernsey Home Loans Limited	Mortgage provider	Reliance House	100%
Guernsey Home Loans Limited (Guernsey)	Mortgage provider	Guernsey	100%
Heritable Development Finance Limited	Mortgage originator and servicer	Reliance House	100%
Inter Bay Financial I Limited	Holding company	Reliance House	100%
InterBay Asset Finance Limited	Asset finance and mortgage provider	Reliance House	100%
Interbay Funding, Ltd	Mortgage servicer	Reliance House	100%
Interbay ML, Ltd	Mortgage provider	Reliance House	100%
Jersey Home Loans Limited	Mortgage provider	Reliance House	100%
Jersey Home Loans Limited (Jersey)	Mortgage provider	Jersey	100%
OSB India Private Limited	Back office processing	India	100%
Prestige Finance Limited	Mortgage originator and servicer	Reliance House	100%
Reliance Property Loans Limited	Mortgage provider	Reliance House	100%
Rochester Mortgages Limited	Mortgage provider	Reliance House	100%
WSE Bourton Road Limited	Land lease investment	OSB House	100%

A list of the Company's direct and indirect subsidiaries as at 31 December 2022 is shown below:

Direct investments	Activity	Registered office	Ownership
OneSavings Bank plc	Mortgage lending and deposit taking	Reliance House	100%

Indirect investments	Activity	Registered office	Ownership
5D Finance Limited	Mortgage servicer	Reliance House	100%
Broadlands Finance Limited	Mortgage administration services	Charter Court	100%
Canterbury Finance No.2 plc	Special purpose vehicle	Churchill Place	–
Canterbury Finance No.3 plc	Special purpose vehicle	Churchill Place	–
Canterbury Finance No.4 plc	Special purpose vehicle	Churchill Place	–
Canterbury Finance No.5 plc	Special purpose vehicle	Churchill Place	–
Charter Court Financial Services Group Plc	Holding company	Charter Court	100%
Charter Court Financial Services Limited	Mortgage lending and deposit taking	Charter Court	100%
Charter Mortgages Limited	Mortgage administration and analytical services	Charter Court	100%
CMF 2020-1 plc	Special purpose vehicle	Churchill Place	–
Easioption Limited	Holding company	Reliance House	100%
Exact Mortgage Experts Limited	Group service company	Charter Court	100%
Guernsey Home Loans Limited	Mortgage provider	Reliance House	100%
Guernsey Home Loans Limited (Guernsey)	Mortgage provider	Guernsey	100%
Heritable Development Finance Limited	Mortgage originator and servicer	Reliance House	100%
Inter Bay Financial I Limited	Holding company	Reliance House	100%
Inter Bay Financial II Limited	Holding company	Reliance House	100%
InterBay Asset Finance Limited	Asset finance and mortgage provider	Reliance House	100%

Notes to the Company Financial Statements continued

2. Investments in subsidiaries and intercompany loans continued

Indirect investments	Activity	Registered office	Ownership
Interbay Funding, Ltd	Mortgage servicer	Reliance House	100%
Interbay Group Holdings Limited	Holding company	Reliance House	100%
Interbay Holdings Ltd	Holding company	Reliance House	100%
Interbay ML, Ltd	Mortgage provider	Reliance House	100%
Jersey Home Loans Limited	Mortgage provider	Reliance House	100%
Jersey Home Loans Limited (Jersey)	Mortgage provider	Jersey	100%
OSB India Private Limited	Back office processing	India	100%
Prestige Finance Limited	Mortgage originator and servicer	Reliance House	100%
Reliance Property Loans Limited	Mortgage provider	Reliance House	100%
WSE Bourton Road Limited	Land lease investment	OSB House	100%
Rochester Mortgages Limited	Mortgage provider	Reliance House	100%

All investments are in the ordinary share capital of each subsidiary.

OSB India Private Limited is owned 70.28% by OneSavings Bank plc, 29.72% by Easioption Limited and 0.001% by Reliance Property Loans Limited.

SPVs which the Group controls are treated as subsidiaries for accounting purposes.

All of the entities listed above have been consolidated into the Group's consolidated financial statements. The location of the entities listed above are disclosed in note 48 to the Group's consolidated financial statements.

