

**THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

This Prospectus, which comprises a prospectus relating to OSB and the New OSB Shares, has been prepared in accordance with the Prospectus Rules made under section 73A of FSMA. This Prospectus has been approved by the FCA in accordance with section 87A of FSMA and has been filed with the FCA and made available to the public in accordance with PR 3.2.1R. This Prospectus has been prepared in order to provide details of the New OSB Shares to be issued and allotted pursuant to the Combination.

The release, publication or distribution of this Prospectus and any accompanying documents (in whole or in part) in, into or from jurisdictions other than the United Kingdom, and the allotment and issue of the New OSB Shares in jurisdictions other than the United Kingdom, may be restricted by the laws of those jurisdictions and therefore persons outside the United Kingdom into whose possession this Prospectus and/or any accompanying document comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

**INVESTORS SHOULD READ THE WHOLE OF THIS PROSPECTUS (INCLUDING ALL THE INFORMATION INCORPORATED INTO IT BY REFERENCE) CAREFULLY AND IN ITS ENTIRETY. IN PARTICULAR, INVESTORS SHOULD TAKE ACCOUNT OF PART II (RISK FACTORS) WHICH CONTAINS A DISCUSSION OF THE RISKS WHICH MAY MATERIALLY AFFECT THE VALUE OF AN INVESTMENT IN OSB, THE COMBINED GROUP AND/OR THE NEW OSB SHARES. INVESTORS SHOULD NOT RELY SOLELY ON THE INFORMATION SUMMARISED IN PART I (SUMMARY).**



**ONESAVINGS BANK PLC**

*(a public limited company registered in England and Wales with registered number 07312896)*

**Proposed issue of up to 202,165,502 New OSB Shares in connection with  
the recommended all-share combination of OneSavings Bank plc and  
Charter Court Financial Services Group plc**

and

**application for admission of such New OSB Shares to the premium listing segment  
of the Official List and to trading on the London Stock Exchange's Main Market  
for listed securities.**

*Sponsor and Financial Adviser*

**Rothschild & Co**

*Corporate Broker and Financial Adviser*

**Barclays**

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The existing OSB Shares are listed on the premium listing segment of the Official List and traded on the London Stock Exchange's Main Market for listed securities. Applications will be made by OSB to the FCA for the New OSB Shares to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for the New OSB Shares to be admitted to trading on its Main Market for listed securities. Following completion of the Combination, the New OSB Shares will be issued as fully paid and will rank *pari passu* in all respects with the OSB Shares in issue at the time the New OSB Shares are issued pursuant to the Combination, including in relation to the right to receive notice of, and to attend and vote at, general meetings of OSB, the right to receive and retain any dividends and other distributions announced, declared, made or paid in each case by reference to a record date falling on or after the Effective Date, and to the right to participate in the assets of OSB upon a winding-up of OSB. No application has been made or is currently intended to be made by OSB for the New OSB Shares to be admitted to listing or trading on any other exchange.

Prospective investors should only rely on the information contained in this Prospectus (for the avoidance of doubt, neither the Announcement nor the Scheme Document has been incorporated by reference into this Prospectus). No person has been authorised to give any information or make any representations other than those contained or incorporated into this Prospectus and, if given or made, such information or representations must not be relied upon as having been so authorised by OSB, the Current OSB Directors, the Proposed OSB Directors, Rothschild & Co, Barclays or any other person involved in the Combination. Without prejudice to any legal or regulatory obligation on OSB to publish

a supplementary prospectus pursuant to section 87G of FSMA and Prospectus Rule 3.4, the delivery of this Prospectus, holding the OSB General Meeting, and/or Admission shall not, under any circumstances, create any implication that there has been no change in the business or affairs of the OSB Group, the Charter Court Group and/or the Combined Group since the date of this Prospectus or that the information in, or incorporated into, this Prospectus is correct as at any time subsequent to its date. OSB will comply with its obligation to publish supplementary prospectuses containing further updated information as required by law or by a regulatory authority and, in particular, its obligations under the Prospectus Rules, the Listing Rules and the Disclosure Guidance and Transparency Rules (as appropriate), but assumes no further obligation to publish additional information.

N. M. Rothschild & Sons Limited, which is authorised and regulated by the Financial Conduct Authority in the United Kingdom, is acting exclusively for OSB and no one else in relation to the contents of this Prospectus, the Combination, Admission or any other matters referred to in this Prospectus and will not regard any other person (whether or not a recipient of this Prospectus) as a client in relation to the Combination, Admission or any other matters referred to in this Prospectus and will not be responsible to anyone other than OSB for providing the protections afforded to clients of Rothschild & Co nor for providing advice in relation to the contents of this Prospectus, the Combination, Admission or any other matters referred to in this Prospectus. Apart from the responsibilities and liabilities, if any, which may be imposed on Rothschild & Co under FSMA or the regulatory regime established thereunder, neither Rothschild & Co nor any of its affiliates accept any responsibility or liability whatsoever for, nor make any representation or warranty, express or implied, concerning the contents of this document, including its accuracy, completeness or verification, or for any other statement made or purported to be made by OSB or on OSB's behalf, or by Rothschild & Co, or on Rothschild & Co's behalf in connection with the Combination, the New OSB Shares or Admission and nothing in this document is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or future. To the fullest extent permitted by law, Rothschild & Co and its affiliates disclaim all and any duty, liability or responsibility whatsoever (whether direct or indirect and whether in contract, in tort, under statute or otherwise) which it might otherwise have in respect of this document or any such statement.

Barclays Bank PLC, acting through its Investment Bank, which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority, is acting exclusively for OSB and no one else in relation to the Combination and will not be responsible to anyone other than OSB for providing the protections afforded to its clients nor for providing advice in connection with the Combination or any other matter referred to in this Prospectus.

Persons accessing this Prospectus are authorised to use it solely for the purpose of considering the terms of the Combination and are prohibited from reproducing or distributing this Prospectus, in whole or in part, disclosing any of its contents or using any information herein for any purpose other than considering the terms of the Combination and an investment in the New OSB Shares.

**Neither the contents of this Prospectus nor any subsequent communication from OSB, the Current OSB Directors, the Proposed OSB Directors, Rothschild & Co, Barclays, Charter Court or any other person involved in the Combination or any of their respective affiliates, officers, directors, employees or agents are to be construed as legal, financial or tax advice. If you are in any doubt about the contents of this Prospectus or the action you should take, it is recommended that you seek your own independent financial advice immediately from your stockbroker, bank manager, solicitor, accountant or independent financial adviser (who is, if you are resident in the UK, duly authorised under FSMA or, if you are not resident in the UK, an appropriately authorised independent financial adviser).**

#### **NOTICE TO OVERSEAS SHAREHOLDERS**

The release, publication or distribution of this Prospectus and any accompanying documents (in whole or in part) in, into or from jurisdictions other than the United Kingdom, and the allotment and issue of the New OSB Shares in jurisdictions other than the United Kingdom, may be restricted by the laws of those jurisdictions and therefore persons outside the United Kingdom into whose possession this Prospectus and/or any accompanying document comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

Unless otherwise determined by OSB or required by the City Code, and permitted by applicable law and regulation, the Combination will not be implemented and documentation relating to the Combination or the Consideration shall not be made available, directly or indirectly, in, into or from a Restricted Jurisdiction where to do so would violate the laws of that jurisdiction and no person may vote in favour of the Combination by any use, means, instrumentality or form within a Restricted Jurisdiction or any other jurisdiction if to do so would constitute a violation of the laws of that jurisdiction. Accordingly, copies of this Prospectus are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in, into or from any Restricted Jurisdiction and persons with access to this Prospectus and any documents relating to the Combination (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send them in, into or from any Restricted Jurisdiction.

The availability of New OSB Shares under the Combination to Charter Court Shareholders who are not resident in the UK may be affected by the laws of the relevant jurisdictions in which they are resident. This Prospectus has been prepared for the purpose of complying with English law and applicable regulations and the information disclosed may not be the same as that which would have been disclosed if this Prospectus had been prepared in accordance with the laws of jurisdictions outside of England.

This Prospectus does not constitute an offer to sell or issue or the solicitation of an offer to buy, acquire or subscribe for shares in the capital of OSB in any Restricted Jurisdiction or to any person to whom it is unlawful to make such offer or solicitation. None of the securities referred to in this Prospectus shall be sold, issued or transferred in any jurisdiction in contravention of applicable law and/or regulation.

It is the responsibility of each person into whose possession this Prospectus comes to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdiction in connection with the distribution of this Prospectus, the receipt of the New OSB Shares and the implementation of the Combination and to obtain any governmental, exchange control or other consents which may be required, comply with other formalities which are required to be observed and pay any issue, transfer or other taxes due in such jurisdiction. To the fullest extent permitted by applicable law, OSB, the Current OSB Directors, the Proposed OSB Directors, the OSB Group, Rothschild & Co, Barclays, Charter Court and all other persons involved in the Combination disclaim any responsibility or liability for the failure to satisfy any such laws, regulations or requirements by any person.

Further details relevant for Charter Court Shareholders in overseas jurisdictions are contained in the Scheme Document.

#### **Additional information for US Shareholders**

This Prospectus shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. None of the securities referred to in this Prospectus have been approved or disapproved by the SEC, any state securities commission in the US or any other US regulatory authority, nor have such authorities passed upon or determined the fairness or merits of such securities or upon the adequacy or accuracy of the information contained in this Prospectus. Any representation to the contrary is a criminal offence in the US.

The Combination is to be implemented by a scheme of arrangement provided for under English company law. As such, the New OSB Shares have not been and will not be registered under the US Securities Act or any laws of any state, district or other jurisdiction of the US, and the New OSB Shares are expected to be issued in reliance upon the exemption from the registration requirements of the US Securities Act provided by section 3(a)(10) thereof and exemptions from registration and qualification under applicable state securities laws and also would not be subject to the proxy solicitation or tender offer rules under the US Exchange Act. Charter Court Shareholders (whether or not US persons (as defined in the US Securities Act)) who are or will be affiliates of OSB or Charter Court prior to, or of OSB after, the Combination becomes effective will be subject to certain US transfer restrictions relating to the New OSB Shares received pursuant to the Combination.

For the purpose of qualifying for the exemption provided by section 3(a)(10) of the US Securities Act, Charter Court will advise the Court that its sanctioning of the Scheme will be relied on by OSB as an approval of the Scheme following a hearing on its fairness to Charter Court Shareholders, at which

Court hearing all Charter Court Shareholders are entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme and with respect to which notification will be given to all such holders.

The Combination may, in the circumstances provided for in the Co-operation Agreement, be implemented by way of a takeover offer under English law. If so, any securities to be issued under the Combination may be registered under the US Securities Act or issued in reliance upon an exemption thereunder, if available. If the Combination is implemented by way of an Offer, it will be done in compliance with the applicable rules under the US Exchange Act, including any applicable exemptions provided thereunder.

The Combination and this Prospectus are subject to UK procedural and disclosure requirements that are different from those of the US.

Any financial statements or other financial information included in this Prospectus may have been prepared in accordance with non-US accounting standards that may not be comparable to the financial statements of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the US.

It may be difficult for holders of OSB Shares located in the US to enforce their rights and any claims they may have arising under the US federal securities laws in connection with the Combination since OSB is located in a country other than the US and some or all of its officers and directors may be residents of countries other than the US. Holders of OSB Shares located in the US may not be able to sue OSB or its directors, officers or affiliates in a non-US court for violations of US securities laws. Further, it may be difficult to compel OSB and its directors, officers and affiliates to subject itself to the jurisdiction or judgment of a US court.

Investors should be aware that OSB may purchase or arrange to purchase Charter Court Shares otherwise than under any takeover offer or scheme of arrangement related to the Combination, such as in open market or privately negotiated purchases outside the US that comply with applicable law.

Charter Court Shareholders are urged to read any documents related to the Combination filed, furnished or to be filed or furnished by OSB with the SEC because they will contain important information regarding the Combination and any related offer of securities. Such documents will be available free of charge at the SEC's website at [www.sec.gov](http://www.sec.gov). Nothing in this Prospectus shall be deemed as an acknowledgement that any SEC filing is required or that an offer requiring registration under the US Securities Act may ever occur in connection with the Combination.

Certain terms used in this Prospectus have the meanings ascribed to them in Part XVIII (Definitions).

The date of this Prospectus is 15 May 2019.

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## PART I

### SUMMARY

Summaries are made up of disclosure requirements known as “Elements”. These Elements are numbered in Sections A – E (A.1 – E.7). This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element might be required to be inserted in the summary because of the type of security and issuer, it is possible that no relevant information can be given regarding the Element. In this case, a short description of the Element is included in the summary with the mention of the words “not applicable”.

<b>Section A – Introduction and Warnings</b>		
<b>Element</b>		
A.1	<b>Introduction and warnings</b>	<p>This summary should be read as an introduction to this Prospectus.</p> <p>Any decision to invest in the New OSB Shares should be based on consideration of this Prospectus as a whole by the investor.</p> <p>Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the member states of the EEA, have to bear the costs of translating this Prospectus before the legal proceedings are initiated.</p> <p>Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors when considering whether to invest in the New OSB Shares.</p>
A.2	<b>Resale or final placement of securities through financial intermediaries</b>	<p>Not applicable. No consent has been given by OSB or any person responsible for drawing up this Prospectus to use this Prospectus for subsequent resale or final placement of the New OSB Shares by financial intermediaries.</p>

<b>Section B – Issuer</b>		
<b>Element</b>		
B.1	<b>Legal and commercial name</b>	<p>OneSavings Bank plc (“OSB”)</p>
B.2	<b>Domicile/legal form/ legislation under which the issuer operates/ country of incorporation</b>	<p>OSB is a public limited company incorporated under the laws of England with registered number 07312896 and is domiciled in the United Kingdom.</p> <p>OSB operates principally under the Companies Act 2006 and the regulations made thereunder.</p>
B.3	<b>Current operations/ principal activities and markets</b>	<p>OSB, which is headquartered in Chatham, Kent, is a specialist lending and retail savings group serving the UK, Jersey and Guernsey.</p>



		<p>OSB is authorised by the PRA, part of the Bank of England, and regulated by the FCA and the PRA and began trading as a bank on 1 February 2011 when the trade and assets of Kent Reliance Building Society were transferred to OSB.</p> <p>OSB focuses its specialist lending activities on selected sub-sectors of the lending market: Residential (principally comprising bespoke first charge mortgages, second charge mortgages, shared ownership mortgages) and Buy-to-Let/SME (principally comprising buy-to-let mortgages, commercial and semi-commercial mortgages, residential development finance, secured funding lines and asset finance).</p> <p>The OSB Group originates almost all of its organic lending through specialist intermediaries (for OSB owned products) as well as through secured funding lines.</p> <p>OSB is predominantly funded by retail savings originated through online and direct channels, as well as through a Kent Reliance branded network of branches and third party operated agencies in the South East of England. Diversification of funding is currently provided by access to a securitisation programme and the Term Funding Scheme, which OSB joined in 2016.</p> <p>The majority of OSB's administrative support functions are performed by its wholly owned operations in Bangalore, India.</p>
<p>B.4a</p>	<p><b>Significant recent trends of the issuer and the industries in which it operates</b></p>	<p><b>Industry</b></p> <p>The banking industry in the UK is changing: more and more customers are choosing to interact digitally; new entrants are looking to disrupt the industry and partner with existing players; technological change is happening at a fast pace; and the implementation of new regulations aims to further open up banking services and encourage competition. These trends are transforming existing bank business models in the UK.</p> <p>The Buy-to-Let segment in particular has come under increased scrutiny resulting in a number of changes, including changes in mortgage tax relief and stamp duty on second homes and a tightening of underwriting standards. In addition to these long-term changes, the immediate uncertainty in the UK's economic outlook has contributed to slower consumer spending and businesses delaying investment. This has had an impact on SME's demand for credit and in retail intense competition has resulted in a challenging environment.</p> <p><b>OSB</b></p> <p>OSB's core Buy-to-Let segment has continued to grow, exceeding overall market growth in 2018, and OSB sees more opportunities to grow its residential business, although the current economic uncertainty in the UK, including the effect of Brexit, has impacted business opportunities. While OSB intends to continue to invest in its business for growth, it also intends to maintain a strong focus on cost efficiency and control, in particular in OSB's cost to income and management expense ratios.</p>

		<p><b>Charter Court</b></p> <p>Despite heightened political and macroeconomic uncertainty due to the negotiations over the impending withdrawal of the UK from the EU, Charter Court's performance in 2018 remains robust and demonstrates that the business is resilient and able to deliver value for its stakeholders. Successful execution of the Charter Court Group's focused growth strategy, underpinned by its strong capitalisation and competitive advantages, led to continued delivery in Charter Court's lending and funding business segments during 2018, despite the impact of increased uncertainty in the property market.</p>																																				
B.5	<b>Group structure</b>	<p>OSB is currently the ultimate holding company of the OSB Group and Charter Court is currently the ultimate holding company of the Charter Court Group. If the Combination completes, OSB will be the ultimate holding company of the Combined Group. After completion of the Combination, the OSB Board intends to establish a new holding company for the Combined Group to facilitate the issuance of MREL-qualifying debt instruments and compliance with the Combined Group's expected MREL requirement.</p>																																				
B.6	<b>Major Shareholders</b>	<p>As at the Latest Practicable Date, OSB had been notified in accordance with DTR 5 and Rule 8 of the City Code of the direct and/or indirect interests of the following underlying investors in 3 per cent. or more of the issued ordinary share capital of OSB (being the threshold of notification under the Disclosure Guidance and Transparency Rules).</p> <table border="1"> <thead> <tr> <th>Shareholder</th> <th>Shares with voting rights</th> <th>% of OSB Shares</th> <th>% of OSB Shares following Admission</th> </tr> </thead> <tbody> <tr> <td>Merian Global Investors (UK) Limited</td> <td>37,394,854</td> <td>15.3%</td> <td>16.5%</td> </tr> <tr> <td>JP Morgan Asset Management</td> <td>19,441,302</td> <td>7.9%</td> <td>8.4%</td> </tr> <tr> <td>Aberdeen Standard Life</td> <td>16,463,373</td> <td>6.7%</td> <td>4.3%</td> </tr> <tr> <td>Janus Henderson Investors</td> <td>11,475,525</td> <td>4.7%</td> <td>2.6%</td> </tr> <tr> <td>BlackRock Group</td> <td>9,647,394</td> <td>3.9%</td> <td>3.0%</td> </tr> <tr> <td>The Vanguard Group</td> <td>8,732,703</td> <td>3.5%</td> <td>3.0%</td> </tr> <tr> <td>Legal &amp; General Investment Management</td> <td>8,341,903</td> <td>3.4%</td> <td>2.5%</td> </tr> <tr> <td>Norges Bank</td> <td>7,853,294</td> <td>3.2%</td> <td>2.3%</td> </tr> </tbody> </table> <p>The major shareholders in OSB do not have different voting rights to other shareholders or as between themselves.</p> <p>OSB and the OSB Directors are not aware of any persons who, as at the Latest Practicable Date, directly or indirectly, jointly or severally, exercise or could exercise control over OSB nor are they aware of any arrangements the operation of which may at a subsequent date result in a change of control of OSB.</p>	Shareholder	Shares with voting rights	% of OSB Shares	% of OSB Shares following Admission	Merian Global Investors (UK) Limited	37,394,854	15.3%	16.5%	JP Morgan Asset Management	19,441,302	7.9%	8.4%	Aberdeen Standard Life	16,463,373	6.7%	4.3%	Janus Henderson Investors	11,475,525	4.7%	2.6%	BlackRock Group	9,647,394	3.9%	3.0%	The Vanguard Group	8,732,703	3.5%	3.0%	Legal & General Investment Management	8,341,903	3.4%	2.5%	Norges Bank	7,853,294	3.2%	2.3%
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B.7	<b>Selected historical key financial information</b>	<p><b>Financial information in relation to the OSB Group</b></p> <p>Selected historical financial information which summarises the results of operations and financial condition of the OSB Group for the three financial years ended 31 December 2018, 31 December 2017 and 31 December 2016, prepared in accordance with IFRS, is set out in the following tables.</p>																																				



Information provided for the financial years ended 31 December 2018, 31 December 2017 and 31 December 2016 is audited and has, except as otherwise stated, been extracted without material adjustment from the OSB 2018 Annual Report and Accounts, the OSB 2017 Annual Report and Accounts and the OSB 2016 Annual Report and Accounts, respectively.

#### Consolidated statement of comprehensive income

	Year ended 31 December		
	2018	2017	2016
	(£m)	(£m)	(£m)
Total income	282.1	238.1	201.4
Profit before taxation	183.8	167.7	163.1
Taxation	(43.5)	(40.8)	(42.2)
Profit for the year	140.3	126.9	120.9
<b>Total comprehensive income for the year</b>	<b>139.9</b>	<b>126.7</b>	<b>121.9</b>

#### Consolidated statement of financial position

	Year ended 31 December		
	2018	2017	2016
	(£m)	(£m)	(£m)
Total assets	10,460.2	8,589.1	6,580.9
Total liabilities	9,779.5	8,010.3	6,162.5
Total equity	680.7	578.8	418.4
<b>Total equity and liabilities</b>	<b>10,460.2</b>	<b>8,589.1</b>	<b>6,580.9</b>

#### Consolidated statement of cash flows

	Year ended 31 December		
	2018	2017	2016
	(£m)	(£m)	(£m)
Net cash (used in)/generated from operating activities	(85.1)	(511.1)	(323.8)
Net cash (used in)/generated from investing activities	(45.6)	26.0	381.9
Net cash (used in)/generated from financing activities	289.0	1,165.7	56.7
Net increase in cash and cash equivalents	158.3	680.6	114.8
Cash and cash equivalents at the beginning of the year	1,165.9	485.3	370.5
Cash and cash equivalents at the end of the year	1,324.2	1,165.9	485.3

Save as set out above, there has been no significant change in the financial condition or operating results of the OSB Group during the period covered by the historical key financial information set out in this Element or after such period and prior to the date of this Prospectus.

#### Financial information in relation to the Charter Court Group

Selected historical financial information which summarises the results of operations and financial condition of the Charter Court Group for the three financial years ended 31 December 2018, 31 December 2017 and 31 December 2016, prepared in accordance with IFRS, is set out in the following tables.

Information provided for the financial years ended 31 December 2018, 31 December 2017 and 31 December 2016 is audited and has, except as otherwise stated, been extracted without material

adjustment from the Charter Court 2018 Annual Report and Accounts, the Charter Court 2017 Annual Report and Accounts and the Charter Court 2016 Annual Report and Accounts, respectively.

#### Consolidated statement of comprehensive income

	Year ended 31 December		
	2018	2017	2016
	(£m)	(£m)	(£m)
Total income	224.9	170.2	93.3
Profit before taxation	158.2	111.7	48.9
Taxation	(37.4)	(30.4)	(11.6)
Profit for the year	120.8	81.3	37.3
<b>Total comprehensive income for the year</b>	<b>120.8</b>	<b>81.3</b>	<b>37.3</b>

#### Consolidated statement of financial position

	Year ended 31 December		
	2018	2017	2016
	(£m)	(£m)	(£m)
Total assets	7,786.5	6,424.4	4,157.3
Total liabilities	7,336.2	6,089.4	3,923.8
Total equity	450.3	335.0	233.5
<b>Total equity and liabilities</b>	<b>7,786.5</b>	<b>6,424.4</b>	<b>4,157.3</b>

#### Consolidated statement of cash flows

	Year ended 31 December		
	2018	2017	2016
	(£m)	(£m)	(£m)
Net cash (used in)/generated from operating activities	(850.0)	189.6	30.8
Net cash (used in)/generated from investing activities	238.1	342.8	(6.2)
Net cash (used in)/generated from financing activities	626.3	220.4	(348.3)
Net increase in cash and cash equivalents	14.4	752.8	(323.7)
Cash and cash equivalents at the beginning of the year	966.8	214.0	537.7
Cash and cash equivalents at the end of the year	981.2	966.8	214.0

Save as set out above, there has been no significant change in the financial condition or operating results of the Charter Court Group during the period covered by the historical key financial information set out in this Element or after such period and prior to the date of this Prospectus.

B.8

#### Selected key pro forma financial information

The unaudited consolidated pro forma income statement and net assets statement for the Combined Group have been prepared in accordance with Annex II to the PD Regulation on a consistent basis with the accounting policies and presentation adopted in relation to the consolidated financial statements for the year ended 31 December 2018.

The unaudited consolidated pro forma income statement of the Combined Group has been prepared for illustrative purposes only; namely, to illustrate the effect on the OSB Group's income statement as if the Combination had taken place as at 1 January 2018. The unaudited pro forma statement of net assets of the Combined Group has been prepared for illustrative purposes only; namely, to illustrate the effect on the OSB Group's net assets as if the Combination had taken place as at 31 December 2018.

		<p>Due to its nature, the unaudited pro forma income statement and net assets statement address a hypothetical situation. They do not represent the OSB Group's actual results of operations or financial condition or what the Combined Group's actual results of operations or financial condition would have been if the Combination had been completed on the dates indicated.</p> <p>The unaudited consolidated pro forma profit for the year ended 31 December 2018 is £227.7 million. The unaudited consolidated pro forma net assets as at 31 December 2018 is £1,488.7 million.</p>
B.9	<b>Profit forecast and estimates</b>	Not applicable. No profit forecast or estimate is included in this Prospectus.
B.10	<b>Qualifications in the audit reports</b>	Not applicable. There are no qualifications included in any audit report on the historical financial information included in this Prospectus.
B.11	<b>Working capital – qualifications</b>	Not applicable. In the opinion of OSB, the working capital available to the OSB Group is sufficient for its present requirements, which is for at least the next 12 months following the date of this Prospectus.

<b>Section C – Securities</b>		
<b>Element</b>		
C.1	<b>Type and class of securities</b>	When admitted to trading, the New OSB Shares will consist of up to 202,165,502 OSB Shares of 1 pence each in the capital of OSB. The New OSB Shares will be registered with ISIN GB00BM7S7K96 and will be traded on London Stock Exchange under the ticker symbol OSB. The New OSB Shares will, on Admission, together with the OSB Shares, comprise the entire issued share capital of the Combined Group in issue at the time the New OSB Shares are issued pursuant to the Combination.
C.2	<b>Currency of issue</b>	The currency of the New OSB Shares will be pounds Sterling.
C.3	<b>Shares issued and par value</b>	As at the Latest Practicable Date, the total issued ordinary share capital of OSB is 245,155,033 ordinary shares of 1 pence each, which are all issued fully paid. No existing OSB Shares are held in treasury.
C.4	<b>Description of the rights attaching to the securities</b>	The New OSB Shares will be issued credited as fully paid and will rank <i>pari passu</i> in all respects with the OSB Shares in issue at the time the New OSB Shares are issued pursuant to the Combination, including the right to receive notice of, and to attend and vote at, general meetings of OSB, the right to receive and retain any dividends and other distributions declared, made or paid by reference to a record date falling on or after the Effective Date, and the right to participate in the assets of OSB upon a winding up.
C.5	<b>Restrictions on transferability of the securities</b>	Not applicable. The New OSB Shares will be freely transferable and there are no restrictions on transfer in the UK.

C.6	<b>Admission/regulated markets where the securities are traded</b>	Applications will be made to: (i) the FCA for the New OSB Shares to be admitted to the premium listing segment of the Official List; and (ii) the London Stock Exchange for the New OSB Shares to be admitted to trading on the Main Market. No application has been made or is currently intended to be made by OSB for the New OSB Shares to be admitted to listing or trading on any other exchange.
C.7	<b>Dividend policy</b>	<p>Under the terms of the Combination, OSB and Charter Court have agreed that Charter Court Shareholders will be entitled to receive and retain:</p> <ul style="list-style-type: none"> <li>• the dividend of 12.7 pence per Charter Court Share in respect of the completed twelve-month period ended 31 December 2018, as announced by Charter Court in the Charter Court Preliminary Results Announcement; and</li> <li>• should completion of the Combination occur after the record date for Charter Court’s 2019 half yearly interim dividend in respect of the completed six-month period ending 30 June 2019 (subject to such record date being no earlier than 20 August 2019), any dividend announced, declared, made or paid by Charter Court, prior to the Effective Date, in respect of the completed six-month period ending 30 June 2019 without any reduction to the Consideration, provided that such dividend does not exceed one third of the total dividend per Charter Court Share for the completed twelve-month period ended 31 December 2018,</li> </ul> <p>(any such dividend (or part thereof) that is permissible under these criteria being a “<b>Charter Court Permitted Dividend</b>”), and that OSB Shareholders will be entitled to receive and retain:</p> <ul style="list-style-type: none"> <li>• the dividend of 14.6 pence per OSB Share in respect of the completed twelve-month period ended 31 December 2018, as announced by OSB in the OSB Preliminary Results Announcement; and</li> <li>• should completion of the Combination occur after the record date for OSB’s 2019 half yearly interim dividend in respect of the completed six-month period ending 30 June 2019 (subject to such record date being no earlier than 20 August 2019), any dividend announced, declared, made or paid by OSB, prior to the Effective Date, in respect of the completed six-month period ending 30 June 2019, provided that such dividend does not exceed one third of the total dividend per OSB Share for the completed twelve-month period ended 31 December 2018,</li> </ul> <p>(any such dividend (or part thereof) that is permissible under these criteria being an “<b>OSB Permitted Dividend</b>”).</p> <p>If, on or after the date of the Announcement and prior to the Effective Date, any dividend and/or other distribution and/or other return of value is announced, declared, made or paid or becomes payable:</p>

		<ul style="list-style-type: none"> <li>• in respect of Charter Court Shares, other than a Charter Court Permitted Dividend or a Charter Court Equalising Dividend, or in excess of a Charter Court Permitted Dividend or a Charter Court Equalising Dividend, OSB reserves the right (without prejudice to any right OSB may have, with the consent of the Panel) to invoke Condition 4(H)(ii) in the Scheme Document to (at OSB's sole discretion): (i) reduce the Consideration by an amount equivalent to all or any part of such excess, in the case of Charter Court Permitted Dividends or Charter Court Equalising Dividends, or otherwise by the amount of all or part of any such dividend and/or other form of capital return or distribution, in which case any reference in the Announcement or in the Scheme Document (or, in the event that the Combination is to be implemented by means of an Offer, the Offer Document) to the Consideration will be deemed to be a reference to the Consideration as so reduced; and/or (ii) declare and pay an equalising dividend to OSB Shareholders so as to reflect the value attributable to all or any part of such excess, in the case of Charter Court Permitted Dividends or Charter Court Equalising Dividends, or otherwise by the amount of all or part of any such dividend and/or other form of capital return or distribution (any such equalising dividend declared or paid in accordance with this point (ii) being an "<b>OSB Equalising Dividend</b>"); and/or</li> <li>• in respect of OSB Shares, other than an OSB Permitted Dividend or an OSB Equalising Dividend, or in excess of an OSB Permitted Dividend or an OSB Equalising Dividend, Charter Court shall be entitled to declare and pay an equalising dividend to Charter Court Shareholders so as to reflect the value attributable to all or any part of such excess, in the case of OSB Permitted Dividends or OSB Equalising Dividends, or otherwise by the amount of all or part of any such dividend and/or other form of capital return or distribution, without any consequential change to the Consideration.</li> </ul> <p>The Charter Court Directors have confirmed that Charter Court has not announced, declared, made or paid any dividend and/or other distribution and/or other return of value other than a Charter Court Permitted Dividend in the period commencing on the date of the Firm Offer Announcement and ending on the Latest Practicable Date.</p> <p>The OSB Directors have confirmed that OSB has not announced, declared, made or paid any dividend and/or other distribution and/or other return of value other than an OSB Permitted Dividend in the period commencing on the date of the Firm Offer Announcement and ending on the Latest Practicable Date.</p>
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**Section D – Risks**

**Element**

<p>D.1</p>	<p><b>Key information on key risks that are specific to OSB and Charter Court or their industry</b></p>	<p>The OSB Group, the Charter Court Group and, following completion of the Combination, the Combined Group's business will be subject to inherent risks arising from macroeconomic conditions in the UK and the state of the global financial markets both generally and as they specifically affect financial institutions. In particular, levels of retail and SME borrowing are heavily dependent on consumer confidence, the UK property and mortgage market, employment trends, the level of inflation, market interest rates and the broader state of the UK and global economy. Any deterioration, uncertainty or volatility in relation to these factors could adversely impact their business, results of operations, financial condition and prospects.</p> <p>The OSB Group's and the Charter Court Group's primary activity is and, following completion of the Combination, the Combined Group's primary activity will be providing mortgages to retail customers and to SMEs in the UK secured against property. The value of that security is influenced by UK residential and commercial property prices. A substantial proportion of the OSB Group's and the Charter Court Group's net interest income is and, following completion of the Combination, the Combined Group's net interest income will be derived from interest paid on their mortgage portfolio. A fall in property prices could result in a reduction in recoveries, which could lead to higher impairment provisions and impairments occurring. In addition, a significant increase in property prices could have a negative impact on the OSB Group, the Charter Court Group and, following completion of the Combination, the Combined Group by reducing the affordability of property, which may reduce demand for new mortgages. Sustained volatility in UK property prices could also discourage purchases, limiting the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's ability to grow their mortgage portfolios in the UK.</p> <p>An increase in interest rates could lead to an increase in default rates among customers, reduce demand for mortgages and other loans generally or may result in other forms of financing becoming more attractive, thereby reducing the OSB Group's, the Charter Court Group's and, following completion of the Combination, the Combined Group's lending and related income.</p> <p>The OSB Group and the Charter Court Group must and, if the Combination completes, the Combined Group will be required to comply with strict data protection and privacy laws. Their policies and procedures may not be successful in mitigating the risk that data controlled by them could be wrongfully appropriated, lost or disclosed, stolen or processed in breach of data protection laws, the occurrence of which could result in the loss of the goodwill of their customers and deter new customers, which could have a material adverse effect on the business, financial condition and results of operations of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.</p>
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		<p>The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group are subject to risks associated with future changes to the policies of the UK Government. Such changes may result in a decrease in mortgage volumes and deteriorate the credit performance of the mortgage books of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group, which in turn could have a material adverse effect on the business, financial condition, results of operations and prospects of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group. In addition, the UK's decision to leave the EU has brought political, legal, regulatory and market uncertainty, which could have a material adverse effect on the OSB Group's, the Charter Court Group's and, following completion of the Combination, the Combined Group's business, prospects or results of operations.</p> <p>The market for financial services in the UK is highly competitive and these pressures are expected to continue in response to competitor behaviour, consumer expectations, technological changes, the impact of market consolidation and new market entrants, regulatory actions and other factors. Competition in the UK mortgage market including from challenger banks seeking scale and growth over a short time is continuing to create downward price pressure on mortgage and other lending rates.</p> <p>The OSB Group's and the Charter Court Group's operations are and, following completion of the Combination, the Combined Group's operations will be heavily regulated and they must comply with numerous laws and regulations and may face enforcement action from regulators and others for any failure to comply. Regulatory enforcement actions pose a number of risks, including substantial monetary damages or fines, the amounts of which are difficult to predict and may exceed the amount of provisions set aside to cover such risks. In addition, the OSB Group, the Charter Court Group and, following completion of the Combination, the Combined Group and/or their employees may be subject to other penalties and injunctive relief, civil or private litigation arising out of the same subject matters as a regulatory investigation, the potential for criminal prosecution in certain circumstances and regulatory restrictions, which could have a negative effect on their ability to carry on business in the manner envisaged, their reputation and the confidence of their customers, as well as taking a significant amount of management time and resources.</p> <p>The OSB Group, the Charter Court Group and, following completion of the Combination, the Combined Group, are required to maintain minimum levels of capital and liquidity relative to the business that they conduct and risk profile of their operations. Regulatory requirements are also subject to future change. An actual or perceived shortage of capital or liquidity could have a material adverse effect on the OSB Group's, the Charter Court Group's and, following completion of the Combination, the Combined Group's business. An actual or perceived shortage of capital could, in turn, require them to seek</p>
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		<p>additional capital from shareholders and investors, and affect their capacity to pay future dividends or implement their business strategy. Moreover, the Combination is expected to result in the Combined Group being subject to MREL requirements (which is expected to accelerate the MREL requirements for OSB and Charter Court), the full effect, timing and cost of which is uncertain.</p>
D.3	<p><b>Key information on key risks relating to the Combination and the securities</b></p>	<p>Completion of the Combination is subject to a number of conditions which may not be satisfied or waived or which may be satisfied subject to conditions imposed by regulatory bodies or other third parties and may result in the completion of the Combination being delayed, the Combination not completing, or the OSB Group or the Charter Court Group being required to divest assets in order to satisfy any such conditions so imposed.</p> <p>The Combined Group's success will be dependent upon its ability to integrate the OSB Group and the Charter Court Group and deliver the value of the combined underlying businesses; the synergies expected from the Combination may not be fully achieved.</p> <p>The uncertainties about the effects of the Combination could have a materially adverse effect on the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.</p> <p>Current OSB Shareholders and former Charter Court Shareholders will own a smaller percentage of OSB if the Combination completes than they currently own in OSB and Charter Court, respectively.</p> <p>Future issues of OSB Shares or the sale of a substantial number of OSB Shares could affect the market price of the New OSB Shares and further dilute the interests of the OSB Shareholders; holders of OSB Shares outside the UK may not be able to exercise pre-emption rights or participate in future equity issues.</p> <p>The value of the New OSB Shares may fluctuate significantly.</p> <p>OSB Shareholders may not receive a return on their investment or may receive a negative return and lose some or all of the capital invested.</p>

<b>Section E – Offer</b>		
<b>Element</b>		
E.1	<p><b>Total net proceeds and estimated total expenses</b></p>	<p>OSB will receive the entire issued ordinary share capital of Charter Court as a result of the Combination.</p> <p>The total costs and expenses relating to the issue of this Prospectus, the Circular and to the negotiation, preparation and implementation of the Combination payable by OSB are estimated to be approximately £15.9 million (including regulatory fees, the listing fees, professional fees and expenses and the costs of printing and distribution of documents, but excluding VAT and stamp duty). In addition, stamp duty of approximately £4.2 million will be paid on the Combination. The amount has been calculated based on the number of Charter Court Shares and the share price of the OSB Shares, each as at the close of business on the Latest Practicable Date.</p>

E.2a	<p><b>Reasons for the offer, use of proceeds, estimated net amount of the proceeds</b></p>	<p>The proposed issue of the New OSB Shares to which this Prospectus relates is being made in connection with the recommended share offer by OSB for the entire issued and to be issued ordinary share capital of Charter Court.</p> <p>There are no proceeds (and, therefore, no estimated net amount of the proceeds) receivable by OSB as a result of the issue of the New OSB Shares.</p> <p>The OSB Board believes the Combination has a strong strategic rationale and is a highly compelling opportunity to:</p> <ul style="list-style-type: none"> <li>• <i>Create a leading specialist lender in the UK with greater scale and resources to deploy on growth opportunities:</i> The Combined Group is expected to have the scale and resources to better compete in an increasingly mature and competitive market to deliver sustainable returns, and have the resources to better access future organic and inorganic opportunities;</li> <li>• <i>Leverage complementary strengths to create a comprehensive and diversified platform across product capabilities, brands and team cultures:</i> The Combined Group is expected to benefit from bringing together the complementary strengths of OSB and Charter Court, across product capabilities and expertise, brands and team cultures, while maintaining a multi-brand model;</li> <li>• <i>Leverage complementary underwriting capabilities to enhance the customer proposition:</i> Through bringing OSB's and Charter Court's credit expertise together, with a best-of-both approach, it is expected that the Combined Group will be able to leverage Charter Court's automation-enabled underwriting approach in conjunction with OSB's bespoke portfolio-based underwriting capabilities and in-house real estate expertise, increasing underwriting efficiency to better serve borrower needs across complementary brands;</li> <li>• <i>Establish a well-balanced, resilient and diversified retail-wholesale funding platform:</i> The funding platform of the Combined Group is expected to benefit from bringing together OSB's retail deposit franchise and Charter Court's online savings deposit platform, and also sophisticated securitisation funding and balance sheet management capabilities;</li> <li>• <i>Maintain two leading, independent distribution platforms to create an enhanced proposition to the broker community:</i> The distribution platforms of the Combined Group will have broader coverage of the specialist mortgage sector through both OSB's and Charter Court's lending brands, enabling the Combined Group to deliver an enhanced and comprehensive range of complementary products with no disruption to the broker distribution platforms;</li> </ul>
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		<ul style="list-style-type: none"> <li>• <i>Maintain operational centres of excellence to drive service levels and platform efficiency:</i> Maintenance of core processes and capabilities on a best-in-class basis across existing locations is expected to drive delivery of cost efficiencies and operational enhancements; and</li> <li>• <i>Realise meaningful cost synergies with further potential benefits:</i> The OSB Board, having reviewed and analysed the potential cost synergies of the Combination, and taking into account the factors they can influence, believes that the Combination will result in £22 million of pre-tax cost synergies on an annual run-rate basis (based on the pro forma results of the Combined Group for the year ended 31 December 2018) by the third anniversary of the completion of the Combination.<sup>1</sup> The OSB Board expects approximately 30 per cent. of these cost synergies to be achieved by the end of the first 12-month period following completion of the Combination, approximately 75 per cent. by the end of the second 12-month period following completion of the Combination and the full run-rate by the third anniversary of completion of the Combination. On this basis, approximately 10 per cent. of the cost synergies are expected to be recognised in the first 12-month period following completion of the Combination approximately 40 per cent. in the second 12-month period following completion of the Combination and approximately 90 per cent. in the 12-month period ending on the third anniversary of completion of the Combination.</li> </ul>
E.3	<b>Terms and conditions of the offer</b>	<p>The Combination is being effected by a court-sanctioned scheme of arrangement of Charter Court and the Scheme Shareholders under Part 26 of the Companies Act 2006. The purpose of the Scheme is to provide for OSB to become the holder of the entire issued and to be issued ordinary share capital of Charter Court.</p> <p>On 14 March 2019, the OSB Board and the Charter Court Board announced that they had agreed the terms of the Combination, which will provide each Scheme Shareholder (other than Restricted Overseas Persons) with 0.8253 New OSB Shares for each Charter Court Share.</p> <p>The Combination is subject to certain terms and conditions that are set out in the Scheme Document, including, among other things:</p> <ul style="list-style-type: none"> <li>• the CMA confirming, in terms reasonably satisfactory to OSB, that the Combination or any matter arising therefrom or related thereto or any part of it will not be subject to a reference under section 33 of the Enterprise Act 2002;</li> <li>• in respect of OSB and each other person required to give a notice under section 178 of FSMA in connection with the Combination, the appropriate regulator(s) of each UK authorised person over which the Combination contemplates an acquisition of or increase in control: (a) giving notice for the</li> </ul>

<sup>1</sup> This statement constitutes a quantified financial benefits statement for the purposes of the City Code.