The investment is reviewed annually for indicators of impairment. If impairment indicators are identified an impairment review of the investment is conducted which will quantify if the carrying value is in excess of the recoverable amount or an impairment has occurred. In determining recoverable amount, the fair value less costs to sell and the value in use are assessed, with the value in use being an estimate of the present value of future cash flows generated by the investment.

The following are the registered offices of the subsidiaries:

Charter Court – 2 Charter Court, Broadlands, Wolverhampton, WV10 6TD
Churchill Place – 5 Churchill Place, 10th Floor, London, E14 5HU
Guernsey – 1st Floor, Tudor House, Le Bordage, St Peter Port, Guernsey, GY1 1DB
India – Salarpuria Magnificia No. 78, 9th & 10th floor, Old Madras Road, Bangalore, India, 560016
Jersey – 26 New Street, St Helier, Jersey, JE2 3RA
OSB House – Quayside, Chatham Maritime, Chatham, England, ME4 4QZ
Reliance House – Reliance House, Sun Pier, Chatham, Kent, ME4 4ET

3. Senior notes

During the current financial year, the Company issued senior notes amounting to £300m under the planned MREL qualifying debt issuance as follows

	2023 £m	2022 £m
Fixed rate:		
Senior notes 2028 (9.5%)	**307.5**	–

The senior notes comprise fixed rate notes denominated in pounds sterling and are listed on the official list of the FCA and admitted to trading on the main market of the London Stock Exchange plc.

The principal terms of the senior notes are as follows:

- **Interest:** Interest on the senior notes is fixed at an initial rate until the reset date (7 September 2027). If the senior notes are not redeemed prior to the reset date, the interest rate will be reset and fixed based on a benchmark gilt rate plus a spread of 4.985%.
- **Redemption:** The Issuer may redeem the senior notes in whole (but not in part) in its sole discretion on 7 September 2027. Optional redemption may also take place for certain regulatory or tax reasons. Any optional redemption requires the prior consent of the PRA.
- **Ranking:** The senior notes constitute direct, unsubordinated and unsecured obligations of OSBG and rank at least *pari passu*, without any preference, among themselves as senior notes. The notes rank behind the claims of depositors, but in priority to holders of Tier 1 and Tier 2 capital as well as equity holders of OSBG.

Notes to the Company Financial Statements continued

3. Senior notes continued

The table below shows a reconciliation of the Company's senior notes during the year.

	2023 £m	2022 £m
At 1 January	–	–
Addition[1]	298.4	–
Movement in accrued interest	9.1	–
At 31 December	**307.5**	–

1. Addition includes £1.6m towards transaction costs which has been amortised through the EIR of the loan notes.

4. Subordinated liabilities

The Company's outstanding subordinated liabilities are summarised below:

	2023 £m	2022 £m
Fixed rate:		
Subordinated liabilities 2033 (9.993%)	259.5	–

All subordinated liabilities are denominated in pounds sterling and are listed on the official list of the FCA and admitted to trading on the main market of the London Stock Exchange plc.

The principal terms of the subordinated debt liabilities are as follows:

- **Interest:** Interest on the notes is fixed at an initial rate until the reset date (27 July 2028). If the notes are not redeemed prior to the reset date, the interest rate will be reset and fixed based on a benchmark gilt rate plus a spread of 6.296%.
- **Redemption:** The Issuer may redeem the Tier 2 notes in whole (but not in part) in its sole discretion on any day from (and including) 27 April 2028 to (and including) 27 July 2028 (the reset date) as specified in the terms of the agreement. Optional redemption may also take place for certain regulatory or tax reasons. Any optional redemption requires the prior consent of the PRA.
- **Ranking:** The notes constitute direct, unsecured and subordinated obligations of OSBG and rank at least pari passu, without any preference, among themselves as Tier 2 capital. The notes rank behind the claims of depositors and other unsecured and unsubordinated creditors, but rank in priority to holders of Tier 1 capital and of equity of OSBG.