		<p>purposes of section 189(4)(a) of FSMA that it has determined to approve such acquisition of or increase in control, which (if given on any terms which may reasonably be expected to have an adverse impact on the Wider OSB Group or the Wider Charter Court Group) is on terms satisfactory to OSB (acting reasonably); or (b) being treated, by virtue of section 189(6) of FSMA, as having approved such acquisition of or increase in control;</p> <ul style="list-style-type: none"> <li>• the Charter Court General Meeting and the Court Meeting being held no later than 30 June 2019 or such later date as may be agreed in writing between OSB and Charter Court with the consent of the Panel and the approval of the Court (if such approval is required);</li> <li>• the Scheme being approved by the requisite majority of Charter Court Shareholders at the Court Meeting and the Charter Court Resolutions being passed by the requisite majority of Charter Court Shareholders at the Charter Court General Meeting;</li> <li>• the OSB Resolution being passed by the requisite majority of OSB Shareholders at the OSB General Meeting;</li> <li>• the Scheme being sanctioned by the Court no later than the later of: (a) the 22nd day after the expected date of the Court Sanction Hearing to be set out in the Scheme Document; and (b) 30 days after all the Conditions (other than the Scheme Condition) have been satisfied or waived;</li> <li>• the Scheme becoming effective by the Longstop Date; and</li> <li>• Admission becoming effective.</li> </ul> <p>In respect of Condition 4(B) (as summarised in the section bullet point above), under the terms of the irrevocable undertaking provided by Elliott in favour of OSB, Elliott has unconditionally undertaken to take (and to procure that all persons that are required to give notice under section 178 of FSMA in connection with the Combination by virtue of, or as a result of, any decision by Elliott to acquire or increase its interest in the New OSB Shares take) all reasonable steps to satisfy the Change in Control Condition in respect of its and any member of its group's proposed interest in the New OSB Shares as contemplated by the Combination. OSB has agreed not to waive the Change in Control Condition in respect of Elliott (if such Condition is applicable to Elliott) until the Change in Control Condition has been satisfied in respect of Elliott.</p>
E.4	<b>Material interests</b>	<p>Immediately following Admission, the following persons will be interested directly or indirectly in 3 per cent. or more of the voting rights in respect of the issued ordinary share capital of OSB, based on the assumptions that: (i) the holdings of such persons in OSB or Charter Court (as notified to OSB or Charter Court in accordance with DTR 5 and Rule 8 of the City Code) as at the Latest</p>

		<p>Practicable Date do not change; (ii) up to 202,165,502 New OSB Shares are issued in connection with the Combination; and (iii) no other issues of OSB Shares occur between the date of this Prospectus and completion of the Combination:</p> <table border="1"> <thead> <tr> <th></th> <th style="text-align: right;"><b>Number of OSB Shares immediately following Admission</b></th> <th style="text-align: right;"><b>Percentage of OSB Shares immediately following Admission</b></th> </tr> </thead> <tbody> <tr> <td>Merian Global Investors (UK) Limited</td> <td style="text-align: right;">73,954,046</td> <td style="text-align: right;">16.5%</td> </tr> <tr> <td>Elliott Capital Advisors, L.P.</td> <td style="text-align: right;">62,484,574</td> <td style="text-align: right;">14.0%</td> </tr> <tr> <td>JP Morgan Asset Management</td> <td style="text-align: right;">37,381,197</td> <td style="text-align: right;">8.4%</td> </tr> <tr> <td>Aberdeen Standard Life</td> <td style="text-align: right;">19,344,352</td> <td style="text-align: right;">4.3%</td> </tr> </tbody> </table> <p>There are no conflicting interests that are material to the Combination.</p>		<b>Number of OSB Shares immediately following Admission</b>	<b>Percentage of OSB Shares immediately following Admission</b>	Merian Global Investors (UK) Limited	73,954,046	16.5%	Elliott Capital Advisors, L.P.	62,484,574	14.0%	JP Morgan Asset Management	37,381,197	8.4%	Aberdeen Standard Life	19,344,352	4.3%
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Aberdeen Standard Life	19,344,352	4.3%															
E.5	<b>Selling shareholders and lock-up arrangements</b>	<p>The New OSB Shares will be newly issued in connection with the Combination. There will be no selling shareholders. There are no lock-up arrangements.</p> <p>OSB has received irrevocable undertakings from the Charter Court Directors who hold Charter Court Shares and Elliott to vote in favour of the Scheme at the Court Meeting and the Charter Court Resolutions at the Charter Court General Meeting in respect of a total of 79,223,469 Charter Court Shares representing, in aggregate, approximately 33.10 per cent. of the ordinary issued share capital of Charter Court as at the Latest Practicable Date. In addition, OSB has received a letter of intent from Merian to vote in favour of the Scheme at the Court Meeting and the Charter Court Resolutions to be proposed at the Charter Court General Meeting in respect of a total of 34,843,451 Charter Court Shares representing, in aggregate approximately 14.56 per cent. of Charter Court's issued share capital as at the Latest Practicable Date.</p> <p>Charter Court has received irrevocable undertakings from the OSB Directors who hold OSB Shares to vote in favour of the OSB Resolution at the OSB General Meeting in respect of a total of 1,203,775 OSB Shares representing, in aggregate, approximately 0.49 per cent. of the ordinary issued share capital of OSB as at the Latest Practicable Date. Charter Court has also received a letter of intent from Merian to vote in favour of the OSB Resolution to be proposed at the OSB General Meeting in respect of a total of 28,755,206 OSB Shares representing, in aggregate, approximately 11.73 per cent. of OSB's issued share capital as at the Latest Practicable Date.</p>															
E.6	<b>Dilution</b>	<p>The issue of the New OSB Shares will result in OSB's issued ordinary share capital increasing by approximately 82 per cent. Immediately following completion of the Combination, Charter Court Shareholders will own approximately 45 per cent. of the share capital of the Combined Group (based on the existing ordinary issued share capital of OSB and the fully diluted share capital of Charter Court).</p>															
E.7	<b>Estimated expenses charged to investor</b>	<p>Not applicable. There are no commissions, fees or expenses to be charged to investors by OSB in relation to the issue of the New OSB Shares.</p>															



## PART II

### RISK FACTORS

*Any investment in, or holding of, the New OSB Shares is subject to a number of risks. Prospective investors in the New OSB Shares should consider the factors and the risks associated with any investment in the New OSB Shares, the business of the OSB Group, the business of the Charter Court Group and the Combined Group and the industry in which they operate or, in the case of the Combined Group, will operate, together with all other information contained in this Prospectus including, in particular, the risk factors described below. Due to the fact that a significant part of the OSB Group's and the Charter Court Group's operations are similar in nature, some of the risks set out below (not including those specific to the Combination) will not be new risks which arise only on completion of the Combination but will be existing material risks the potential impact of which may be increased as a result of the Combination. Therefore, although this Part II describes discretely material risk factors affecting the OSB Group and the Charter Court Group, the risks described will, following completion of the Combination, be equally relevant to, and will be material risks for, the Combined Group.*

*Prospective investors should note that the risks summarised in Part I (Summary) are the risks that the Current OSB Directors and the Proposed OSB Directors believe to be the most essential to an assessment by a prospective investor of whether to invest in the New OSB Shares. However, as the risks which the OSB Group and the Charter Court Group face and, if the Combination completes, the Combined Group will face relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in Part I (Summary) but also, among other things, the risks and uncertainties described below.*

*The following is not an exhaustive list or explanation of all the risks that may affect the OSB Shares, the OSB Group, the Charter Court Group and the Combined Group and should be used as guidance only. Additional risks and uncertainties relating to the OSB Shares, the OSB Group, the Charter Court Group and the Combined Group that are not currently known to the Current OSB Directors and the Proposed OSB Directors, or that the Current OSB Directors and the Proposed OSB Directors currently deem immaterial, may, individually or cumulatively, also have a material adverse effect on the business, results of operations, financial condition and/or prospects of the OSB Group, the Charter Court Group and the Combined Group, and, if any such risk should materialise, the price of the OSB Shares may decline and investors could lose all or part of their investment.*

*The order in which the following risk factors are presented is not necessarily an indication of the likelihood of the risks actually materialising, of the relative magnitude or significance of their potential adverse effect or of the scope of any potential harm to the OSB Group's, the Charter Court Group's and/or the Combined Group's business, results of operations, financial condition and/or prospects or the market price of the OSB Shares.*

*Prospective investors should carefully consider whether an investment in the New OSB Shares is suitable for them in the light of the information in this Prospectus and their personal circumstances.*

## **PART A: RISKS RELATING TO THE OSB GROUP AND/OR THE CHARTER COURT GROUP AND, IF THE COMBINATION COMPLETES, THE COMBINED GROUP**

### **1.1 The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group have been and will continue to be affected by general economic conditions in the UK and globally, and adverse developments in the UK and global financial markets could have a detrimental effect on their earnings and profitability.**

The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group are directly and indirectly affected by general economic conditions in the UK and other economies and the state of the global financial markets both generally and as they specifically affect financial institutions. In particular, levels of retail and SME borrowing are heavily dependent on consumer confidence, the UK property and mortgage market, employment trends, the level of inflation, market interest rates and the broader state of the UK economy.

The evolution of the geo-political environment can also be expected to have a material effect on business performance with ongoing uncertainties around the potential effects of the UK's withdrawal from the European Union (for further information, see paragraph 1.10 of this Part II) and the potential for future legislative change which may, directly or indirectly, impact on the UK property and mortgage market. The above will affect the future performance of the UK economy and subsequently the banking industry. The extent to which any or a combination of these events will have an effect on the performance of the economy will evolve over the medium term.

As customers of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group will be predominantly based in the UK, they will be significantly exposed to the condition of the UK economy. In particular, factors such as UK property prices, levels of employment, interest rates and changes in consumers' disposable income can each have a material effect on their business. Should macroeconomic conditions in the UK deteriorate or should there be uncertainty and/or volatility in relation to these factors, this could adversely affect the business, results of operations, financial condition and prospects of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

In addition, changes in global economic conditions or circumstances (in particular in the Eurozone) may have secondary consequences that adversely affect the results of operations and financial condition of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group. For example, central banks around the world have made efforts to increase liquidity in the financial markets, by taking measures such as increasing the amounts they lend directly to financial institutions and lowering interest rates. However, it is not certain how long or on what terms these central bank schemes will continue.

In addition, volatility in credit, currency and equity markets globally may result in uncertainty that could affect all banks, including the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group. Market volatility during the global financial crisis led to, and may in the future lead to, the following (among other factors):

- increased cost of funding and/or reduced availability of funding;
- deterioration in the value and liquidity of assets (including collateral);
- inability to price or difficulty in pricing certain assets;
- higher provisions for bad and doubtful debts;
- an increased likelihood of customer and counterparty default and credit losses;
- mark-to-market losses in the value of assets and liabilities;
- economic exposures from hedging activities and inability to hedge;
- increased cost of insurance and/or lack of available insurance;
- lower growth, business revenues and earnings; and
- legislative change.

The historical results of operations and financial condition of the OSB Group and the Charter Court Group have been, and, if the Combination completes, the Combined Group's future results of operations and financial condition are likely to continue to be, affected by these factors, which should they have a material adverse effect on consumer confidence, spending or demand for credit, could have a material adverse effect on the business, capital position, financial condition, results of operations and prospects of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

**1.2 The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group will be subject to risks related to increases and decreases in UK property prices and rents, and risks resulting from such increases and decreases (such as customer default or recoveries).**

The primary activity of the OSB Group and the Charter Court Group is, and if the Combination completes the Combined Group will be, to provide mortgages to retail customers and to SMEs in the UK secured against property. The value of that security is influenced by UK property prices. A substantial proportion of the net income of the OSB Group and the Charter Court Group is, and if the Combination completes the Combined Group will be, derived from interest paid on their mortgage portfolio. Any deterioration in the quality of the mortgage portfolio of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group could have a material adverse effect on their business, financial condition, results of operations and prospects.

Historically, downturns in the UK economy have had a negative effect on the UK property market. A fall in property prices could result in borrowers having insufficient equity to refinance their mortgage loans or being unable to sell the mortgaged property at a price sufficient to repay the amounts outstanding on the mortgage loan, which could lead to an increase in customer defaults and recoveries against customers. Increased defaults and recoveries could lead to higher impairment provisions and losses being incurred by the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group. Higher impairment provisions could reduce their capital and their ability to engage in lending and other income-generating activities as well as result in increased capital requirements. As a result, a decline in property prices could have a material adverse effect on the business, financial condition, results of operations and prospects of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group. Furthermore, a fall in property prices could impact the capital requirements of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

In addition, a significant increase in property prices could have a negative effect on the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group by reducing the affordability of property and, if such increases were to result in a decrease in the number of customers that could afford to purchase such property, a reduction in demand for new mortgages. Sustained volatility in UK property prices could also discourage potential buyers from committing to a purchase, thereby limiting the ability of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to increase their mortgage portfolio in the UK.

The UK Government's intervention into the property market over past years, both directly through its "Help to Buy" programme and indirectly through the provision of liquidity to the banking sector under FLS and TFS (which have decreased borrowing costs), have increased the number of property transactions by owner-occupiers and restricted the growth of the buy-to-let sector. While it is not possible to confirm a direct link between the FLS and/or TFS, bank lending and mortgage rates, the rates offered by UK banks fell following the introduction of the FLS, which ran until February 2018 and the closure of the FLS may affect lending and therefore property prices. Similarly, as the TFS reaches its final maturity in 2022, UK banks will have to replace these funds from other sources that may be at a higher cost that could lead to lower lending and/or higher mortgage interest rates, which could also contribute to volatility in property prices. This could occur, for example, as a result of the termination of the "Help to Buy" programme, which could lead to a decrease in property prices, or due to the continuation of the "Help to Buy" programme, which could lead to increases in property prices and a resultant "bubble" in the property market. In addition, new rules promulgated by the FCA following the Mortgage Market Review that came into force in April 2014, and amended the existing rules on mortgage lending with changes

centred on responsible lending, including increased verification of income, assessment of affordability, interest rate stress tests, and assessments of future changes of borrowers' income, which together could make it more difficult for customers to borrow and therefore reduce demand for mortgages.

Borrowers of buy-to-let mortgages have benefited in recent years from a combination of low interest rates, rising property prices and increasing rents. First-time buyers have struggled to raise the required deposit to allow them to purchase their own homes. If rental rates were to decrease or remain stagnant, interest rates were to increase, further tax changes were to reduce the post-tax return on buy-to-let investments and/or the economy were to weaken and place pressure on employment, consumer incomes and/or property prices, the credit performance of the buy-to-let mortgage book of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group could deteriorate, which in turn could have a material adverse effect on the business, financial condition, results of operations and prospects of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

The future effect of these changes on the UK property market and other legislative or regulatory changes is difficult to predict and plan for. See paragraph 1.6 of this Part II for more information on the risks associated with changes to the policies of the UK Government.

**1.3 Rising interest rates could result in increased loan losses, which could adversely affect the financial and operational performance of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group. Moreover, provisions in place in the event of the discontinuation of LIBOR may not operate as intended or effectively mitigate interest rate risk.**

Rising interest rates would put pressure on existing and new borrowers whose loans are linked to the Bank of England Base Rate or LIBOR or borrowers who come to the end of an incentive period in an environment of higher market rates and who may have become accustomed to the current low interest rate environment.

Accordingly, borrowers with a loan that is subject to a variable rate of interest or where the interest rate adjusts following an initial fixed rate or low introductory rate are exposed to increased monthly payments as and when their mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). In an increasing interest rate environment, borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates and this could lead to an increase in arrears in the portfolios of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group as well as an increase in their respective impairment charges.

If rising interest rates cause borrowers to be unable to repay their mortgage loans, that could ultimately lead to a correction in property prices and higher retail loan losses. Other factors could cause property prices to fall in the regions where the OSB Group and the Charter Court Group are active and, if the Combination completes, the Combined Group will be active.

Through the financial crisis, many borrowers have benefited from a combination of low interest rates, stable or growing property prices and rising rents as first time buyers have struggled to raise the required deposit to allow them to purchase their own homes. If interest rates were to rise, the credit performance of the portfolios of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group, may deteriorate and loan loss provisions and capital requirements may increase, which in turn could adversely affect their financial and operational performance.

In addition, the FCA has announced that LIBOR will be discontinued after 2021. If LIBOR is discontinued or otherwise unavailable, then the rate of interest on material contracts (including material financial arrangements) entered into by the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may be determined for a period by applicable fall-back provisions under the relevant documentation. Such applicable fall-back provisions may not operate as intended or effectively mitigate interest rate risk. Moreover, in the absence of any such fall-back provisions under the relevant documentation, the rate of interest on material

contracts entered into by the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may be determined for a period by reference to a rate of interest to be agreed between the relevant parties. Such rate of interest may take time to agree and, once agreed, may not operate as intended or effectively mitigate interest rate risk.

**1.4 The businesses of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group are subject to inherent risks concerning liquidity, particularly if the availability of traditional sources of funding such as retail savings or their access to wholesale funding markets becomes limited and/or becomes more expensive.**

Financial institutions such as the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group are subject to liquidity risk as an inherent part of their business. Liquidity risk is the risk of having insufficient funds to fulfil obligations as they become due or liquidity becoming constrained because the cost of raising funds becomes relatively uneconomic or funding becomes unavailable. Liquidity and funding risks arise through the maturity transformation (that is, the practice of borrowing money on shorter timeframes than money is lent out) role that the OSB Group and the Charter Court Group perform and, if the Combination completes, the Combined Group will perform, and are dependent on factors such as maturity profile, composition of sources and uses of funding and the quality and size of the liquidity portfolio. Broader market factors, such as wholesale market conditions and depositor and investor behaviour, are also contributing factors. If access to liquidity should become constrained for UK financial institutions for a prolonged time, the cost of funding for the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may increase as competition for retail savings would likely intensify and/or the cost of accessing the wholesale markets may increase or wholesale market funding may otherwise be unattractive or unavailable.

Retail deposits are and will be the primary source of funding for the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group. If the Combination completes, the Combined Group will have a greater exposure in absolute terms to the availability of retail savings as a source of funding than the OSB Group and the Charter Court Group have separately. The ongoing availability of retail savings funding is dependent on a variety of factors outside the control of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group, such as general economic conditions, deposit pricing competition, market volatility, competition for deposit accounts from other banks or financial services providers, the existence of attractive alternative savings possibilities, the availability and extent of deposit guarantees and the confidence of retail savers in the UK banking system and in the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group in particular. These factors, alone or in combination, could lead to a reduction in the ability of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to access retail savings funding in the future. Additionally, there is potential for pricing mismatch given that certain of the retail savings products offered by the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group reprice more quickly than mortgage loans in the event of interest rate changes, which may lead to temporary pressure on profitability (through net interest margin compression) until the mismatch is resolved.

The competition for retail savings deposits, particularly among the specialist banks operating in the markets that the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group operate are and will continue to be intense. The OSB Group and the Charter Court Group are, and, if the Combination completes, the Combined Group will be, exposed to any serious loss of confidence by retail savers, which could result in a decline in new customers depositing savings with the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group or in withdrawals of deposits/savings when these reach the end of either the fixed term or notice period for the relevant product.

Any inability to predict with reasonable accuracy and to manage inflows and outflows of savings deposits may also affect the ability of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to originate new mortgage lending or to do so at consistent levels of profitability during periods where other sources of funding are unavailable or are economically unattractive.



In addition to their retail savings funding base, the OSB Group and, to a greater extent, the Charter Court Group have from time to time sourced wholesale funding and expect to continue to seek access to wholesale funding markets on an opportunistic basis in the future. The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group maintain and will maintain a range of funding programmes. The availability of wholesale funding depends on a variety of factors including central bank activity, market conditions, the general availability of credit (in particular to the financial services industry), the volume of trading activities, the markets' assessment of the credit strength of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group and the quality of its mortgage portfolios and the credit rating attributed to relevant debt securities. The availability of funding through securitisation transactions is dependent on market sentiment and general liquidity and such funding may not be available at attractive spreads, or at all, for extended periods. These and other factors may limit the ability of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to raise funding in wholesale markets, which could result in an increase in the cost of funding or have other material adverse effects on the business, financial performance or future prospects of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

Additionally, in the UK, Europe, the US and elsewhere, there is increased political and regulatory scrutiny of the asset-backed securities industry. This has resulted in several proposals for increased regulation, which are currently at various stages of implementation and that may have a material adverse effect on the regulatory position for certain investors in securitisation exposures and/or on the incentives for certain investors to hold asset-backed securities, and may thereby affect the liquidity of such securities. Among other things, certain of such new requirements have the effect of restricting a relevant investor from investing in asset-backed securities unless: (i) that investor is able to demonstrate that it has undertaken certain due diligence in respect of various matters; and (ii) the originator, sponsor or original lender in respect of the relevant securitisation has explicitly disclosed to the investor that it will retain, on an ongoing basis, a net economic interest of not less than 5 per cent. in respect of certain specified credit risk tranches or asset exposures. Failure to comply with one or more of the requirements may result in various penalties including, in the case of those investors subject to regulatory capital requirements, the imposition of a penal capital charge on the notes acquired by the relevant investor. Aspects of such new requirements, if adopted, and what is or will be required to demonstrate compliance to national regulators, remain unclear. Any changes that affect the appetite of investors to invest in securities issued pursuant to asset-backed and securitisation transactions may adversely affect the ability of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to raise funding via securitisation transactions at an attractive price, or at all, and changes in risk retention requirements may prejudice the ability of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to achieve derecognition of mortgage assets.

The availability of retail savings and wholesale funding may also be affected by other factors that constrain the volume of liquidity in the market, including, but not limited to, the closure of the drawdown window of the FLS in January 2018 and the closure of the drawdown window of the TFS in February 2018. Once these schemes have been phased out, the Bank of England may not replace them at all or may not replace them with programmes that are equally attractive and based on similar terms as to eligibility for access and the Bank of England may also impose differing qualifying assets tests and encumbrance limits on any such replacement programme(s).

Extreme market disruptions, such as the severe dislocation experienced in the funding and credit markets following the onset of the global financial crisis in late 2007 and early 2008, could result in a prolonged and severe restriction on the access of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to liquidity (including to government and central bank funding and liquidity support) and a prolonged and severe decline in consumer confidence, which results in high levels of withdrawals by retail savings customers, which could affect the ability of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to meet their financial obligations as they fall due, to meet their regulatory minimum liquidity requirements, or to fulfil their commitments to lend. In such extreme circumstances, the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may not in the longer term be in a position to continue to operate without



additional funding support and any inability to access such support could have a material effect on the solvency of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

**1.5 The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may be subject to privacy or data protection failures, cybercrime and fraudulent activity.**

The OSB Group and the Charter Court Group are and, if the Combination completes, the Combined Group will be subject to regulation regarding the use of personal customer data. The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group process personal customer data (including name, address and bank details) as part of their businesses and therefore must comply with strict data protection and privacy laws in the UK. Such laws restrict the ability of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to collect and use personal information relating to customers and potential customers including the use of that information for marketing purposes. The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group are also at risk from cybercrime, including cyber-theft and fraudulent activity.

The policies and procedures of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group relating to data protection regulations and the prevention of cyber-theft may not be successful in mitigating the risk that data controlled by them could be wrongfully appropriated, lost or disclosed, stolen or processed in breach of data protection laws.

The occurrence of any of these events could also result in the loss of the goodwill of their customers and deter new customers, which could have a material adverse effect on the business, financial condition and results of operations of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group. The risk for the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may be increased through recent changes in data protection law through the coming into force of the GDPR. The GDPR has increased compliance requirements and includes significant financial penalties of up to 4 per cent. of the annual worldwide turnover of company groups in the event of a breach. The GDPR has increased the regulatory burden on the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group in processing personal customer, employee and other data in the conduct of their businesses and to increase the potential sanctions available in the event of a breach.

Enforcement of data privacy legislation has become increasingly frequent and could result in the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group being subjected to claims from their customers that they have infringed their privacy rights, and they could face administrative proceedings (including criminal proceedings) initiated by the ICO or other regulators in the UK. In addition, any enquiries made, or proceedings initiated, by individuals or regulators may lead to negative publicity and potential liability for the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group could also be the target of cybercrime and other fraudulent activity, including ransomware attacks, viruses, malicious software, break-ins, phishing attacks and other forms of attack by cybercriminals. Such attacks may jeopardise the security of information stored in and transmitted by the systems of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group or that the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group otherwise maintain.

Breaches of the cybersecurity measures of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group could result in any of the following: (i) denial-of-service or other interruptions to the business operations of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group; (ii) unauthorised access to the systems of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group; (iii) unauthorised access to and misappropriation of information or data, including confidential or proprietary information about the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group, third parties with whom the OSB

Group, the Charter Court Group and, if the Combination completes, the Combined Group does business or their customers or proprietary systems; (iv) viruses, worms, spyware or other malware being placed in the systems of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group; and/or (v) the deletion or modification of intermediary or customer information. Because techniques used to obtain unauthorised access to or sabotage systems change frequently and may not be known until launched against the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group or their third party service providers, the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may be unable to anticipate these attacks or to implement adequate preventative measures.

Any actual or perceived breach could significantly disrupt the operations of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group, damage their reputation, expose them to a risk of loss, fine or litigation and possible liability and loss of customers, require them to expend significant capital and other resources to alleviate problems caused by such breaches and could have a material adverse effect on their businesses, results of operations and prospects of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

**1.6 The OSB Group and the Charter Court Group are and, if the Combination completes, the Combined Group will be subject to risks associated with future changes to the policies of the UK Government (in particular, housing policy).**

Future changes to the policies of the UK Government (in particular, housing policy) are difficult to predict, in particular in the current political climate in the UK. They may include, for example, the phasing out of higher and additional rates of tax relief by 2020 used by landlords with buy-to-let mortgages, the introduction of rent controls in the UK, the introduction of an annual property tax on high value homes (also known as the “mansion tax”) or the introduction of stricter lending criteria for mortgages, each of which may result in a decrease in mortgage volumes and therefore the credit performance, of the mortgage books of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group could deteriorate, which in turn could have a material adverse effect on the business, financial condition, results of operations and prospects of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

**1.7 The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group face risks from the highly competitive environment in which they operate.**

The market for financial services in the UK faces many competitive pressures and these pressures are expected to continue in response to competitor behaviour, consumer expectations, changing consumer demographics, technological changes, the effect of increasing market consolidation and new market entrants, regulatory actions and other factors. In particular, the market in which the OSB Group and the Charter Court Group operate and, if the Combination completes, in which the Combined Group will operate, has seen and is expected to see increasing market consolidation. In combination, the results of operations, digital capability, margins and returns of the OSB Group and the Charter Court Group are, and, if the Combination completes, the Combined Group will be, put under increasing pressure through price pressure, reductions in fees and charges, increased marketing and other related expenses, investment demands, regulatory requirements and changes to capital requirements.

The UK banking industry continues to be dominated by the largest banks and building societies with a lack of a material shift in market share to challenger banks and specialist lenders. There is, however, some variation between each of the largest banks and building societies with some increasing and others decreasing their market shares as they manage balance sheet growth in the context of their wider strategic agendas.

As the financial services markets in which the OSB Group and the Charter Court Group operate, and, if the Combination completes, the Combined Group will operate, are generally mature, growth by any bank typically requires winning market share from competitors.

The OSB Group and the Charter Court Group face and, if the Combination completes, the Combined Group will face competition from established financial services providers as well as new market entrants, including “challenger banks” and “neo banks” with specific areas of market focus, and non-bank competitors that, in some cases, have lower cost operating models and are therefore capable of generating better returns from asset growth. Competition in the UK mortgage market including from challenger banks seeking scale and growth over a short time is continuing to create downward price pressure on mortgage and other lending rates. The pressure has increased following the introduction of ring-fencing legislation in the UK, with some ring-fenced competitor banks deploying excess liquidity in the broker mortgage market.

Further intervention in the UK banking industry is anticipated from regulators and authorities who are increasingly focusing on competition and market effectiveness. PSD2 regulation has been implemented from January 2018, to further open up the competitive landscape in addition to enhanced protection for consumers. This creates an increased risk for traditional financial services firms and a specific material risk (of disintermediation by third parties) for the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

As technology evolves and customer needs and preferences change, there is an increased risk of disruptive innovation or a failure by the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to introduce new products and services to keep pace with industry developments and to meet customer expectations. They are also subject to the risk of not appropriately responding to increased threats of cybercrime associated with digital expansion and the industry-wide risk of traditional banking information technology infrastructure and digital technologies becoming obsolete. The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group expect to increasingly collaborate with innovative market players to develop compelling and secure customer propositions and to enhance operational performance; however, the financial and operational performance of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may be materially adversely affected by an inability to keep pace with industry trends and customer expectations.

In seeking to price products competitively to attract and retain new customers, the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group must consider capital requirements and the overall credit quality of proposed loans and advances. The amount of capital required is based on the risk weighting of the asset in question.

**1.8 The OSB Group and the Charter Court Group are, and, if the Combination completes, the Combined Group will be, subject to risks associated with compliance with a wide range of laws and regulations.**

The operations of the OSB Group and the Charter Court Group are, and, if the Combination completes, the operations of the Combined Group will be, heavily regulated and they must comply with numerous laws and regulations and may face enforcement action from regulators and others for any failure to comply. Regulatory compliance risk arises from a potential failure or inability to comply fully with the laws, regulations and codes applicable to the financial services industry. For example, UK financial institutions, including the OSB Group and the Charter Court Group are, and, if the Combination completes, the Combined Group, will be, subject to a high level of scrutiny by regulatory bodies (including the Bank of England, the FCA, the PRA, the Payment Systems Regulator, the CMA, the Pensions Regulator and the ICO regarding the treatment of customers and also by the press and politicians). Financial institutions and their employees have also been subject to customer complaints and regulatory investigation and/or enforcement action regarding mis-selling of financial products, adequacy of systems and controls, handling of customers in arrears and conduct leading to customer detriment and the mishandling of related complaints, which has resulted in disciplinary action and/or requirements to amend sales processes, withdraw products and/or provide restitution to affected customers, all of which result in costs and may require provisions in addition to those already taken.

Regulatory enforcement actions pose and will pose a number of risks to the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group, including substantial monetary damages or fines, the amounts of which are difficult to predict and may exceed the amount of provisions set aside to cover such risks. In addition, the OSB Group, the

Charter Court Group and, if the Combination completes, the Combined Group and/or their employees may be subject to other penalties and injunctive relief, civil or private litigation arising out of the same subject matters as a regulatory investigation, the potential for criminal prosecution in certain circumstances and regulatory restrictions. All of these issues could have a negative effect on the reputation and the confidence of the customers of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group, as well as taking a significant amount of management time and resources away from the execution of strategy and the operation of the businesses of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group, and could potentially affect the ability of the OSB Group, the Charter Court Group, and, if the Combination completes, the Combined Group, to carry on business in the manner envisaged.

The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may settle litigation or regulatory proceedings before a final judgment or determination of liability to avoid the cost, diversion of management time and effort or negative business, regulatory or reputational consequences of continuing to contest liability or when the potential consequences of failing to prevail would be disproportionate to the costs of settlement. Furthermore, the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may, for similar reasons, reimburse customers or counterparties for their losses even in situations where there are no litigation proceedings and the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group do not believe that they are legally compelled to do so. Failure to manage these risks adequately could have a material adverse effect on the reputation, business, results of operations, financial condition and prospects of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

In addition, the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group will be subject to risks associated with compliance with future laws and regulations. For example, the requirement for remuneration committees to review directors' remuneration in light of the pay and benefits available to the general workforce under the new UK corporate governance code and the introduction of further Basel III reforms including reforms relating to the standardised and internal ratings based approaches for credit risk and a revised output floor. The OSB Group, the Charter Court Group and, if the Combination completes, the Combination may not be able to definitively predict the impact of such changes (including, without limitation, the practical implementation of such changes by the courts and/or regulatory authorities), but compliance with future laws and regulations could have a material adverse effect on the reputation, business, results of operations, financial condition and prospects of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

#### **1.9 The OSB Group and the Charter Court Group are, and, if the Combination completes, the Combined Group will be, subject to prudential regulatory capital and liquidity requirements.**

The prudential regulatory capital and liquidity requirements applicable to banks and the scrutiny with which the same are measured, monitored and controlled have increased significantly since 2007, largely in response to the financial crisis but also as a result of continuing work undertaken by regulatory bodies in the financial sector. The prudential requirements to which the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group are and will be subject to are likely to increase further in the short term and it is likely that further regulatory changes will be implemented in this area.

The prudential regulatory capital and liquidity requirements to which the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group are subject are primarily set out in CRD IV. In addition, the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group are and will be subject to additional requirements imposed by the PRA.

CRD IV requirements are based on complex regulations which are capable of misinterpretation. Moreover, CRD IV requirements adopted in the United Kingdom, or the way in which those requirements are interpreted or applied may change, including as a result of changes to regulatory or implementing technical standards or guidance to be developed by the European



Banking Authority, changes to the way in which the PRA interprets and applies these requirements to UK banks, further changes to CRD IV agreed by the EU and as a result of changes in UK Government policy following the planned exit of the UK from the EU. Similarly, there may be changes to national prudential requirements that apply to banks. These changes, either individually or in aggregate, may lead to further unexpected enhanced prudential requirements in relation to the capital, leverage, liquidity and funding ratios and requirements of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group. Certain of these prudential requirements take into account, among other factors, macroeconomic indicators and may increase if such indicators change.

The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group will be required to conduct an ICAAP. The key output of the ICAAP is a document which considers the risks faced by the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group and the adequacy of internal controls in place, ascertains the level of regulatory capital that should be held to cover these risks and performs stress testing on both regulatory capital and liquidity under severe downside scenarios. The ICAAP must be approved by the Boards of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group and will be considered by the PRA in setting the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group's respective total capital requirements.

The capital adequacy assessment is required to comply with CRD IV. In addition, the PRA has issued various policy statements and guidance to which the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group will have to adhere. In December 2017 the BCBS agreed to further Basel III reforms, including reforms relating to the standardised and internal ratings based approaches for credit risk, and a revised output floor. The BCBS expects member countries to implement these 2017 reforms – sometimes referred to as “Basel IV” – by 1 January 2022 (with the exception of those relating to the output floor, which will be phased in from 1 January 2022). Please see paragraph 1.12 of this Part II for more information on the internal ratings based approaches of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

Proposals and initiatives by the BCBS may result in the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group being required to hold additional capital (which may be additional to the sum of the capital required to be held by the OSB Group and the Charter Court Group on a standalone basis) which, in turn, could materially adversely affect the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group's access to liquidity and funding costs, and its compliance costs, and delay, limit or restrict the execution of its strategy, and/or have a material adverse effect on the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group's business, financial condition, operational results and/or prospects.

In April 2016, the BCBS issued standards for interest rate risk in the banking book (“**IRRBB**”) which include: (i) more extensive guidance on the expectations for a bank's IRRBB management process in areas such as the development of interest rate shock scenarios, as well as key behavioural and modelling assumptions to be considered by banks in their measurement of IRRBB; (ii) enhanced disclosure requirements (including quantitative disclosure requirements based on common interest rate shock scenarios); (iii) an updated standardised framework; and (iv) a stricter threshold for identifying outlier banks. Banks were expected to implement the standards by 31 December 2018. In December 2017, the BCBS issued its finalised revisions to the standardised approach for measuring operational risk capital which will be used by the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group. The revised approach, which factors in historical operational risk losses as well as business indicator measures, is due to take effect from 1 January 2022.

Each of the OSB Group and the Charter Court Group set and, if the Combination completes, the Combined Group will set, their internal target amount of capital and liquidity based on PRA guidance and following an assessment of its risk profile, market expectations and regulatory requirements in relation to both capital and liquidity. The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may experience a depletion of capital resources through increased costs or liabilities incurred as a result of the crystallisation of any of

the other risks described elsewhere in this Part II. If market expectations as to capital levels increase, driven by, for example, the capital levels or targets among other banks or if new or amended legal or regulatory requirements are introduced, the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may experience pressure to increase capital ratios. An analogous risk applies in relation to liquidity.

The OSB Group and the Charter Court Group are, and if the Combination completes, the Combined Group will be, required to maintain certain capital ratios by applicable law, regulation and guidance. These capital ratios express the ratio between required capital resources and risk-weighted assets. Certain events are likely to affect the OSB Group's and the Charter Court Group's, and if the Combination completes, the Combined Group's capital ratios in differing ways. For example, CET1 capital is likely to be affected by losses, increased costs or liabilities, write-downs and impairments or accounting charges, and the manner in which risk-weighted assets are calculated may be affected by changes to applicable law and regulation. It is also possible that the capital ratio that banks are required to maintain may itself change as a result of changes in regulation that impose requirements for higher levels and quality of capital to be held. Additionally, as the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group expand their operations and balance sheets, their capital requirements are subject to increase.

If the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group were to fail to meet their minimum regulatory capital or liquidity requirements, each may be subject to regulatory actions or sanctions and may be required to raise additional capital or liquidity (as applicable), may need to implement management actions to enhance their capital or liquidity position (as applicable) and in an extreme adverse scenario may be required to implement their recovery plan or be resolved by the Bank of England (as the UK resolution authority).

The ability of the OSB Group, the Charter Court Group, and if the Combination completes, the Combined Group to do business will be constrained to the extent that they do not maintain sufficient levels of capital. Moreover, if the Combined Group were to maintain excess liquidity, or if the levels of liquidity it would be required to maintain were to increase significantly because of regulatory changes, this could reduce its overall profitability.

In addition, a shortage of capital or liquidity that arises in the longer term could affect the ability of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to pay liabilities as they fall due, pay future dividends and distributions, and could affect the implementation of their business strategy, affecting future growth potential. If, in response to any such capital shortage or to satisfy such future capital requirements, the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group raise additional capital through the issuance of share capital or other capital instruments, existing shareholders may experience a dilution of their holdings or reduced profitability and returns. Any inability of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to maintain their regulatory capital or liquidity requirements, or any legislative changes that limit the ability of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to manage its capital or liquidity effectively may have a material adverse effect on the business, prospects, financial condition and results of operations of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

#### **1.10 The OSB Group and the Charter Court Group are and, if the Combination completes, the Combined Group will be subject to risks in relation to the UK's vote to leave the EU.**

On 23 June 2016, the UK held a referendum in which a majority of those voting voted in favour of Brexit. On 29 March 2017, the UK Government exercised its right under Article 50 of the Treaty on the EU to leave the EU.

The withdrawal of the UK from the EU was scheduled to take place on 29 March 2019 but, provided the UK holds the elections to the European Parliament, this has been extended to 31 October with the agreement of the EU after UK MPs rejected the proposed Withdrawal Agreement between the UK and the EU. If the UK fails to hold the elections to the European Parliament, the UK will leave on 1 June 2019.



As at the date of this Prospectus, it remains unclear whether the UK will leave the EU and, if it does, under what terms it will leave (including whether it will be under the terms of the proposed Withdrawal Agreement or with no terms on a “no-deal Brexit”).