The table below shows a reconciliation of the Company's subordinated liabilities during the year:

	2023 £m	2022 £m
At 1 January	–	–
Addition[1]	248.7	–
Movement in accrued interest	10.8	–
At 31 December	**259.5**	–

1. Addition includes £1.3m towards transaction costs which has been amortised through the EIR of the loan notes.

5. Reconciliation of cash flows from financing activities

The tables below show a reconciliation of the Company's liabilities classified as financing activities within the Company Statement of Cash Flows:

	Senior notes (see note 3) £m	Subordinated liabilities (see note 4) £m	Total £m
At 1 January 2023	–	–	–
Cash movements:			
Principal drawdowns	298.4	248.7	547.1
Interest paid	–	(6.3)	(6.3)
Non-cash movements:			
Interest charged	9.1	17.1	26.2
At 31 December 2023	**307.5**	**259.5**	**567.0**

Notes to the Company Financial Statements continued

6. Share capital

	Number of shares issued and fully paid	Nominal value £m	Premium £m
At 1 January 2022	448,627,855	4.5	0.7
Share cancelled under repurchase programme	(20,671,224)	(0.2)	–
Shares issued under employee share plans	1,911,994	–	1.7
At 31 December 2022	429,868,625	4.3	2.4
Share cancelled under repurchase programme	**(38,243,031)**	**(0.4)**	**–**
Shares issued under employee share plans	**1,562,087**	**–**	**1.4**
At 31 December 2023	**393,187,681**	**3.9**	**3.8**

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

All ordinary shares issued in the current and prior year were fully paid.

7. Other equity instruments

The Company's other equity instruments are as follows:

Additional Tier 1 securities	2023 £m	2022 £m
6% Perpetual subordinated contingent convertible securities	**150.0**	150.0

For AT1 securities see note 41 of the Group's consolidated financial statements.

8. Other reserves

The Company's other reserves are as follows:

	2023 £m	2022 £m
Share-based payment	**11.6**	10.2
Capital redemption and transfer	**66.3**	65.9
Own shares	**(1.0)**	(2.2)
	76.9	73.9

Capital redemption and transfer reserve

The capital redemption reserve represents the shares cancelled through the Group's share repurchase programme.

The transfer reserve represents the difference between the net assets of the Group at the point of insertion of OSBG as the listed holding company and the fair value of the newly issued share capital of OSBG.

For own shares see note 42 of the Group's consolidated financial statements.

9. Directors and employees

The Company has no employees. OneSavings Bank plc provides the Company with employee services and bears the costs, along with other subsidiaries in the Group, associated with the Directors of the Company. These costs are not recharged to the Company.

10. Risk management

The principal financial risks that the Company is exposed to, as a holding company for its subsidiaries, are those that its subsidiaries are exposed to. These risks are managed at Group level, through the Group's risk governance framework reporting to the Group Risk Committee. For further information see note 44 of the Group's consolidated financial statements.

11. Controlling party

As at 31 December 2023 there was no controlling party of OSB GROUP PLC.

Appendices

Appendix 1

Independent Assurance Statement by Deloitte LLP to OSB GROUP PLC on selected Alternative Performance Measures

Our assurance conclusion

We have performed an independent reasonable assurance engagement on the Alternative Performance Measures (collectively, the APMs) set out below for the financial year ended 31 December 2023. The assured APMs are highlighted with the symbol Δ throughout the OSB GROUP PLC (OSB Group) 2023 Annual Report and Accounts (ARA). The definition and the basis of preparation for each of the assured APMs is described in the Appendix to the 2023 ARA on pages 265 to 267 (OSB Group's APM Definitions and Basis of Preparation).

Statutory basis

- Gross new lending
- Net interest margin
- Cost to income
- Management expense ratio
- Loan loss ratio
- Dividend per share
- Basic earnings per share
- Return on equity

Underlying basis

- Net interest margin
- Cost to income
- Management expense ratio
- Loan loss ratio
- Basic earnings per share
- Return on equity

In our opinion, the assured APMs for the financial year ended 31 December 2023 have been prepared, in all material respects, in accordance with OSB Group's APM Definitions and Basis of Preparation.

Directors' responsibilities

The Directors are responsible for preparing an Annual Report which complies with the requirements of the Companies Act 2006 and for being satisfied that the Annual Report, taken as a whole, is fair, balanced and understandable.

The directors are also responsible for:

- selecting APMs with which to describe the entity's performance and appropriate criteria (as set out in the Group's APM Definitions and Basis of Preparation) to measure them;
- designing, implementing and maintaining internal controls relevant to the preparation and presentation of the assured APMs that are free from material misstatement, whether due to fraud or error; and
- preparing, measuring, presenting and reporting the APMs in accordance with the Group's APM Definitions and Basis of Preparation.