In addition to the economic and market uncertainty this brings, there are a number of other potential risks that may arise as a result of Brexit. If any of these risks materialise, they could have a material adverse effect on the business, prospects or results of operations of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

#### ***Political uncertainty***

The UK has entered into a period of political uncertainty. This could lead to a high degree of economic and market disruption, and legal uncertainty. It is not possible to ascertain how long this period will last and the effect it will have on the UK in general. Neither OSB nor Charter Court nor, if the Combination completes, the Combined Group can predict when or if political stability will return.

#### ***Legal and regulatory uncertainty***

A significant proportion of current and anticipated English law and regulations currently derive from, or are designed to operate in concert with, EU law. This is especially true of English law relating to financial markets, financial services, prudential and conduct regulation of financial institutions, bank recovery and resolution, payment services and systems, settlement finality, market infrastructure and mortgage and consumer credit regulation. Depending on the timing and terms of Brexit, significant changes to English law in areas relevant to the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may be expected. Neither OSB nor Charter Court nor, if the Combination completes, the Combined Group can predict what any such changes will be. This could increase uncertainty and compliance costs for the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

#### ***Market uncertainty***

Since the decision by the UK electorate to leave the EU, there has been volatility and disruption of the capital, currency and credit markets, including the market for debt and equity securities. There has also been volatility and disruption in the UK property market.

In addition, there has been an impact on consumer confidence, spending and demand for credit, which could have a material adverse effect on the business, capital position, financial condition, results of operations and prospects of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

### **1.11 If the Combination completes, the Combined Group is expected to be subject to MREL requirements, the full quantum, cost and timing of which is uncertain.**

With the implementation of the BRRD in the UK, UK banks are required to meet at all times minimum requirements for own funds and eligible liabilities (“**MREL**”). There is no common level of MREL applicable to all or a category of institutions; it is an institution-specific requirement. The relevant resolution authority (which will be the Bank of England for the Combined Group) is required to make a separate determination on a case-by-case basis of the appropriate MREL requirement for each resolution group within its jurisdiction, taking into account certain specified criteria, including the resolvability, resolution strategy, risk profile, systemic importance and other characteristics of each institution (such as its business and funding models), after consultation with the relevant supervisory authorities (which will be the PRA and the FCA for the Combined Group). These rules are designed to ensure relevant institutions have sufficient loss absorbing capacity to ensure continuity of critical functions without making recourse to public funds and to facilitate the use of the bail-in tool in a resolution scenario.

The Bank of England sets MREL for all UK banks and MREL must be set on both an individual bank and group consolidated basis. Generally, for smaller banks that would be subject to modified insolvency if they failed, the MREL requirement can be met by achievement of their minimum regulatory capital requirements as a going concern, while larger banks with a resolution

strategy involving the use of bail-in or partial transfer tools are required to hold additional resources. The Bank of England may also set MREL for other relevant entities in a resolution group. Resolution authorities are permitted to determine an appropriate transition period for achievement of any MREL requirement; this should be as short as possible. MREL is set annually on a case-by-case basis by the Bank of England and the deadline for existing UK bail-in resolution entities to meet their end-state MREL requirement is currently 1 January 2022, subject to review by the end of 2020. The Bank of England is also setting certain interim MREL requirements for such entities as part of their progress towards the end-state MREL requirements.

The Combination is expected to result in the Combined Group being subject to the Bank of England's MREL requirements for bail-in resolution entities as a result of the size of the Combined Group's balance sheet. Therefore, the Combination is expected to accelerate the MREL requirements for OSB and Charter Court as while both companies would have become subject to MREL requirements in the medium term, based on their historical growth rates, the Combination is likely to result in those requirements applying earlier than would otherwise have been the case. The Combined Group's MREL requirements will depend on a number of factors, including (but not limited to) changes to OSB and Charter Court and their balance sheets, the preferred resolution strategy applicable to OSB and Charter Court and any change in PRA or international policy that alters the ways risk weighted assets or the exposure measure of the leverage ratio (should it become applicable) are assessed. The transition period for the Combined Group to achieve its end-state MREL requirement is expected to be at least 36 months following completion of the Combination. However, the Combined Group's, interim and end-state MREL requirements and appropriate transitional period to reach its end-state MREL requirement will be determined by the Bank of England and, while OSB intends to confirm its expectations with the Bank of England in due course, there cannot be certainty at this stage about the size or timing of such requirements. The Bank of England has stated that the end-state external MREL requirements for non-systemic UK resolution entities will be the higher of: (i) two times the sum of Pillar 1 and Pillar 2A (i.e.  $2 \times (\text{Pillar 1} + \text{Pillar 2A})$ ); or (ii) if subject to a leverage ratio requirement, two times the applicable requirement (i.e. 6.5 per cent. if the leverage ratio is 3.25 per cent.) and, from 1 January 2020, the same entities will be required to maintain MREL equal to 18 per cent. of risk weighted assets as an interim MREL requirement. The Bank of England has also published average indicative 2020 and 2022 MREL requirements for certain non-systemic UK banks. However, MREL is an institution-specific requirement, the Bank of England is not bound by those indicative requirements and the Bank of England has confirmed that, before the end of 2020, it will be reviewing the calibration of MREL prior to setting end-state MREs, taking into account intervening changes in the UK regulatory framework and institutions' experience in issuing liabilities to meet their interim MREL requirements. Consequently, the MREL requirements for the Combined Group cannot be definitively determined from this information.

The Combined Group intends to undertake a reorganisation to establish a new ultimate holding company for the Combined Group in due course following completion of the Combination, subject to the receipt of the necessary regulatory approvals, to facilitate the issuance of MREL-qualifying debt instruments and compliance with the Combined Group's expected MREL requirement. The Combined Group will also need to confirm and execute its strategy to achieve MREL requirements by the deadlines set by the Bank of England.

The cost of MREL for the Combined Group and the successful execution of its MREL strategy (for example, the issuance of MREL-qualifying debt instruments) will depend on, amongst other things, market conditions over which the Combined Group will not have control.

Consequently, it is difficult to predict the full effect the introduction of interim and end-state MREL requirements may have on the Combined Group until they have been fully implemented. Compliance with MREL may delay, limit or restrict the execution of the Combined Group's strategy and may have a material adverse effect on the Combined Group's capital structure, business, financial condition and results of operations, and may increase compliance costs. MREL is expected to continue to have an impact across the market, and there is a risk that the relative impact may give rise to a reduction in competitiveness of the Combined Group.

Further amendments to the MREL regime are expected as a result of current EU legislative proposals. However, there is no certainty as to whether or when these proposals will be implemented in the UK.

**1.12 The OSB Group and the Charter Court Group intend to seek approval of their internal ratings based approaches to calculate their regulatory capital requirements; failure to achieve such approval could have a material adverse effect on the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's results of operations, financial condition, capital impact and prospects.**

The amount of capital required to be held by the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group is based on the risk weighting of the relevant assets. The methodology to determine the amount of capital required to be held by UK banks is currently based on EU legislation, as applied in the UK, which in turn broadly implements the Basel III capital framework (please see paragraph 1.9 of this Part II for more information on the prudential regulatory capital and liquidity requirements of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group). There are two approaches to calculating the risk weighting attributed to a bank's assets: the "standardised approach", requires that capital be held against exposures based on a prescribed set of risks, according to requirements set in the legislation; and the "internal ratings based approach", which allows banks to develop their own models to quantify required capital for risk (such models must be approved by the PRA).

Both the OSB Group and the Charter Court Group intend to seek approval from the PRA of their internal ratings based approaches for their mortgage portfolios. The impact of receiving approval from the PRA of the OSB Group's and the Charter Court Group's internal ratings based approaches for their mortgage portfolios (including any potential benefit) is uncertain, although the OSB Group and the Charter Court Group believe it could deliver important capital benefits.

Failure of the OSB Group and/or the Charter Court Group to achieve, or a delay to achieving (which may happen for a number of reasons, including as a result of the Combination), approval for any reason may mean that it will be difficult for the OSB Group and/or the Charter Court Group and, if the Combination completes, the Combined Group to compete more effectively, for instance on the pricing of their products, which could have a material adverse effect on the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's results of operations, financial condition, capital impact and prospects.

In addition, although it is not clear as to whether and when they will be implemented in the UK, the potential implementation of new risk weights under the standardised approach is likely to increase the capital requirements of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group if the OSB Group and/or the Charter Court Group fail to achieve approval from the PRA of their internal ratings based approaches for their mortgage portfolios by the implementation date. This may mean that it will be difficult for the OSB Group and/or the Charter Court Group and, if the Combination completes, the Combined Group to compete effectively, which could have a material adverse effect on each of their results of operations, financial condition, capital impact and prospects.

**1.13 The OSB Group and the Charter Court Group are and, if the Combination completes, the Combined Group will be subject to rules on deposit guarantee schemes.**

The EU Deposit Guarantee Scheme Directive has, since 1 July 1995, required EU Member States to introduce at least one deposit guarantee scheme. In the UK, this requirement is satisfied by the FSCS. It is possible that reforms to the EU Deposit Guarantee Scheme Directive and FSCS schemes could result in future FSCS levies on the OSB Group and the Charter Court Group and, if the Combination completes, the Combined Group differing from those at present, and such reforms could result in the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group incurring additional costs and liabilities. This may have a material adverse effect on the OSB Group's and the Charter Court Group's business, financial condition and results of operations, and if the Combination completes the Combined Group's business, financial condition and results of operations. Additionally, the effect of the UK's exit from the EU on the requirement to maintain a deposit guarantee scheme is currently

uncertain and it is possible that any amendment to or replacement of the FSCS could expose banks, including the Combined Group, to an increased levy and other costs and liabilities. For example, any reduction in the level of saver protection available under the FSCS (or under any replacement thereof established following the UK's exit from the EU) from the current 100 per cent. protection for deposits of up to £85,000 per person per institution may result in savers being more reluctant to deposit money with savings banks generally, potentially resulting in the OSB Group and the Charter Court Group and, if the Combination completes, the Combined Group experiencing greater difficulty in attracting retail deposits, which may adversely affect the OSB Group's and the Charter Court Group's profitability and, if the Combination completes, the Combined Group's profitability, due to upward pressure on the interest rates payable on retail deposits and may ultimately give rise to an adverse impact on liquidity and ability to fund new loans.

**1.14 The OSB Group and the Charter Court Group operate and, if the Combination completes, the Combined Group will operate in a highly regulated industry that has increasingly come under regulatory and public scrutiny in recent years.**

The OSB Group and the Charter Court Group, in common with other financial services firms, have in recent years faced increased levels of regulation and greater regulatory and public scrutiny in respect of their businesses. Following the financial crisis, additional powers intended to protect consumers, ensure redress and strengthen financial stability have been granted to regulators. The principal regulators of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group are and will be the PRA (which is responsible for prudential regulation), the FCA (which is responsible for conduct regulation) and the ICO (which is responsible for the regulation of data privacy). The PRA, FCA and ICO can apply a wide range of sanctions to firms (and individuals working for firms) found to be operating in breach of law or regulation, or in a manner deemed to pose a significant risk to their statutory obligations, including public or private censure, fines, regulatory proceedings and, in extreme cases, suspension or withdrawal of authorisation to operate particular parts of their business or prosecution. This heightened level of regulatory scrutiny and the increase in the volume of regulation has resulted in financial services businesses requiring larger compliance functions and more highly qualified risk and compliance personnel, and has added significantly to the costs of such business.

The liability for individuals and the risk of penalties has increased for senior managers, in particular, as a result of the SM&CR. This regime has also imposed an additional regulatory burden on the OSB Group and the Charter Court Group, which have to certify annually that certain material risk-takers are fit and proper and have to ensure that all their staff (with some minor exceptions) understand the conduct rules that apply to them. In addition the SM&CR will soon be extended to all FCA solo-regulated firms (including insurance intermediaries, mortgage lenders and brokers, and consumer credit firms) and will replace the approved persons regime currently applicable to those firms.

The FCA has undertaken a series of thematic reviews, including in relation to the cash savings market, credit card market, mortgages market, early arrears management in unsecured lending and a "Responsible Lending Review" and continues to make strengthening consumer protection a key priority, as set out in its Business Plans for 2017 and 2018. Additionally, in December 2018, the FCA published its final report into retail banking models, as a result of which the FCA has stated it will initiate three strands of work: (i) on-going monitoring of retail banking business models; (ii) analysis to understand the value chain in new payment services business models; and (iii) exploratory work to understand certain aspects of SME banking. The FCA also identified three potential areas requiring coordinated action in the future: (i) continued access to banking services; (ii) appropriate use for customer data; and (iii) system resilience and effective prevention of financial crime and fraud.

Following a consultation, the FCA has also published proposed rules and guidance on high cost credit for consultation. These proposed rules cover, amongst other things: (i) the ways in which banks and building societies charge for overdrafts; and (ii) changes aimed at tackling harm to consumers in the home-collected credit sector. Whether the FCA's work in this area has any effect on the Combined Group, and the rules to which the regulated entities in the Combined Group will be subject, will be unclear until the consultations conclude and final rules are



published. The final rules are expected to be published in June 2019. The FCA is also working to encourage increased availability of alternatives to high-cost credit.

The FCA is empowered to require firms to operate a consumer redress programme, under which the firm is required to make redress to customers where it has failed to carry on its activities in accordance with its legal or regulatory obligations, which can result in significant costs for financial services firms. The FCA also has temporary product intervention powers, which enable it to restrict certain products, product features or their promotion for up to 12 months without consultation. Certain consumer bodies have the power to refer so-called “super-complaints” to the FCA for further investigation as well. Most retail and SME banking customers are also entitled to refer complaints to the FOS, and recent years have seen an increase both in the number of cases referred to the FOS and in general public awareness regarding the ability to challenge firms.

Investigating and dealing with regulatory proceedings, providing redress and the cost of any regulatory sanctions may involve significant expense. The use of product intervention powers by the FCA may restrict the operations of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group and their ability to offer new products to their customers. In particular, as a result of any adverse impact to the reputations of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group. In any case, adverse publicity relating to regulatory action could undermine customer confidence in the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group and reduce demand for their products and services, which could have a material adverse effect on the business, prospects, financial condition and results of operations of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

**1.15 The OSB Group and Charter Court Group are, and, if the Combination completes, the Combined Group will be, subject to substantial and changing conduct regulations.**

The OSB Group and Charter Court Group are, and, if the Combination completes, the Combined Group will be, exposed to many forms of conduct risk, which may arise in a number of ways. In particular:

- certain aspects of their businesses may be determined by their regulators, including the FCA, the PRA, the ICO, HM Treasury, the CMA or the courts, as not being conducted in accordance with applicable laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the opinion of FOS. If the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group fail to comply with any relevant regulations, there is a risk of a material adverse effect on their businesses and reputation due to sanctions, fines or other actions imposed by the regulatory authorities; and
- they may be subject to, for example, allegations of mistreatment of existing customers, which may result in disciplinary action (including significant fines) or requirements to amend sales processes, withdraw products or provide redress to affected customers, any or all of which could result in the incurrence of significant costs, may require provisions to be recorded in the financial statements of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group and could adversely affect future revenues from affected products.

Moreover, businesses and other assets (including portfolios) acquired by the OSB Group and the Charter Court Group may not have been conducted, managed or originated in accordance with applicable laws or regulations or in a fair and reasonable way and the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may be exposed to risks associated with such conduct to the extent they are not covered against losses in the relevant purchase agreements (for example, following the expiration of conduct warranties).

Failure to manage these risks adequately could lead to significant liabilities or reputational damage to the brands of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group, which could have a material adverse effect on their businesses, prospects, financial condition, results of operations and relations with customers.



**1.16 The OSB Group and the Charter Court Group and, if the Combination completes, the Combined Group will be subject to substantial and changing regulation and associated regulatory risk.**

In addition to the areas of regulation described in this Part II, the OSB Group and the Charter Court Group, and, if the Combination completes, the Combined Group will be subject to a wide range of financial laws and regulations (see Part XIV (Supervision and Regulation) for further details). This results in associated regulatory risks, including those which may arise as a result of the introduction of, or amendments to, laws, regulations, rules, policies, industry-wide codes of practice, guidance and/or initiatives at both the UK and EU level.

These regulatory risks have the potential to significantly affect the way that the OSB Group and the Charter Court Group, and, if the Combination completes, the Combined Group conducts its business and, in particular, may restrict the scope of its existing businesses, limit its ability to expand product offerings, or cause its products and/or services to become more expensive. Future regulatory developments may also materially adversely affect the OSB Group and the Charter Court Group, and, if the Combination completes, the Combined Group's access to liquidity, increase its funding costs, increase its compliance costs and/or delay, limit or restrict its strategic development.

Failure to comply with the wide range of laws and regulations which will apply to the OSB Group and the Charter Court Group, and, if the Combination completes, the Combined Group, may result in a number of adverse consequences, including

- substantial fines, penalties, injunctive relief and/or monetary damages (which may be difficult to quantify in advance) being imposed on one or more members of the OSB Group and the Charter Court Group, and, if the Combination completes, the Combined Group;
- regulatory investigations, reviews, proceedings and enforcement actions being taken against one or more members of the OSB Group and the Charter Court Group, and, if the Combination completes, the Combined Group;
- the OSB Group and the Charter Court Group, and, if the Combination completes, the Combined Group being required to amend sales processes, product and service terms and disclosures, withdraw products and/or provide redress or compensation to affected customers;
- the OSB Group and the Charter Court Group, and, if the Combination completes, the Combined Group not being able to enforce contractual terms (either at all or as it had intended) or having contractual terms enforced against it in an adverse way;
- civil or private litigation (brought by individuals or collectively) being brought against any member of the OSB Group and the Charter Court Group, and, if the Combination completes, the Combined Group in the UK or another jurisdiction;
- criminal enforcement proceedings being taken against any member of the OSB Group and the Charter Court Group, and, if the Combination completes, the Combined Group; and/or
- regulatory restrictions on the OSB Group and the Charter Court Group, and, if the Combination completes, the Combined Group's business,

any of which (alone or in tandem) may cause the OSB Group and the Charter Court Group, and, if the Combination completes, the Combined Group to incur significant costs and/or record provisions in its financial statements.

Additional regulatory restrictions may also be placed on the OSB Group and the Charter Court Group, and, if the Combination completes, the Combined Group, they may be required to hold additional capital and/or liquidity, and—in extreme cases—the FCA or the PRA may cancel or restrict the OSB Group and the Charter Court Group, and, if the Combination completes, the Combined Group's regulatory authorisations altogether (thereby preventing or impeding it from carrying on certain of its businesses). There may also be harm to the OSB Group and the Charter Court Group, and, if the Combination completes, the Combined Group's reputation.

- 1.17 If the Bank of England, as resolution authority, were to exercise its powers under the BRRD (as implemented in the UK by legislation and by PRA rules), then existing shareholders may experience dilution of, or losses on, their holdings and may not receive any compensation for their losses. If there were a resolution situation, financial public support would only be available to the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group, as a last resort, if at all.**

The BRRD contains requirements relating to recovery and resolution plans, early supervisory interventions and the resolution of firms (including the introduction of a bail-in tool). The BRRD (as implemented in the UK by legislation and by PRA rules) includes provisions for the Bank of England, as the resolution authority for the UK, to have stabilisation powers, including those through which it may: (i) require the transfer of part or all of the business of a bank to a private sector purchaser; (ii) require the transfer of part or all of the business of a bank to a subsidiary of the Bank of England; (iii) require the transfer of assets, rights and liabilities of a bank to an asset management vehicle; and (iv) write down a bank's equity and debt to absorb losses, and convert debt into equity to recapitalise the bank. In addition it provides for preferential ranking on insolvency for certain deposits that are eligible for protection by deposit guarantee schemes (including the uninsured element of such deposits) in priority to deposits that are not similarly eligible, and introduces a bank funded resolution fund. It also provides write-down or conversion powers to resolution authorities for such authorities to ensure that relevant capital instruments absorb losses upon, amongst other things, the occurrence of the non-viability of the relevant institution or its parent company or group, as well as a bail-in tool, with a more general power for resolution authorities to write down (including to zero) the claims of unsecured creditors of a failing institution and to convert unsecured debt claims to equity.

- 1.18 The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group are subject to risks associated with customer and counterparty non-performance.**

Credit risk is the risk of loss of principal or interest stemming from a borrower's failure to meet contractual obligations to the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group in accordance with the terms agreed. The OSB Group and the Charter Court Group have exposures to many different products, counterparties and obligors whose credit quality can have a material adverse effect on the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's business, results of operations, financial condition and prospects. Retail and SMEs lending activities account for most of the OSB Group's, Charter Court Group's and, if the Combination completes, the Combined Group's credit risk.

Other sources of credit risk include but are not limited to the extension of credit commitments and guarantees, the holding of investments for liquidity purposes (including UK gilts), inter-bank transactions, letters of credit and trade financing, derivative transactions entered into for hedging purposes, foreign exchange transactions, placing of deposits, acceptances and the settlement of transactions.

Less favourable business or economic conditions, whether generally or in a specific industry sector or geographic region, could cause counterparties and customers (especially those concentrated in areas experiencing less favourable business or economic conditions) to experience an adverse financial situation (for example, unemployment). This exposes the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to the increased risk that those customers will fail to meet their obligations in accordance with agreed terms. A deterioration in the economic conditions in the UK could have a material adverse effect on the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's financial performance and position. Other factors that could have a material adverse effect include further financial market dislocation, which could lead to falling confidence, increasing refinancing risk and contagion risk among market participants, counterparties and customers.

In the ordinary course of its operations, the OSB Group and the Charter Court Group estimate and establish provisions for credit risks and the potential credit losses inherent in these exposures. This process, which is critical to the OSB Group's, the Charter Court Group's and, if

the Combination completes, the Combined Group's results and financial condition, requires complex judgements, including forecasts of how changing macroeconomic conditions, might impair the ability of customers to repay their loans. The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may fail to adequately identify the relevant factors or accurately estimate the effect and/or magnitude of identified factors, which could materially adversely affect their businesses, results of operations, financial condition and prospects.

Further, there is a risk that, despite the OSB Group's and the Charter Court Group's belief that they conduct an accurate assessment of customer credit quality, customers are unable to meet their commitments as they fall due as a result of customer-specific circumstances, macroeconomic factors or other external factors. The failure of customers to meet their commitments as they fall due may result in higher impairment charges or a negative effect on fair value in the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's lending portfolio. A deterioration in customer credit quality and the consequent increase in impairments could have a material adverse effect on the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's business, results of operations, financial condition and prospects.

**1.19 The OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's mortgages are originated through intermediaries and the OSB Group and the Charter Court Group are and, if the Combination completes, the Combined Group will be therefore exposed to risks relating to relationships with intermediaries.**

The OSB Group and the Charter Court Group are and, if the Combination completes, the Combined Group will be reliant on a network of intermediaries.

The OSB Group and the Charter Court Group has and, if the Combination completes, the Combined Group will have limited direct oversight of intermediaries' interactions with prospective customers, outside of the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's regulatory responsibilities and if they do not comply with applicable regulations or standards when selling the products, the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's reputation could be harmed and may suffer other adverse consequences.

Furthermore, the OSB Group and the Charter Court Group has and, if the Combination completes, the Combined Group could lose the services of intermediaries with whom it does business, for example, as a result of market conditions causing their closure, intermediaries switching to competitors due to higher commissions or other incentives or intermediaries deciding that, as a result of the Combination, they will be overly exposed to a single entity (i.e., the Combined Group). The loss or deterioration of the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's relationships with its intermediaries could have a material adverse effect on the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's business, financial condition, prospects and results of operations.

Additionally, in the event that market conditions were to change (for example as a result of regulatory changes impacting the pricing of mortgage loans originated through intermediaries, the manner in which mortgages are distributed through intermediaries, the way in which fees are charged or as a result of large banks, medium-sized banks and building societies challenging for market share in more specialist market segments or a shift towards entirely automated lending and underwriting decisions and use of artificial intelligence to provide "robo advice", associated with lower overhead costs, resulting in a decrease in borrowers relying on intermediaries for advice) and the OSB Group, the Charter Court Group and/or, if the Combination completes, the Combined Group were unable to keep up with such changes, it is possible that the proportion of mortgage loans originated through intermediaries could decrease as borrowers move to favour direct applications to mortgage lenders, resulting in the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group potentially being at a competitive disadvantage in its specialist market segments, which may have a material adverse impact on their profitability, results of operations and prospects.

**1.20 The guidelines and policies for risk management of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may prove inadequate for the risks faced by their businesses and any failure to properly manage the risks that they face could cause harm to the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group and their business prospects.**

The management of financial, operational, legal, regulatory and reputational risks requires, among other things, robust guidelines and policies for the accurate identification and control of a large number of transactions and events. Such guidelines and policies may not always prove to be adequate in practice. The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group face a wide range of risks in their business activities, including, in particular:

- liquidity and funding risk;
- interest rate risk, where changes in interest rate levels, yield curves and spreads may affect the interest rate margin of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group realised between lending and borrowing costs;
- basis risk, which arises when the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group finance an asset with a liability that re-prices from a different interest rate index;
- credit risk, which is the risk that a borrower or a counterparty fails to pay interest or to repay the principal on a loan or other financial instrument;
- regulatory risk;
- conduct risk;
- model risk, which is the risk that an adverse outcome (incorrect or unintended decision or financial loss) occurs as a direct result of weaknesses or failures in the design or use of a model; and
- operational risk, which is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, systems or from an external event,

each of which is mentioned throughout this Part II.

The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group have a range of tools designed to measure and manage the various risks that they face. Some of these methods are based on historical market behaviour. The methods may, therefore, prove to be inadequate for predicting future risk exposure, which may prove to be significantly greater than what is suggested by experience. Historical data may also not adequately allow prediction of circumstances arising due to government interventions and stimulus packages, which increase the difficulty of evaluating risks. Other methods for risk management are based on evaluation of information regarding markets, customers or other information that is publicly known or otherwise available to the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group. Such information may not always be correct, updated or correctly evaluated. In addition, even though the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group constantly measure and monitor their exposure, there can be no assurance that their risk management methods will be effective, particularly in unusual or extreme market conditions. It is difficult to predict with accuracy any changes in economic or market conditions and to anticipate the effects that such changes could have on the financial performance and business operations of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

**1.21 The OSB Group and the Charter Court Group are, and, if the Combination completes, the Combined Group will be, heavily reliant on a small number of key employees.**

The successful management and operations of the OSB Group and the Charter Court Group are, and, if the Combination completes, the Combined Group will be, reliant upon the contribution of

their senior management team and other key personnel, including underwriting employees, who are key to the bespoke approach of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to lending products. In addition, the future success of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group depends in part on their ability to continue to recruit, motivate and retain highly experienced and qualified employees. There is intense competition in the financial services industry for skilled personnel. Although the OSB Group and the Charter Court Group take and, if the Combination completes, the Combined Group will take steps to protect themselves in relation to the loss of key personnel, the loss of service of any of the senior management team or other key personnel, or an inability to attract new personnel, could have a material adverse effect on the business, financial condition, prospects and results of operations of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

**1.22 The OSB Group and the Charter Court Group rely, and, if the Combination completes, the Combined Group will rely, on third parties for certain critical services.**

The businesses of the OSB Group, the Charter Court Group are and, if the Combination completes, the Combined Group will be reliant on third parties for a number of their key processes and functions.

In particular, the OSB Group, the Charter Court Group are and, if the Combination completes, the Combined Group will be reliant on third party service providers to provide mortgage origination and servicing systems, a savings processing system (in respect of the Charter Court Group only) and core reporting and data management systems. If these providers were to deliver these services poorly or were unable to provide these services, this may result in customer detriment and a poor customer experience and could give rise to reputational damage to the businesses of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group and their brands and/or to financial losses. In turn, this may harm the ability of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to raise funds via retail deposit-taking and result in loss of custom from the existing customers of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group, in each case potentially limiting their flexibility to fund new mortgage lending due to lack of funding or making such lending more expensive. In addition, this may also impact lending decisions and volumes.

In addition, the businesses of the OSB Group and the Charter Court Group are and, if the Combination completes, the Combined Group will be reliant on the major UK banks, which act as clearing banks and payment services providers. If, as a result of a failure by a clearing bank, borrowers were not to receive funds lent by the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group in a timely manner, such borrowers may be unable to complete on property purchases. Equally, as a result of a failure by a clearing bank, customers of the savings banks of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may not receive principal or interest paid in a timely manner. There can be no assurance that such failures will not occur or that the general level of service provided by such clearing banks or payment services providers will not deteriorate. Such failures in service levels could give rise to reputational damage, which could adversely affect the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group and their business prospects. In addition, the fees that the clearing banks and payment services providers charge the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may rise, which may affect the attractiveness of the saving products of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group and therefore their ability to raise funds rapidly through securing new retail savings deposits and/or have a negative effect on the profitability of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

Prolonged outages of the decision-making platform or any difficulties experienced in updating the platform to reflect new market conditions, changing regulatory requirements or problems identified with the platform architecture and decision-making process or mortgage servicing and arrears support (for example, in the context of a significant credit challenge) could lead to the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group having to rely on employing larger numbers of underwriters, compliance, risk management,



collections or servicing staff and/or other financial services personnel, which could have a material adverse effect on profitability and which may also lead to the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group experiencing an increase in reported impairments and loan losses, for example, as a result of identified problems with the platform not being corrected or as a result of the increased risk of human error introduced by a greater degree of reliance on human decision-making. Additionally, were the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to experience service issues with their software suppliers or were disputes to arise over the licence fees and other fees and costs payable for their services, or were a software supplier to experience insolvency issues, it is not certain that the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group would be able to identify an alternative supplier quickly nor is it certain that an alternative supplier would be able to provide an equivalent level of service on competitive terms, or at all.

The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group also relies on suppliers of panel management service to manage relationships with preferred panels of conveyancers, real estate solicitors and valuers (including asset finance valuers) with niche experience for certain of their mortgage products, particularly for bridge financing transactions. While the risk of being unable to replace the services provided by the conveyancers, real estate solicitors and valuers is minimal, there could be disruption to provision of these services if the provider of panel management services were to enter liquidation, as panel management would need to be handled in-house or a new provider engaged at short notice. Such disruption may restrict the ability of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to offer certain of its mortgage products, reduce the profitability of these transactions and potentially increase loan loss impairments.

In addition, the OSB Group and the Charter Court Group are, and, if the Combination completes, the Combination will be, reliant on third parties for the provision of cash-flow modelling services when they consider loan portfolio acquisitions and when updating carrying values. The adverse consequences of any modelling failure include financial loss, poor business or strategic decision making or damage to the reputation of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

**1.23 Charter Court Group is and, if the Combination completes, the Combined Group will be dependent on their digital decision-making platforms and the design and application of their risk models and underwriting parameters and are exposed to automated decision and interest model risks arising from undetected design flaws or unforeseen events.**

The Charter Court Group is and, if the Combination completes, the Combined Group will be dependent on their digital decision-making platforms to pursue their strategy of delivering sustainable growth by leveraging, among other things, their ability to deliver rapid, consistent and efficient underwriting decisions. The platforms have been designed to capture the credit and underwriting expertise of the management of the Charter Court Group and, if the Combination completes, the Combined Group and to apply complex risk models to create an automated decision-making process that is able to make determinations based on a complex set of parameters and criteria derived from bespoke scorecards and codified underwriting policies, ensuring that the decision generated falls within the level and types of risk that the Charter Court Group is, and, if the Combination completes, the Combined Group will be, willing to accept to achieve their business objectives within their defined risk appetite.

Credit risk models seek to determine relative credit quality and are used in the lending decision-making process and to help assess the credit risk profile of the mortgage portfolios and for other related purposes such as stress testing. While the digital decision-making platforms of the Charter Court Group are and, if the Combination completes, the Combined Group will be designed to apply such models rigorously and consistently in arriving at a decision in principle for each application for a buy-to-let or specialist residential mortgage, there is a risk that an adverse outcome occurs as a direct result of undetected or undetectable latent weaknesses or failures in the design or use of any such models (including as a result of events unforeseen during the design of the platform and risk models) that have not yet become apparent. While the Charter Court Group has and, if the Combination completes, the Combined Group will have guidelines,

policies and contingency plans to manage such risks, they may not prove to be adequate in practice.

Additionally, once the Charter Court Group and, if the Combination completes, the Combined Group have identified a design flaw or latent weakness in the platform software or their risk models, or have determined that unforeseen economic, political or market events or regulatory action have resulted in a need to recalibrate their underwriting criteria or its risk appetite and/or offer new products, the platforms and model may not be capable of being updated immediately or even reasonably promptly, potentially resulting in the Charter Court Group and, if the Combination completes, the Combined Group underwriting mortgage loans that do not satisfy their existing risk appetite or meet their affordability criteria, potentially exposing them to increased risk of impairments and losses, to regulatory criticism and increased capital requirements. Equally, a design flaw or latent weakness in the platform software or their risk models, or failures in the implementation of the instructions by third party service providers, may result in the digital decision-making platforms of the Charter Court Group and, if the Combination completes, the Combined Group turning down applications that would otherwise have fallen within the risk appetite and underwriting policies, resulting in the loss of profitable opportunities. The Charter Court Group and, if the Combination completes, the Combined Group may also be required to hire additional employees and/or divert other resources to manage an increased manual underwriting workload while the platforms are updated to correct any problems identified, which may result in a material adverse effect on profitability and their reputation.

Further, as with many automated systems of this kind, the Charter Court Group and, if the Combination completes, the Combined Group's decision-making platforms and the associated risk models depend on the accuracy and reliability of information submitted by intermediaries. The platforms and risk models are not designed primarily to detect fraud and may not do so.

Moreover, the OSB Group and the Charter Court Group rely on the ability to automate current operational processes in order to grow. An inability to automate current operational processes could result in the OSB Group and the Charter Court Group, and, if the Combination completes, the Combined Group not meeting current and future growth projections.

**1.24 The geographic concentration of credit risk could increase the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's potential for loss.**

A significant portion of the OSB Group's and the Charter Court Group's mortgage loan portfolio are made up of loans and advances to buy-to-let and specialist mortgage customers in London and the South East of England. If disruption to the credit markets or an adverse change in economic or political conditions were to have a disproportionate effect on borrowers and/or on residential and rental property markets in London and the South East of England, the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may be exposed to greater potential losses than would be the case if the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group had less reliance on buy-to-let and specialist mortgage customers in London and the South East of England or in any area of concentration in the future.

Such disruption or adverse change could have a material adverse effect on the business, results of operations, financial condition and/or prospects of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group. Similarly, if such disruption or adverse change were to result in a disproportionate reduction of liquidity and/or downward pressure on valuations in the property market in such areas of concentration, the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's businesses may experience an increase in impairments and losses.

**1.25 The support operations of the OSB Group and, if the Combination completes, the Combined Group are based in India and could be affected by a number of economic, political and other factors affecting India, which are beyond the control of the OSB Group and, if the Combination completes, the Combined Group.**

The OSB Group's strategy and, if the Combination completes, the Combined Group's operations in India could be adversely affected by economic, political, legal and regulatory changes in India.

In particular, foreign companies operating in India (directly or indirectly) could be subject to changes in applicable legislation and changes to the tax environment and the regulatory framework in which they operate. It is not possible to predict what effect such changes could have on the OSB Group and, if the Combination completes, the Combined Group, but any reduction in its ability to provide support services to the rest of the OSB Group and, if the Combination completes, the Combined Group could increase the OSB Group's and, if the Combination completes, the Combined Group's costs significantly and could have a material adverse effect on the OSB Group's and, if the Combination completes, the Combined Group's financial condition, prospects and results of operations. In particular, a material proportion of the cost efficiencies and operational enhancements that are expected to be achieved by leveraging OSB's lending, savings and support operations and capabilities in India, which could be adversely affected by economic, political, legal and regulatory changes in India.

**1.26 Concentration of buy-to-let mortgages and other products within the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's loan portfolios could increase their potential for losses.**

If a disruption to the residential housing and rental markets or an adverse change in economic or political conditions or regulatory requirements were to adversely affect the buy-to-let mortgage lending market segment and/or the mortgage lending market segment for new build properties, the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may experience deterioration in the volume of demand for new buy-to-let loans and specialist residential loans and may be exposed to greater potential losses than would be the case if the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group had less reliance on buy-to-let and specialist residential customers and the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group would likely be disproportionately affected relative to other specialist banks operating in the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's core market segment but which have a more diversified loan portfolio. Any such disruption or adverse change could have a material adverse effect on the business, financial condition, prospects and results of operations of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

**1.27 The OSB Group, the Charter Court Group are and, if the Combination completes, the Combined Group will be dependent on accurate records and data.**

The OSB Group, the Charter Court Group are and, if the Combination completes, the Combined Group will be dependent on accurate records and data. A failure to maintain accurate records and data by not having strong data governance in place may result in increased operational inefficiencies. This may lead to escalating costs, compromised shareholder and customer confidence, decreased market competitiveness of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group. Failure to maintain accurate records and data may also increase the exposure of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to the risk of inaccurate modelling, poor decision making and the risk of misreporting.

**1.28 The accounting policies and methods of the OSB Group and the Charter Court Group are and, if the Combination completes, the Combined Group will be critical to how they report their financial condition and results of operations; they make estimates about matters that are uncertain.**

Accounting policies and methods are fundamental to how the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group record and report their financial condition and results of operations. The preparation of the OSB Group's and the Charter Court Group's financial statements requires management to make estimates and assumptions and to exercise judgement in selecting and applying relevant accounting policies, each of which may directly affect the reported amounts of assets, liabilities, income and expenses, to ensure compliance with IFRS. Some areas involving a higher degree of judgement, or where assumptions are significant to the financial statements, include (but are not limited to) financial assets and liabilities at fair value through profit or loss, impairment provisions on credit

exposures, deferred tax, conduct related matters, retirement benefit obligations and effective interest rate assumptions.

If the judgements, estimates and assumptions used by the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group in preparing their consolidated financial statements are subsequently found to be incorrect there could be a significant loss to them beyond that expected or provided for or an adjustment to those consolidated financial statements, which could have a material adverse effect on the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's business, results of operations, financial condition and prospects.

The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group have established detailed policies and control procedures that are intended to ensure that these judgements (and the associated assumptions and estimates) are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding the judgements of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group and the estimates pertaining to these matters, they cannot guarantee that they will not be required to make changes in accounting estimates or restate prior period financial statements in the future and any such changes or restatements could be material in nature.

**1.29 The OSB Group and the Charter Court Group are, and, if the Combination completes, the Combined Group will be, exposed to the risk of changes in tax legislation and its interpretation and to increases in the rate of corporate and other taxes.**

The activities of the OSB Group and the Charter Court Group are, and, if the Combination completes, the Combined Group will be, subject to a range of UK taxes at various rates. Future actions by the UK Government to increase corporation tax rates or to impose additional taxes (including, for example, additional banking levies) would reduce profitability. Revisions to tax legislation or to its interpretation might also affect the financial condition of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group in the future.

**1.30 The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group must comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations, and a failure to prevent or detect any illegal or improper activities fully or on a timely basis could negatively affect customers and expose the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to liability.**

The OSB Group and the Charter Court Group are and, if the Combination completes, the Combined Group will be subject to laws regarding money laundering and the financing of terrorism, as well as laws that prohibit them, their employees or intermediaries from making improper payments or offers of payment to foreign governments and their officials and political parties to obtain or retain business, including the Fifth and Sixth Money Laundering Directives and the UK Bribery Act 2010. Monitoring compliance with anti-money laundering and anti-bribery rules can put a significant financial burden on banks and other financial institutions and requires significant technical capabilities. In recent years, enforcement of these laws and regulations against financial institutions has increased, resulting in several landmark fines against UK financial institutions. In addition, the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group cannot predict the nature, scope or effect of future regulatory requirements to which they might be subject or the manner in which existing laws might be administered or interpreted. Although the OSB Group and the Charter Court Group believe that their current policies and procedures are sufficient to comply with applicable anti-money laundering, anti-bribery and sanctions rules and regulations, they cannot guarantee that such policies completely prevent money laundering or bribery, including actions by the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's employees, mortgage intermediaries or third party service providers, for which they might be held responsible. Any of such events may have severe consequences, including sanctions, fines and reputational consequences, which could have a material adverse effect on the OSB Group's, the



Charter Court Group's and, following completion of the Combination, the Combined Group's business, financial condition and results of operations.

**1.31 The OSB Group and the Charter Court Group are and, if the Combination completes, the Combined Group will be exposed to operational risks related to inadequate or failed internal processes, people and systems and from external events.**

The OSB Group's and the Charter Court Group's businesses are and, if the Combination completes, the Combined Group's business will be exposed to operational risks related to inadequate or failed internal processes, people and systems and from external events. Operational risks are inherent in the day-to-day operational activities of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group, which may result in direct or indirect losses and could adversely impact the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's business, results of operations, financial condition and/or prospects and the market price of the OSB Shares. These losses may result from both internal and external events, and risks. Internal risks include, but are not limited to, process error or failure, inadequate process design, poor product development and maintenance, poor change management, ageing infrastructure and systems, system failure, failure of security and physical protection (including the health and safety of employees), fraud, deficiencies in employees' skills and performance or human error, or other idiosyncratic components of operational risk that are related to the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's particular size, nature and complexity. External events include, but are not limited to, operational failures by third-party providers (including offshored and outsourced providers), actual or attempted external IT security breaches from parties with criminal or malicious intent, natural disasters, extreme weather events, political, security and social events and failings in the financial services industry. The OSB Group and the Charter Court Group are and, if the Combination completes, the Combined Group will be, exposed to extreme but plausible events that are unpredictable and may result in a material or systemic loss, business interruption or significant reputational damage. Operational risks may be increased as a direct consequence of the process of integrating the Charter Court Group into the Combined Group, in particular, due to problems with migrating data, systems (such as IT systems) or processes.