Our responsibilities

Our responsibility is to express an opinion on the assured APMs, based on our assurance work. We performed a reasonable assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB), in order to state whether the Selected KPIs have been prepared, in all material respects, in accordance with the applicable criteria.

We are required to plan and perform our procedures in order to obtain reasonable assurance as to whether the assured APMs have been prepared, in all material respects, in accordance with OSB Group's APM Definitions and Basis of Preparation.

The nature, timing and extent of the assurance procedures selected depended on our judgment, including the assessment of the risks of material misstatement, whether due to fraud or error, of the assured APMs. In making those risk assessments, we considered internal controls relevant to the preparation of the assured APMs.

Based on that assessment we carried out testing which included:

- Agreeing amounts used in the calculation of APMs which are derived or extracted from the audited financial statements of OSB Group for the year ended 31 December 2023 to the financial statements.
- For amounts used in the calculation of APMs which were not derived or extracted from the financial statements of OSB Group for the year ended 31 December 2023 testing, on a sample basis, the underlying data used in determining the assured APMs.
- Checking the mathematical accuracy of the calculations used to prepare the assured APMs and testing whether they were prepared in accordance with OSB Group's APM Definitions and Basis of Preparation;
- Reading the 2023 ARA and assessing whether the assured APMs were presented and described consistently.

We were not asked to give, and therefore have not given any assurance over (i) any APMs other than the assured APMs or (ii) other data in the ARA as part of this engagement.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our opinion.

Appendix 1 continued

Independent Assurance Statement by Deloitte LLP to OSB GROUP PLC on selected Alternative Performance Measures

Our independence and quality control

We have complied with the independence and other ethical requirements of the FRC's Ethical Standard and the ICAEW Code of Ethics. The ICAEW Code is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We applied the International Standard on Quality Management (UK) 1 "ISQM (UK) 1", issued by the Financial Reporting Council. Accordingly, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Use of our report

This assurance report is made solely to the Directors of OSB GROUP PLC in accordance with the terms of the engagement letter between us. Our work has been undertaken so that we might state to the Directors of OSB GROUP PLC those matters we are required to state to them in an independent reasonable assurance report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than OSB GROUP PLC for our assurance work, for this assurance report or for the conclusions we have formed.

Deloitte LLP, London
14 March 2024

Appendix 2

Independent Limited Assurance Report to the Board of Directors of OSB GROUP PLC

Independent limited Assurance Report by Deloitte LLP to the Directors of OSB GROUP PLC on the description of activities undertaken to meet the Recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") and selected Environmental, Social and Governance metrics ("Selected ESG Metrics") (together the "Assured ESG Information") within the Annual Report for the reporting year ended 31 December 2023.

Our assurance conclusion

Based on our procedures described in this report, and evidence we have obtained, nothing has come to our attention that causes us to believe that the Assured ESG Information for the year ended 31 December 2023, and as listed below and indicated with a ◆ in the Annual Report has not been prepared, in all material respects, in accordance with the Applicable Criteria defined by the directors as set out in **https://www.osb.co.uk/sustainability/our-environment**.

Scope of our work

OSB GROUP PLC has engaged us to perform an independent limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information ("ISAE 3000 (Revised)") and the International Standard on Assurance Engagements 3410 Assurance Engagements on Greenhouse Gas Statements ("ISAE 3410"), issued by the International Auditing and Assurance Standards Board ("IAASB") and our agreed terms of engagement.

The Assured ESG Information in scope of our engagement for the year ended 31 December 2023, as indicated with a ◆ in the Annual Report, is as follows:

Assured ESG Information	Reported value
Selected ESG Metrics	
Total direct (Scope 1) emissions	171.44 tCO_2e
Total indirect (Scope 2) emissions – Market-based	1.39 tCO_2e
Total indirect (Scope 2) emissions – Location-based	396.95 tCO_2e
Financed (Scope 3 Category 15) emissions	314,413 tCO_2e
PCAF data quality score	3.1
Greenhouse Gas (GHG) Intensity metrics	
• Metric tonnes of CO_2e per employee	0.40
• Metric tonnes of CO_2e per £m turnover	0.86
• Scope 3 Financed emissions – physical emissions intensity	24.9
TCFD	
The description of activities undertaken to meet the Recommendations of the TCFD included within the 2023 Annual Report.	Page 94 to 102 in the Annual Report

The Assured ESG Information, as listed in the above table, needs to be read and understood together with the Applicable Criteria available here: **https://www.osb.co.uk/sustainability/our-environment**.

Inherent limitations of the Assured ESG Information

We obtained limited assurance over the preparation of the Assured ESG Information in accordance with the Applicable Criteria. Inherent limitations exist in all assurance engagements.

Any internal control structure, no matter how effective, cannot eliminate the possibility that fraud, errors or irregularities may occur and remain undetected and because we use selective testing in our engagement, we cannot guarantee that errors or irregularities, if present, will be detected.

The self-defined Applicable Criteria, the nature of the Assured ESG Information, and absence of consistent external standards allow for different, but acceptable, measurement methodologies to be adopted which may result in variances between entities. The adopted measurement methodologies may also impact comparability of the Assured ESG Information reported by different organisations and from year to year within an organisation as methodologies develop.

We draw your attention to the specific limitations, due to the nature of the Assured ESG Information, set out in the "Key procedures performed" section below.

Directors' responsibilities

The Directors are responsible for preparing an Annual Report which complies with the requirements of the Companies Act 2006 and for being satisfied that the Annual Report, taken as a whole, is fair, balanced and understandable.

The Directors are also responsible for:

- Selecting and establishing the Applicable Criteria.
- Preparing, measuring, presenting and reporting the Assured ESG Information in accordance with the Applicable Criteria.
- Publishing the Applicable Criteria publicly in advance of, or at the same time as, the publication of the Assured ESG Information.
- Designing, implementing, and maintaining internal processes and controls over information relevant to the preparation of the Assured ESG Information to ensure that they are free from material misstatement, including whether due to fraud or error.
- Providing sufficient access and making available all necessary records, correspondence, information and explanations to allow the successful completion of our limited assurance engagement.
- Confirming to us through written representations that you have provided us with all information relevant to our Services of which you are aware, and that the measurement or evaluation of the underlying subject matter against the Applicable Criteria, including that all relevant matters, are reflected in the Assured ESG Information.

Appendix 2 continued

Independent Limited Assurance Report to the Board of Directors of OSB GROUP PLC

Our responsibilities

We are responsible for:

- Planning and performing procedures to obtain sufficient appropriate evidence in order to express an independent limited assurance conclusion on the Assured ESG Information.
- Communicating matters that may be relevant to the Assured ESG Information to the appropriate party including identified or suspected non-compliance with laws and regulations, fraud or suspected fraud, and bias in the preparation of the Assured ESG Information.
- Reporting our conclusion in the form of an independent limited Assurance Report to the Directors.

Our independence and competence

In conducting our engagement, we complied with the independence requirements of the FRC's Ethical Standard and the ICAEW Code of Ethics. The ICAEW Code is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We applied the International Standard on Quality Management (UK) 1 ("ISQM (UK) 1") issued by the Financial Reporting Council. Accordingly, we maintained a comprehensive system of quality management including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Key procedures performed

We are required to plan and perform our work to address the areas where we have identified that a material misstatement in respect of the Assured ESG Information is likely to arise. The procedures we performed were based on our professional judgment. In carrying out our limited assurance engagement in respect of the Assured ESG Information, we performed the following procedures:

- Evaluated the suitability of the Applicable Criteria as the basis for preparing the Assured ESG Information;
- Performed analytical review procedures to understand the underlying subject matter and identify areas where a material misstatement of the Assured ESG Information is likely to arise;
- Through inquiries of management, obtained an understanding of the Group, its environment, processes and information systems relevant to the preparation of the Assured ESG Information sufficient to identify and assess risks of material misstatement in the Assured ESG Information, and provide a basis for designing and performing procedures to respond to assessed risks and to obtain limited assurance to support a conclusion;
- Through inquiries of management, obtained an understanding of internal controls relevant to the Assured ESG Information, the quantification process and data used in preparing the Assured ESG Information, the methodology for gathering qualitative information, and the process for preparing and reporting the Assured ESG Information. We did not evaluate the design of particular internal control activities, obtain evidence about their implementation or test their operating effectiveness;
- Through inquiries of management, documented whether an external expert has been used in the preparation of the Assured ESG Information, then evaluated the competence, capabilities and objectivity of that expert in the context of the work performed and also the appropriateness of that work as evidence;
- Inspected documents relating to the Assured ESG Information, including board committee minutes and where applicable internal audit outputs to understand the level of management awareness and oversight of the Assured ESG Information;
- Accumulated misstatements and control deficiencies identified, assessing whether material; and
- Read the narrative accompanying the Assured ESG Information with regard to the Applicable Criteria, and for consistency with our findings.