The OSB Group and the Charter Court Group are and, if the Combination completes, the Combined Group will be dependent on their information systems and technology from a system stability, data quality and information security perspective. The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group are also dependent on payments systems and technology that interface with wider industry infrastructure; for example, the OSB Group and the Charter Court Group are, and, if the Combination completes, the Combined Group, in common with other banks, will be dependent on various industry payment systems and schemes (including Clearing House Automated Payment System or CHAPS, Bankers Automated Clearing System or BACS, Faster Payments Service or FPS and Society for Worldwide Interbank Financial Telecommunication or SWIFT) for making payments between different financial institutions on behalf of customers. Internal or external failure of these systems and technology (including if such systems cannot be restored or recovered in acceptable timeframes, or be adequately protected) could adversely impact the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's ability to conduct their daily operations and their business, results of operations, financial condition and/or prospects.

In addition, financial models are used extensively in the conduct of the OSB Group's and the Charter Court Group's businesses; for example, in calculating capital requirements and measuring and stressing exposures. If the models used prove to be inadequate or are based on incorrect or invalid assumptions and judgements, this may adversely affect the OSB Group's, the Charter Court Group's and, if the Combination completes, the Combined Group's business, results of operations, financial condition and/or prospects and the market price of the OSB Shares.

The OSB Group and, if the Combination completes, the Combined Group may look to implement new operational processes and systems to assist in responding to market developments, such as the move towards "Open Banking" which is designed to enable personal customers and small businesses to share their data securely with other banks and with third parties, allowing them to



compare products on the basis of their own requirements and to manage their accounts without having to use their bank, or to reflect changes in regulations, such as the GDPR whereby the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group must be able to report at any time to the ICO all locations where personal identifiable information is stored (for example within systems and databases) and provide a justification of why such personal identifiable information is needed. Due to the scale and complexity of such projects, the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may be required to invest significant management attention and resources, which may divert attention away from normal business activities and other ongoing projects. Additionally, where changes are undertaken in an environment of economic uncertainty and increased regulatory activity and scrutiny, operational and compliance risks are magnified, which may impact the reputation and financial condition of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group. There is also a risk that implementation may not be completed within expected timeframes or budget, or that such changes do not deliver some or all of their anticipated benefits.

While the OSB Group and the Charter Court Group have operational resilience, IT disaster recovery and business continuity contingency plans in place, these are not, and are not intended to be, a full duplication of their operational systems and premises. Additionally, the OSB Group and the Charter Court Group are and, if the Combination completes, the Combined Group, will be exposed to risks associated with an increase in the cost or lack of available insurance provision for the Combined Group (including any run off policies), which could have an adverse impact on profitability. The occurrence of a serious disaster resulting in interruptions, delays, the loss or corruption of data or the cessation of the availability of systems or premises could have a material adverse effect on the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group's business, results of operations, financial condition and/or prospects. Any actual or perceived inadequacies, weaknesses or failures in the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group systems or processes could have a material adverse effect on their business, results of operations, financial condition and/or prospects.

### **1.32 Reputational risk could adversely affect the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.**

The reputation of the OSB Group and the Charter Court Group are important assets and their ability to attract and retain customers and staff and conduct business with their counterparties could be adversely affected to the extent that their reputation or the reputation of their brands are damaged. Failure to tackle, or appearing to fail to tackle, various issues that could give rise to reputational risk could adversely affect the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group and their business prospects and the market price of the OSB Shares.

Reputational issues include, but are not limited to:

- breaching or facing allegations of having breached legal and regulatory requirements (including, but not limited to capital or liquidity requirements, conduct requirements, money laundering, anti-terrorism financing requirements or data protection requirements);
- acting or facing allegations of having acted unethically (including having adopted inappropriate sales and trading practices);
- failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service, regulatory compliance and record-keeping;
- technology failures that affect customer services and accounts;
- failing to identify properly the legal, reputational, credit, liquidity and market risks inherent in the products offered;
- third parties on whom the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group rely, such as clearing banks or the providers of certain outsourced services, failing to provide the necessary services to the expected standard;

- failing to deal with potential conflicts of interest appropriately; and
- generally poor or weaker than expected business performance.

A failure to deal with these or any other relevant issues appropriately, or any regulatory actions taken in relation thereto, could make customers, depositors and investors unwilling to conduct business with the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.

**1.33 The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group could be exposed to systemic risk/contagion in the event of any actual or perceived deterioration in the soundness of other financial institutions and counterparties.**

Given the high level of interdependence between financial institutions, the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group are and will be subject to the risk of actual or perceived deterioration in the operational and financial soundness of other financial services institutions. Within the financial services industry, a default or anticipated default by any one institution could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, as was the case after the insolvency of Lehman Brothers in 2008, because the commercial and financial soundness of many financial institutions may be, or be perceived to be, closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a financial institution may lead to market-wide liquidity problems and losses or defaults by the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group or by other institutions.

This risk is sometimes referred to as “systemic risk” or “contagion” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses and banks with whom the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group interacts on a daily basis. Systemic risk could have a material adverse effect on the ability of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to raise new funding.

Any actual or perceived deterioration in the soundness of other independent banks and specialist lenders may also affect perceptions of the commercial and financial soundness of the independent lending sector as a whole, including the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group. This could have a material adverse effect on the ability of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to raise new funding.

**1.34 The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group face risks relating to complaints and redress issues from sales of historical financial products, which may not be covered by existing provisions.**

The OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group face conduct, financial and reputational risks as a result of legal and regulatory proceedings, and complaints made to them directly or to the FOS or other relevant regulatory bodies, both against the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group and against members of the UK banking industry more generally.

In addition, the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may also face financial and reputational risks as a result of customer complaints, which might arise from matters such as inadequate communications or historical or current pricing levels in relation to certain products offered.

Exposure to claims may exceed the provisions of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group, which could have a material adverse effect on the balance sheets of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group and could, therefore, have a material adverse effect on the OSB Group’s, Charter Court Group’s and, if the Combination completes, the Combined Group’s business, results of operations, financial condition and prospects.

**1.35 The OSB Group and the Charter Court Group are, and, if the Combination completes, the Combined Group will be, exposed to potential losses arising from derivative contracts and swaps.**

The OSB Group and the Charter Court Group regularly use hedging, forward contracts and derivative instruments, including interest rate swaps, to reduce their exposure to adverse fluctuations in interest rates on their floating rate liabilities (i.e. principally retail savings deposits) that fund their portfolio of mortgages and to adverse fluctuations in the fair value of assets as a result of changes in market interest rates. Derivative financial instruments are recognised on the consolidated balance sheet of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group at their fair value with changes in their fair value being recognised as a profit or loss at the end of each period. Fair values are calculated by discounting the expected future cash flows of these instruments at the prevailing interest rates.

Any failure by any of the counterparties of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group to discharge their obligations or to provide adequate collateral could have a material adverse effect on the results of operations and financial condition of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group. In addition, should a significant number of fixed-rate long-term mortgages be prepaid earlier than anticipated, then the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may incur significant losses on the underlying swaps if those swaps have a negative fair value when they are unwound.

**1.36 The insurance coverage of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group may not be adequate to cover all possible losses that they could suffer and their insurance costs may increase.**

The OSB Group and the Charter Court Group seek to maintain comprehensive insurance coverage at commercially reasonable rates. However, insurance policies do not cover all types of losses and liabilities and are subject to limits and excesses. There can be no assurance that the insurance of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group will be sufficient to cover the full extent of all losses or liabilities for which they are insured and cannot guarantee that they will be able to renew their current insurance policies on favourable terms, or at all.

## **PART B: RISKS RELATING TO THE COMBINATION**

### **2.1 Completion of the Combination is subject to a number of Conditions which may not be satisfied or waived or which may be satisfied subject to conditions imposed by regulatory bodies or other third parties and may result in the completion of the Combination being delayed, the Combination not completing, or the OSB Group or the Charter Court Group being required to divest assets or be subject to some other adverse impact in order to satisfy any such conditions so imposed.**

The Scheme is subject to the Conditions and further terms and conditions set out in the Scheme Document. These Conditions include, among other things:

- the CMA confirming, in terms reasonably satisfactory to OSB, that the Combination or any matter arising therefrom or related thereto or any part of it will not be subject to a reference under section 33 of the Enterprise Act 2002;
- in respect of OSB and each other person required to give a notice under section 178 of FSMA in connection with the Combination, the appropriate regulator(s) (as defined under section 178(2A) of FSMA) of each UK authorised person (as defined under section 191G of FSMA) over which the Combination contemplates an acquisition of or increase in control:
  - giving notice for the purposes of section 189(4)(a) of FSMA that it has determined to approve such acquisition of or increase in control, which (if given on any terms which may reasonably be expected to have an adverse impact on the Wider OSB Group or the Wider Charter Court Group) is on terms satisfactory to OSB (acting reasonably); or
  - being treated, by virtue of section 189(6) of FSMA, as having approved such acquisition of or increase in control;
- the Charter Court General Meeting and the Court Meeting being held no later than 30 June 2019 or such later date as may be agreed in writing between OSB and Charter Court with the consent of the Panel and the approval of the Court (if such approval is required);
- the Scheme being approved by the requisite majority of Charter Court Shareholders at the Court Meeting and the Charter Court Resolutions being passed by the requisite majority of Charter Court Shareholders at the Charter Court General Meeting;
- the OSB Resolution being passed by the requisite majority of OSB Shareholders at the OSB General Meeting;
- the Scheme being sanctioned by the Court no later than the later of: (a) the 22nd day after the expected date of the Court Sanction Hearing to be set out in the Scheme Document; and (b) 30 days after all the Conditions (other than the Scheme Condition) have been satisfied or waived;
- the Scheme becoming effective by the Longstop Date; and
- Admission becoming effective.

There is no guarantee that the Conditions will be satisfied (or waived, if applicable) in the necessary time frame and the Combination may, therefore, be delayed or not completed. Delay in completing the Combination will prolong the period of uncertainty for the OSB Group and the Charter Court Group and both delay and failure to complete may result in the accrual of additional costs to their businesses (for example, there may be an increase in costs in relation to the preparation and issue of documentation or other elements of the planning and implementation of the Combination) without any of the potential benefits of the Combination having been achieved. In addition, OSB's and Charter Court's management will have spent time in connection with the Combination, which could otherwise have been spent more productively in connection with the other activities of the OSB Group and the Charter Court Group, as applicable. Therefore, the consequences of a material delay in completing or failure to complete the Combination, when taken in aggregate, may have a material adverse effect on the business, results of operations,

financial condition and/or prospects of the OSB Group, the Charter Court Group and, in the case of a delay only, the Combined Group.

OSB's ability to invoke a Condition (other than certain antitrust clearances and Scheme-related conditions) to the Combination to either lapse the Combination or to delay the Combination beyond the Longstop Date is subject to the Panel's consent. The Panel will need to be satisfied that the underlying circumstances are of "material significance" to OSB in the context of the Combination and this is a high threshold to meet. Consequently, there is a significant risk that OSB may be required to complete the Combination even where certain Conditions have not been satisfied or where a material adverse change has occurred to the Charter Court Group.

Charter Court's ability to invoke a Condition (if applicable) to the Combination to either lapse the Combination or to delay the Combination beyond the Longstop Date is subject to the Panel's consent. The Panel will need to be satisfied that the underlying circumstances are of "material significance" to Charter Court in the context of the Combination and this is a high threshold to meet. Consequently, there is a significant risk that Charter Court may be required to complete the Combination even where certain Conditions have not been satisfied or where a material adverse change has occurred to the OSB Group.

It may also be the case that certain Conditions may only be satisfied subject to conditions or undertakings.

OSB recognises that it may need to offer or commit to remedies in order to obtain the relevant clearances from the relevant competition authorities (including the CMA), but it does not currently anticipate having to do so. Such additional remedies could include (but not be limited to) commitments by OSB to divest (if the Combination completes) or not to acquire in the first place, part of the business or certain assets of the Charter Court Group. The implementation of any such additional remedies may result in additional costs and/or delay or the failure (partial or otherwise) to realise the synergies relating to the Combination identified by the parties or may otherwise impact the Combined Group's strategy and operations.

In addition, OSB recognises that, in granting their approvals, regulatory authorities have discretion to impose conditions and restrictions to their consent which could result in a delay in completion of, or a decision not to complete, the Combination or could have a material adverse effect on the business and results of operations of the Combined Group following Completion. Moreover, the imposition of any such conditions and restrictions may result in additional costs and/or delay or the failure (partial or otherwise) to realise the synergies relating to the Combination identified by the parties or may otherwise impact the Combined Group's strategy and operations.

If any of the events described above were to occur, they may result in additional costs and/or the delay or the failure (partial or otherwise) to realise the synergies relating to the Combination identified by the parties or may otherwise impact the Combined Group's strategy and operations.

Proceeding to complete the Combination without particular clearances and consents from third parties, which may include governments, regulators, associates and commercial counterparties, may impact the Combined Group's future strategy and operations, may result in the imposition of penalties, fines and other criminal and civil sanctions, the termination or variation of contracts and, potentially, the loss of assets and may cause damage to the Combined Group's reputation and business relationships with governments, regulators and counterparties. If these events were to occur, there may be a material adverse effect on the business, results of operations, financial condition and/or prospects of the Combined Group and the market price of the OSB Shares.

## **2.2 The Combined Group's success will be dependent upon its ability to integrate the OSB Group and the Charter Court Group and deliver the value of the combined underlying businesses; the synergies expected from the Combination may not be fully achieved.**

The Combined Group's future prospects will, in part, be dependent upon the Combined Group's ability to integrate the OSB Group and the Charter Court Group successfully and completely, without disruption to the existing business.

While the OSB Directors believe that the synergies of the Combination have been reasonably estimated, unanticipated events, liabilities, tax impacts or unknown pre-existing issues may arise



or become apparent which could result in the costs of integration being higher and the realisable benefits/synergies being lower than expected, resulting in a material adverse effect on the business, results of operations, financial condition and/or prospects of the Combined Group and the market price of the OSB Shares. No assurance can be given that the integration process will deliver all or substantially all of the expected benefits within the assumed time frame.

The Combined Group will face numerous challenges when integrating the business, including, among others, retaining key contracts, harmonising ways of working, realising synergies, standardising policies and procedures, processes and systems, aligning shared values and retaining key employees of the Combined Group and the corporate memory of the Charter Court Group. If the Combined Group does not properly manage these challenges, they may affect the effective running of the business in the ordinary course and the efficient allocation, including redeployment, of resources in the Combined Group.

Further, during the integration period, the Combined Group may not be in a position to acquire other companies or businesses that it might otherwise have sought to acquire. In view of the demands that the integration process may have on management time, it may also cause a delay in other projects currently contemplated by the OSB Group and/or the Charter Court Group.

**2.3 The uncertainties about the effects of the Combination could have a materially adverse effect on the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group.**

Uncertainty about the effects of the Combination, including effects on employees, host governments, partners, competitors, contractors, regulators (including the uncertainty about the quantum, cost and timing of the Combined Group's MREL requirements as mentioned in paragraph 1.11 of this Part II), suppliers and customers, may have a material adverse effect on the business, results of operations, financial condition and/or prospects of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group and the market price of the OSB Shares and the New OSB Shares. These uncertainties could cause parties that have business or other relationships with the OSB Group or the Charter Court Group to defer the consummation of other transactions or other decisions concerning the business of the OSB Group, the Charter Court Group and, if the Combination completes, the Combined Group or to seek to change their existing business or other relationships with the OSB Group or the Charter Court Group. In addition, if the Combination completes, there is also a risk that some current and prospective employees may experience uncertainty about their future roles within the Combined Group, which may adversely affect the Combined Group's ability to retain or recruit key managers and other employees. The Combined Group will need to take action to prevent or minimise any detrimental impact of the Combination and the integration process on its relationships with employees, host governments, partners, contractors, regulators, suppliers and customers of the OSB Group and the Charter Court Group, to avoid such a material adverse effect.

**2.4 Current OSB Shareholders and former Charter Court Shareholders will own a smaller percentage of OSB, if the Combination completes, than they currently own of OSB and Charter Court respectively.**

If the Combination completes, the existing OSB Shareholders and the former Charter Court Shareholders will own a smaller percentage of OSB than they currently own of OSB and Charter Court, respectively. As a result, the shareholder base and the related holdings of individual shareholders of the Combined Group may be different to the shareholder bases and the related holdings of individual shareholders of OSB and Charter Court on a standalone basis. Assuming there are no other issues of OSB Shares or Charter Court Shares between the Latest Practicable Date and the date of Admission and that 202,165,502 New OSB Shares are issued, the existing OSB Shareholders and former Charter Court Shareholders will own approximately 55 per cent. and 45 per cent., respectively, of the outstanding OSB Shares. As a consequence, the proportion of voting rights which can be exercised and the influence which may be exerted by them in respect of the Combined Group will be reduced.

**2.5 Change of control provisions in the OSB Group's and the Charter Court Group's agreements may be triggered upon Completion and may lead to adverse consequences.**

The OSB Group and the Charter Court Group are party to contracts, agreements and instruments that contain change of control provisions that may be triggered upon Completion. Usually, these provisions, if any, may be waived with the consent of the other party, and the OSB Group and Charter Court Group will consider whether they will seek such waivers. In the absence of these waivers, the operation of the change of control provisions, if any, could result in the loss of significant contractual rights and benefits, the termination of significant agreements or the payment of a termination fee. In addition, employment agreements or other employee benefit arrangements with the OSB Group's and the Charter Court Group's employees may contain change of control provisions providing for additional payments following a change of control.

## **PART C: RISKS RELATING TO THE NEW OSB SHARES**

### **3.1 The value of the New OSB Shares may fluctuate significantly.**

If the Combination completes, the OSB Shares will continue to be publicly traded and, as a result of a number of factors and events, including, but not limited to, those referred to in this Part II, their market price may be volatile. Some of these events, for example, market conditions, geopolitical developments or the action of competitors, will be outside the control of the Combined Group.

### **3.2 Admission of the New OSB Shares may not occur when expected.**

Application for Admission of the New OSB Shares will be made before completion of the Combination. If completion of the Combination is delayed, the application for Admission will be delayed. Admission is subject to the approval (subject to satisfaction of any conditions that such approval is expressed) of the FCA. There can be no guarantee that any conditions to which Admission is subject will be met or that the FCA will approve Admission.

### **3.3 Any future issue of OSB Shares, including in connection with an offering, the conversion of AT1 Securities issued by the OSB Group including, if the Combination completes, any future acquisitions, any share incentive or share option plan or otherwise will further dilute the holdings of the then current OSB Shareholders and could adversely affect the market price of OSB Shares.**

OSB may issue additional OSB Shares in the future for a number of reasons. Any such future issue will further dilute the holdings of the then current OSB Shareholders and could adversely affect the market price of OSB Shares.

Other than pursuant to the Combination, OSB has no current plans for an offering of OSB Shares. However, it is possible that OSB may decide to offer additional OSB Shares in the future either to raise capital or for other purposes. If the then current OSB Shareholders did not take up such an offer, or were not eligible to participate in such offer, their proportionate ownership and voting interests in OSB would be reduced.

The OSB Group has issued AT1 Securities. AT1 Securities issued by a company are subordinated obligations of that company but would rank ahead of the company's shares in any winding-up of that company. Any such securities issued include a provision whereby if the CET1 ratio (the core measure of a bank's financial strength from a regulator's point of view) of that company falls below a specified percentage, distributions accrued and unpaid on the AT1 Securities would be cancelled and converted into the company's shares (depending on the terms of the instrument issued). As a result, OSB's then existing shareholders could suffer dilution in their percentage ownership upon any conversion of convertible securities such as AT1 Securities or similar securities issued by the OSB Group into OSB Shares.

The OSB Group may also seek to raise financing to fund future acquisitions and other growth opportunities. OSB may, for these and other purposes, such as in connection with share incentive and share option plans, issue additional equity or convertible equity securities. OSB's then existing shareholders would suffer dilution in their percentage ownership if they did not participate, or were not eligible to participate in, any such issues pro rata to their existing holdings.