In relation to TCFD only, we:

- Reviewed documentation relating to the governance, strategy and financial planning and risk management processes;
- Inquired with those responsible within the organisation to understand:
  - the role of the Board in relation to climate-related risk and opportunities and management's role in assessing and managing climate-related risks and opportunities;
  - the nature of climate-related risk and opportunities identified including time horizons; the impact of climate-related risks and opportunities on the business, strategy and financial planning; and the impact of identified and considered climate scenarios on the strategy; and
  - the process for identifying climate-related risks; the process for managing climate-related risks; and how these processes are integrated into the overall risk management; and
- Evaluated and reviewed the TCFD disclosure for consistency of knowledge and understanding obtained during course of our work.

Appendix 2 continued

Independent Limited Assurance Report to the Board of Directors of OSB GROUP PLC

Additionally, in relation to the Selected ESG Metrics only, we:

- Performed enquires and interviews with management to understand how the Applicable Criteria were applied in the preparation of the Selected ESG Metrics;
- Performed procedures over the Selected ESG Metrics, including recalculation of relevant formulae used in manual calculations and assessed whether the data has been appropriately consolidated;
- Performed procedures over underlying data on a statistical sample basis to assess whether the data has been collected and reported in accordance with the Applicable Criteria, including verifying to source documentation; and
- Perform procedures over the Selected ESG Metrics including assessing management's assumptions and estimates.

We were not engaged to and did not perform the following procedures as part of our assurance work:

- An assessment as to if the activities undertaken, as described in the TCFD disclosures, fulfil the requirements to comply in full with TCFD.
- An assessment as to the appropriateness of assumptions made including those made in preparation and application of climate scenarios and setting of targets.
- Testing of the design, implementation and operating effectiveness of controls over the underlying data, nor have we sought to obtain an understanding of the systems and controls beyond those relevant to the Assured ESG Information.

We performed our engagement to obtain limited assurance over the preparation of the Selected ESG metrics in accordance with the Applicable Criteria. We draw your attention to the following specific limitations:

- The financed emissions metrics (Scope 3 Category 15) listed above include information provided by third-party sources. Our procedures did not include obtaining assurance over the information provided by third parties.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

We performed our engagement to obtain limited assurance over the preparation of the Assured ESG Information in accordance with the Applicable Criteria. TCFD as applied by all companies includes information based on climate-related scenarios that are subject to inherent uncertainty because of incomplete scientific and economic knowledge about the likelihood, timing, or effect of possible future physical and transitional climate-related impacts. For the avoidance of doubt, the scope of our engagement and our responsibilities did not involve us performing work necessary for any assurance on the reliability, proper compilation or accuracy of the prospective information provided as part of the TCFD scenario analysis.

Use of our report

This report is made solely to the Directors of OSB GROUP PLC in accordance with ISAE 3000 (Revised) and ISAE 3410 and our agreed terms of engagement. Our work has been undertaken so that we might state to the Directors of OSB GROUP PLC those matters we have agreed to state to them in this report and for no other purpose.

Without assuming or accepting any responsibility or liability in respect of this report to any party other than OSB GROUP PLC and the Directors of OSB GROUP PLC, we acknowledge that the Directors of OSB GROUP PLC may choose to make this report publicly available for others wishing to have access to it, which does not and will not affect or extend for any purpose or on any basis our responsibilities. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than OSB GROUP PLC and the Directors of OSB GROUP PLC as a body, for our work, for this report, or for the conclusions we have formed.

The Applicable Criteria are designed for the Assured ESG Information disclosed by OSB GROUP PLC and as a result, the Assured ESG Information may not be suitable for another purpose.

Deloitte LLP
Birmingham, UK
14 March 2024

Appendix 3

Alternative Performance Measures (APMs)

In this Annual report, the Group used APMs when presenting underlying results in 2023 and 2022 as Management believe they provide a more consistent basis for comparing the Group's performance between financial periods. Underlying results exclude integration costs and other acquisition-related items.

APMs reflect an important aspect of the way in which operating targets are defined and performance is monitored by the Board. However, APMs in this Annual report are not a substitute for IFRS measures and readers should consider the IFRS measures as well.

Below we provide definitions and the calculation of APMs used throughout this Annual report on a statutory basis and underlying basis for 2023 and 2022.

Net interest margin (NIM)

NIM is defined as net interest income as a percentage of a 13 point average[1] of interest earning assets (cash, investment securities, loans and advances to customers and credit institutions).

It represents the margin earned on loans and advances and liquid assets after swap expense/income and cost of funds.

	2023 £m	2022 £m
Net interest income – statutory	**658.6**	709.9
Add back: acquisition-related items[2]	**56.1**	59.2
Net interest income – underlying	**714.7**	769.1
13 point average of interest earning assets – statutory C	**28,549.4**	25,518.8
13 point average of interest earning assets – underlying D	**28,498.3**	25,403.2
NIM statutory equals A/C	**2.31%**	2.78%
NIM underlying equals B/D	**2.51%**	3.03%

Cost to income ratio

Cost to income ratio is defined as administrative expenses as a percentage of total income. It is a measure of operational efficiency.

	2023 £m	2022 £m
Administrative expenses – statutory A	**234.6**	207.8
Add back: acquisition-related items[2]	**(1.7)**	(3.8)
Administrative expenses – underlying B	**232.9**	204.0
Total income – statutory C	**658.1**	775.4
Add back: acquisition-related items[2]	**49.7**	48.8
Total income underlying D	**707.8**	824.2
Cost to income statutory equals A/C	**36%**	27%
Cost to income underlying equals B/D	**33%**	25%

Management expense ratio

Management expense ratio is defined as administrative expenses as a percentage of a 13 point average[1] of total assets. It is a measure of operational efficiency.

	2023 £m	2022 £m
Administrative expenses – statutory (as in cost to income ratio above) A	**234.6**	207.8
Administrative expenses – underlying (as in cost to income ratio above) B	**232.9**	204.0
13 point average of total assets – statutory C	**28,767.1**	25,641.5
13 point average of total assets – underlying D	**28,719.7**	25,537.4
Management expense ratio statutory equals A/C on an annualised basis	**0.82%**	0.81%
Management expense ratio underlying equals B/D on an annualised basis	**0.81%**	0.80%

Appendix 3 continued

Alternative Performance Measures (APMs)

Loan loss ratio

Loan loss ratio is defined as expected credit losses as a percentage of a 13 point average[1] of gross loans and advances. It is a measure of the credit performance of the loan book.

	2023 £m	2022 £m
Impairment of financial assets – statutory A	**48.8**	29.8
Add back: acquisition-related items[2]	**(0.3)**	0.9
Impairment of financial assets – underlying B	**48.5**	30.7
13 point average of gross loans – statutory C	**24,855.0**	22,120.4
13 point average of gross loans – underlying D	**24,804.9**	22,005.4
Loan loss ratio statutory equals A/C on an annualised basis	**0.20%**	0.13%
Loan loss ratio underlying equals B/D on an annualised basis	**0.20%**	0.14%

Return on equity (RoE)

RoE is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on AT1 securities, gross of tax, as a percentage of a 13 point average[1] of shareholders' equity (excluding £150m of AT1 securities).

	2023 £m	2022 £m
Profit after tax - statutory	**282.6**	410.0
Coupons on AT1 securities	**(9.0)**	(9.0)
Profit attributable to ordinary shareholders – statutory A	**273.6**	401.0
Add back: acquisition related items[2]	**37.1**	38.7
Profit attributable to ordinary shareholders – underlying B	**310.7**	439.7
13 point average of shareholders' equity (excluding AT1 securities) – statutory C	**1,964.1**	1,943.4
13 point average of shareholders' equity (excluding AT1 securities) – underlying D	**1,929.9**	1,869.9
Return on equity statutory equals A/C on an annualised basis	**14%**	21%
Return on equity underlying equals B/D on an annualised basis	**16%**	24%

Basic earnings per share

Basic earnings per share is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on AT1 securities, gross of tax, divided by the weighted average number of ordinary shares in issue.

	2023 £m	2022 £m
Profit attributable to ordinary shareholders – statutory (as in RoE ratio above) A	**273.6**	401.0
Profit attributable to ordinary shareholders – underlying (as in RoE ratio above) B	**310.7**	439.7
Weighted average number of ordinary shares in issue – statutory C	**414.2**	441.5
Weighted average number of ordinary shares in issue – underlying D	**414.2**	441.5
Basic earnings per share statutory equals A/C	**66.1**	90.8
Basic earnings per share underlying equals B/D	**75.0**	99.6

1. 13 point average is calculated as an average of opening balance and closing balances for 12 months of the financial year.
2. The acquisition-related items are detailed in the reconciliation of statutory to underlying results in the Financial review.

Appendix 3 continued

Alternative Performance Measures (APMs)

Calculation of final dividend

The table below shows the basis of calculation of the Company's recommended final dividend:

	2023 £m	2022 £m
Statutory profit after tax	**282.6**	410.0
Less: coupons on AT1 securities classified as equity	**(9.0)**	(9.0)
Statutory profit attributable to ordinary shareholders	**273.6**	401.0
Add back: Group's integration costs	**–**	7.9
Tax on Group's integration costs	**–**	(2.1)
Add back: amortisation of fair value adjustment	**56.8**	60.4
Add back: amortisation of inception adjustment	**(6.4)**	(10.4)
Add back: amortisation of cancelled swaps	**(0.7)**	(1.2)
Add back: amortisation of intangible assets acquired	**1.7**	3.8
Release of deferred taxation on the above amortisation adjustments	**(14.6)**	(18.8)
Add back: ECL on Combination	**0.3**	(0.9)
Underlying profit attributable to ordinary shareholders	**310.7**	439.7
Total dividend: 41% (2022: 30%) of underlying profit attributable to ordinary shareholders	**126.6**	131.9
Less: interim dividends paid	**(40.9)**	(38.3)
Recommended final dividend	**85.7**	93.6
Number of ordinary shares in issue	**393,187,681**	429,868,625
Recommended final dividend per share (pence)	**21.8**	21.8

Glossary

AGM	Annual General Meeting
ALCO	Group Assets and Liabilities Committee
BoE	Bank of England
CCFS	Charter Court Financial Services
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CRD IV	Capital Requirements Directive and Regulation
CRO	Chief Risk Officer
DSBP	Deferred Share Bonus Plan
EAD	Exposure at Default
ECL	Expected Credit Loss
EIR	Effective Interest Rate
EPS	Earnings Per Share
EU	European Union
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSCS	Financial Services Compensation Scheme
FSD	Forced Sale Discount
FTSE	Financial Times Stock Exchange
HMRC	Her Majesty's Revenue and Customs
HPI	House Price Index
IAS	International Accounting Standards
IBOR	Interbank Offered Rate
ICAAP	Internal Capital Adequacy Assessment Process
ICR	Interest Coverage Ratio
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
ILTR	Indexed Long-Term Repo
IPO	Initial Public Offering
IRB	Internal Ratings-Based approach to credit risk
ISA	Individual Savings Account
KRFI	Kent Reliance for Intermediaries
KRPS	Kent Reliance Provident Society Limited
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LTIP	Long-Term Incentive Plan
LTV	Loan to value
NIM	Net Interest Margin
NPS	Net Promoter Score
OSB	OneSavings Bank plc
OSBG	OSB GROUP PLC
PD	Probability of Default
PPD	Propensity to go to Possession Given Default
PRA	Prudential Regulation Authority
PSBs	Perpetual Subordinated Bonds
PSP	Performance Share Plan
RMBS	Residential Mortgage-Backed Securities
RoE	Return on equity
RWA	Risk weighted assets
SAYE	Save As You Earn or Sharesave
SDLT	Stamp Duty Land Tax
SICR	Significant Increase in Credit Risk
SID	Senior Independent Director
SME	Small and Medium Enterprises
SONIA	Sterling Overnight Index Average
SRMF	Strategic Risk Management Framework
TFS	Term Funding Scheme
TFSME	Term Funding Scheme with additional incentives for SMEs

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Private shareholders are welcome to contact the Company Secretary if they have any questions or concerns they wish to be raised with the Board.

Notes

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