### **3.4 OSB Shareholders may not receive a return on their investment or may receive a negative return and lose some or all of the capital invested.**

OSB's results of operations and financial condition will be, if the Combination completes, dependent on the trading performance of the members of the Combined Group. There can be no assurance that OSB will pay dividends in the future. Any decision to declare and pay dividends in the future will be made at the discretion of the OSB Directors and will depend on, amongst other things, applicable law, regulation, restrictions, OSB's and the Combined Group's financial performance and position (including the availability of distributable profits and reserves and cash available for this purpose), regulatory capital requirements, working capital requirements, finance costs, general economic conditions and other factors the OSB Directors deem significant from time to time. OSB's ability to pay dividends will also depend on the level of dividends and other

distributions, if any, received from its operating subsidiaries and companies in which it has an investment. The payment of dividends or return of cash by other means to OSB by its subsidiaries is, in turn, subject to restrictions, including the existence of sufficient distributable reserves and cash in those subsidiaries as well as certain restrictions in OSB's debt financing arrangements. These restrictions could limit or prohibit the payment of dividends to OSB by its subsidiaries, which could restrict OSB's ability to pay dividends to OSB Shareholders and this could have a material adverse effect on the market price of the OSB Shares. There is, therefore, no guarantee that OSB Shareholders will receive a return on their investment and they may receive a negative return and lose some or all of the capital invested.

**3.5 Holders of OSB Shares outside the UK may not be able to exercise pre-emption rights or participate in future equity issues.**

The securities laws of certain jurisdictions outside the UK may restrict the participation by, or OSB's ability to allow participation of, certain shareholders in such jurisdictions in any future issues carried out by OSB of OSB Shares or of other securities. In the case of a future allotment of New OSB Shares for cash, the then existing OSB Shareholders have certain statutory pre-emption rights unless those rights are disapplied by a special resolution of the OSB Shareholders at a general meeting. An issue of New OSB Shares not for cash or when pre-emption rights have been disapplied could dilute the interests of the then-existing OSB Shareholders.

**3.6 The taxation of an investment in OSB Shares and New OSB Shares depends on a holder's individual position, and investors should accordingly seek independent advice.**

The taxation of an investment in OSB Shares and New OSB Shares depends on the individual circumstances of OSB Shareholders or investors in New OSB Shares and the summary of the UK taxation treatment of an investment in the OSB Shares, including the New OSB Shares, set out in Part XV (Taxation) of this Prospectus is intended as a general guide only. It does not deal with the specific tax position of every investor and only deals with rules of UK taxation of general application. Therefore any investors who are in any doubt as to their tax position regarding the OSB Shares, including the New OSB Shares and any investors subject to tax in a jurisdiction other than the UK, should consult their own independent tax advisers.

**3.7 It may not be possible to effect service of process upon the OSB Group, the Charter Court Group or, if the Combination completes, the Combined Group or the directors or enforce court judgments against them or their directors.**

A significant amount of the assets of the OSB Group and the Charter Court Group are located in the United Kingdom. In addition, all of the OSB Directors, Charter Court Directors, the OSB Senior Management and Charter Court senior managers are located in the United Kingdom. As a result, it may not be possible for investors outside the United Kingdom to effect service of process against the OSB Group, the Charter Court Group or, if the Combination completes, the Combined Group or the OSB Directors or the Charter Court Directors or to enforce the judgment of a court outside the United Kingdom against the OSB Group, the Charter Court Group or, if the Combination completes, the Combined Group or the OSB Directors or the Charter Court Directors.

## PART III

### PRESENTATION OF INFORMATION

#### 1. GENERAL

Prospective investors should only rely on the information contained in this Prospectus (for the avoidance of doubt, none of the Announcement, the Circular or the Scheme Document has been incorporated by reference into this Prospectus).

No person has been authorised to give any information or make any representations other than those contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been so authorised by OSB, the Current OSB Directors, the Proposed OSB Directors, the OSB Group, Rothschild & Co, Barclays or any other person involved in the Combination.

No representation or warranty, express or implied, is made by OSB, the Current OSB Directors, the Proposed OSB Directors, the OSB Group, Rothschild & Co, Barclays or any other person involved in the Combination as to the accuracy or completeness of such information or representation.

Without prejudice to any legal or regulatory obligation on OSB to publish a supplementary prospectus pursuant to section 87G of FSMA and PR 3.4, neither the delivery of this Prospectus nor Admission shall, under any circumstances, create any implication that there has been no change in the business or affairs of the OSB Group or the Charter Court Group taken as a whole since the date of this Prospectus or that the information in it is correct as of any time after the date of this Prospectus. OSB will comply with its obligation to publish supplementary prospectuses containing further updated information as required by law or by a regulatory authority and, in particular, its obligations under the Prospectus Rules, the Listing Rules and the Disclosure Guidance and Transparency Rules (as appropriate) but assumes no further obligation to publish additional information.

The contents of this Prospectus or any subsequent communications from OSB, the OSB Group, Rothschild & Co, Barclays or any of their respective affiliates, officers, directors, employees or agents are not to be construed as legal, financial or tax advice. If you are in any doubt about the contents of this Prospectus or the action you should take, you are recommended to seek your own independent financial advice immediately from your stockbroker, bank manager, solicitor, accountant or independent financial adviser (who is, if you are resident in the UK, duly authorised under FSMA or, if not, from another appropriately authorised independent financial adviser). Each prospective investor should consult with such advisers as needed to make any decision in relation to the Combination and the New OSB Shares and to determine whether it is legally permitted to hold shares under applicable legal investment requirements or similar laws or regulations. Prospective investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

Investing in and holding the New OSB Shares involves financial risk. Prior to investing in the New OSB Shares, investors should carefully consider all of the information contained in this Prospectus, paying particular attention to Part II (Risk factors). Investors should consider carefully whether an investment in the New OSB Shares is suitable for them in light of the information contained in this Prospectus and their personal circumstances. Each investor acknowledges that it has not relied on Rothschild & Co, Barclays or any person affiliated with either of them in connection with any investigation of the accuracy of any information contained in this Prospectus or any decision relating to the Combination and the New OSB Shares. Nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by Rothschild & Co or Barclays as to the past, present or future.

Rothschild & Co and Barclays and each of their affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services to, OSB for which they would have received customary fees. Rothschild & Co and Barclays and each of their affiliates may provide such services to OSB and any of its affiliates in the future.



## **2. WEBSITE AND MEDIA INFORMATION**

The contents of OSB's website ([www.osb.co.uk](http://www.osb.co.uk)) and Charter Court's website ([www.chartercourtfcs.co.uk](http://www.chartercourtfcs.co.uk)), the contents of any website accessible from hyperlinks on such websites and any other website referred to in this Prospectus do not form part of this Prospectus and prospective investors should not rely on them.

Furthermore, OSB does not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, or the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding the Combination, the OSB Group, the Charter Court Group and/or the Combined Group.

OSB, the Current OSB Directors, the Proposed OSB Directors, the OSB Group, Rothschild & Co, Barclays and other persons involved in the Combination make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication.

## **3. FORWARD LOOKING STATEMENTS**

This Prospectus contains certain statements about OSB and Charter Court that are or may be forward looking statements, including with respect to the Combination involving OSB and Charter Court. Forward looking statements are prospective in nature and are not based on historical facts, but rather on assumptions, expectations, valuations, targets, estimates, forecasts and projections of OSB and Charter Court about future events, and are therefore subject to risks and uncertainties which could cause actual results, performance or events to differ materially from those expressed or implied by the forward looking statements. All statements other than statements of historical facts included in this Prospectus may be forward looking statements. Without limitation, forward looking statements often include words such as "targets", "plans", "believes", "hopes", "continues", "expects", "aims", "intends", "will", "may", "should", "would", "could", "anticipates", "estimates", "will look to", "budget", "strategy", "would look to", "scheduled", "goal", "prepares", "forecasts", "cost-saving", "is subject to", "synergy", "projects" or words or terms of similar substance or the negative thereof.

By their nature, forward looking statements involve risk and uncertainty, because they relate to events and depend on circumstances that will occur in the future and the factors described in the context of such forward looking statements in this Prospectus could cause actual results and developments to differ materially from those expressed in or implied by such forward looking statements. Such risks and uncertainties include, but are not limited to, the possibility that the Combination will not be pursued or consummated, failure to obtain necessary regulatory approvals or to satisfy any of the other conditions to the Combination if it is pursued, adverse effects on the market price of OSB's or Charter Court's ordinary shares and on OSB's or Charter Court's operating results because of a failure to complete the Combination, failure to realise the expected benefits of the Combination, negative effects relating to the announcement of the Combination or any further announcements relating to the Combination or the consummation of the Combination on the market price of OSB's or Charter Court's ordinary shares, significant transaction costs and/or unknown liabilities, the Combined Group incurring and/or experiencing unanticipated costs and/or delays (including IT system failures, cyber-crime, fraud and pension scheme liabilities), general economic and business conditions that affect the combined companies following the consummation of the Combination, changes in global, political, economic, business, competitive, market and regulatory forces (including exposures to terrorist activities, the repercussions of the UK's referendum vote to leave the European Union, the UK's exit from the EU and Eurozone instability), future exchange and interest rates, changes in tax laws, regulations, rates and policies, future business combinations or disposals and competitive developments. Although it is believed that the expectations reflected in such forward looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct and you are therefore cautioned not to place undue reliance on these forward looking statements which speak only as at the date of this Prospectus.

All forward looking statements contained in this Prospectus are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

Each forward looking statement speaks only as of the date of this Prospectus. Neither OSB nor Charter Court, nor any of their respective associates or directors, officers or advisers, provides any representation, warranty, assurance or guarantee that the occurrence of the events expressed or

implied in any forward looking statements in this Prospectus will actually occur. Other than in accordance with their legal or regulatory obligations (including under the City Code, the Prospectus Rules, the Listing Rules and the Disclosure Guidance and Transparency Rules), neither the OSB Group nor the Charter Court Group is under, or undertakes, any obligation, and each of the foregoing expressly disclaims any intention or obligation, to update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

The statements above relating to forward looking statements should not be construed as a qualification on the opinion as to working capital set out in paragraph 12 of Part XVII (Additional information).

#### **4. NO FORECASTS OR ESTIMATES**

Nothing in this Prospectus (including any statement of estimated costs savings or synergies) is intended as a profit forecast or estimate for any period and no statement in this Prospectus should be interpreted to mean that earnings or earnings per share or dividend per share for OSB or Charter Court, as appropriate, for the current or future financial years would necessarily match or exceed the historical published earnings or earnings per share or dividend per share for OSB or Charter Court, as appropriate.

Accretion statements or statements as to the effect of the Combination on free cash flow per share, earnings per share, cash flow from operations per share, or return on average capital employed are not intended to be and should not be construed as profit forecasts and are, therefore, not subject to the requirements of Rule 28 of the City Code.

No statement in this Prospectus should be interpreted to mean that free cash flow per share, earnings, earnings per share or income, cash flow from operations per share or return on average capital employed for the OSB Group, the Charter Court Group and/or the Combined Group, as appropriate, for the current or future financial years would necessarily match or exceed the historical published earnings, earnings per share or income, cash flow from operations, free cash flow or return on average capital employed for the OSB Group or the Charter Court Group, as appropriate.

#### **5. HISTORICAL FINANCIAL INFORMATION RELATING TO THE OSB GROUP AND THE CHARTER COURT GROUP**

All financial information relating to the OSB Group and the Charter Court Group contained in this Prospectus, unless otherwise stated, has been extracted or derived without material adjustment from their audited consolidated financial statements as of, and for, the financial years ended 31 December 2018, 31 December 2017 and 31 December 2016.

#### **6. PRO FORMA FINANCIAL INFORMATION RELATING TO THE COMBINED GROUP**

In this Prospectus, any reference to pro forma financial information is to information that has been extracted without material adjustment from the unaudited pro forma financial information contained in Part XIII (Unaudited Pro Forma Financial Information). The unaudited pro forma information consists of a pro forma income statement for the financial year ended 31 December 2018 and a net assets statement as at 31 December 2018 relating to the Combined Group. These have been prepared in accordance with Annex II of the PD Regulation and in a manner consistent with the accounting policies and presentation adopted by the OSB Group in relation to the consolidated financial statements for the year ended 31 December 2018, as contained in the OSB 2018 Annual Report and Accounts.

The unaudited pro forma financial information has been prepared for illustrative purposes only to illustrate the effect on the OSB Group's income statement and net asset statement of its acquisition of the Charter Court Group as if it had taken place on 1 January 2018, in the case of the income statement, and on 31 December 2018, in the case of the net assets statement. Due to its nature, the unaudited pro forma income statement and net assets statement address a hypothetical situation. They do not represent the OSB Group's or the Charter Court Group's actual financial position or results, or what the Combined Group's actual financial position or results would have been if the Combination had been completed on the dates indicated.

## **7. ROUNDING**

Certain numerical figures contained in this Prospectus including financial information, market data and certain operating data, including, without limitation, capital ratios and liquidity ratios, have been subject to rounding adjustments for ease of presentation. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables may not conform exactly to the total figure given for that column or row or the sum of certain numbers presented as a percentage may not conform exactly to the total percentage given.

## **8. OTHER INFORMATION RELATING TO THE CHARTER COURT GROUP**

This Prospectus contains information regarding the Charter Court Group which has been incorporated by reference or accurately reproduced from the information provided to OSB by Charter Court for inclusion in this Prospectus or the Circular. As far as OSB is aware and is able to ascertain from information published by Charter Court or otherwise provided to OSB by Charter Court, no facts have been omitted that would render the reproduced information inaccurate or misleading.

## **9. QUANTIFIED FINANCIAL BENEFITS STATEMENT**

The statements in the Quantified Financial Benefits Statement relate to future actions and circumstances which, by their nature, involve risks, uncertainties and contingencies. As a result, the cost savings and synergies referred to may not be achieved, may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated. No statement in the Quantified Financial Benefits Statement should be construed as a profit forecast or interpreted to mean that the Combined Group's earnings in the first full year following the Effective Date, or in any subsequent period, would necessarily match or be greater than or be less than those of OSB and/or Charter Court for the relevant preceding financial period or any other period.

The estimated pre-tax cost synergies referred to in this Prospectus are unaudited and are based on analysis by OSB's management and on OSB's internal records and certain of Charter Court's internal records.

Further information underlying the Quantified Financial Benefits Statement is contained in paragraph 5 of Part VI (Information about the Combination) and paragraph 14 of Part XVII (Additional information).

## **10. SOURCES OF FINANCIAL INFORMATION**

In this Prospectus, unless otherwise stated:

- financial information relating to OSB has been extracted without material adjustment from the audited historical financial information referred to in Part IX (Financial information in relation to OSB and the OSB Group) of this Prospectus for the financial years ended 31 December 2018, 31 December 2017 and 31 December 2016, prepared in accordance with IFRS;
- financial information relating to Charter Court has been extracted without material adjustment from the audited historical financial information referred to in Part XI (Financial information in relation to Charter Court and the Charter Court Group) of this Prospectus for the financial years ended 31 December 2018, 31 December 2017 and 31 December 2016, prepared in accordance with IFRS; and
- where information has been sourced from a Third Party, OSB confirms that the information has been accurately reproduced and, as far as OSB is aware and able to ascertain from information published by that Third Party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where Third Party information has been used, the source of such information has been identified wherever it appears in this Prospectus.

## **11. DEFINED TERMS**

The meanings of defined terms used in this Prospectus are set out in Part XVIII (Definitions).

## PART IV

### DIRECTORS, COMPANY SECRETARY, REGISTERED AND HEAD OFFICES AND ADVISERS

<b>Current OSB Directors</b>	David Weymouth ( <i>Chairman</i> ) Andy Golding ( <i>Chief Executive Officer</i> ) April Talintyre ( <i>Chief Financial Officer</i> ) Graham Allatt ( <i>Non-executive Director</i> ) Eric Anstee ( <i>Non-executive Director</i> ) Rod Duke ( <i>Senior Independent Director</i> ) Margaret Hassall ( <i>Non-executive Director</i> ) Sarah Hedger ( <i>Non-executive Director</i> ) Mary McNamara ( <i>Non-executive Director</i> )
<b>Proposed OSB Directors</b>	Sir Malcolm Williamson Tim Brooke Noël Harwerth Rajan Kapoor Ian Ward
<b>Company Secretary</b>	Jason Elphick
<b>Registered office</b>	Reliance House Sun Pier Chatham Kent ME4 4ET
<b>Head office</b>	OSB House Quayside Chatham Maritime Kent ME4 4QZ
<b>Financial adviser and sponsor</b>	N. M. Rothschild & Sons Limited New Court St Swithin's Lane London EC4N 8AL
<b>Financial adviser and corporate broker</b>	Barclays Bank PLC 1 Churchill Place Canary Wharf London E14 5HP
<b>Legal adviser</b>	Slaughter and May One Bunhill Row London EC1Y 8YY
<b>Reporting accountants</b>	KPMG LLP 15 Canada Square London E14 5GL
<b>Auditor</b>	Deloitte LLP 1 New Street Square London EC4A 3HQ
<b>Registrar</b>	Equiniti Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA

## PART V

### EXPECTED TIMETABLE OF PRINCIPAL EVENTS AND INDICATIVE STATISTICS

#### PART A

##### EXPECTED TIMETABLE OF PRINCIPAL EVENTS

The dates and times given in the table below in connection with the Combination are indicative only and are based on OSB's current expectations and are subject to change (including as a result of changes to the regulatory timetable and/or the process for implementation of the Combination). If any dates and/or times in this expected timetable change, the revised dates and/or times will be notified to OSB Shareholders by announcement through a Regulatory Information Service. All times shown are London times unless otherwise stated.

<b>PRINCIPAL EVENTS</b>	<b>TIME AND/OR DATE<sup>(1)</sup></b>
Publication of the Prospectus, the Circular and the Scheme Document	15 May 2019
Latest time for receipt of OSB Forms of Proxy/CREST proxy instructions for the OSB General Meeting	10.00 a.m. on 4 June 2019
Latest time for receipt of forms of proxy/CREST proxy instructions for the Court Meeting	10.00 a.m. on 4 June 2019
Voting Record Time for the OSB General Meeting	6.30 p.m. on 4 June 2019 <sup>(2)</sup>
Voting Record Time for the Court Meeting	6.30 p.m. on 4 June 2019
<b>OSB General Meeting</b>	10.00 a.m. on 6 June 2019
<b>Court Meeting</b>	10.30 a.m. on 6 June 2019
<b>Charter Court General Meeting</b>	10.45 a.m. on 6 June 2019 <sup>(3)</sup>
Court Sanction Hearing	a date expected to be in Q3 2019 subject to receipt of regulatory clearances (" <b>D</b> ") <sup>(4)</sup>
Last time for dealings in Charter Court Shares on the London Stock Exchange	4.30 p.m. on D + 1 <sup>(4)</sup>
Scheme Record Time	6.00 p.m. on D + 1 <sup>(4)</sup>
Suspension of listing of, and dealings in, Charter Court Shares on the London Stock Exchange	before open of business on D + 2 <sup>(4)</sup>
<b>Effective Date</b>	D + 1 <sup>(4)</sup>
Admission and commencement of dealings in the New OSB Shares on the London Stock Exchange	by 8.00 a.m. on D + 2
CREST accounts of former Charter Court Shareholders credited with New OSB Shares	On or soon after 8.00 a.m. on D + 2, but no later than 14 days after the Effective Date
Cancellation of listing of Charter Court Shares on the premium segment of the Official List and the Main Market of the London Stock Exchange	by 8.00 a.m. on D + 2
CREST accounts credited with any cash due in relation to the sale of fractional entitlements	within 14 days after the Effective Date <sup>(4)</sup>



## PRINCIPAL EVENTS

## TIME AND/OR DATE<sup>(1)</sup>

Despatch of: (a) cheques for any cash due to Restricted Overseas Persons under the Scheme; (b) cheques for any cash in relation to the sale of fractional entitlements; and (c) share certificates for New OSB Shares, in each case for those former Charter Court Shareholders who did not hold their Charter Court Shares in CREST

within 14 days after the Effective Date

Longstop Date

31 October 2019<sup>(5)</sup>

- 
- (1) All dates by reference to "D+1" and "D+2" will be to the date falling the number of indicated Business Days immediately after date D, as indicated above.
  - (2) To be entitled to attend, speak and vote at the OSB General Meeting (and for the purpose of the determination by OSB of the votes they may cast), members must be registered on the register of members of OSB at 6.30 p.m. on 4 June 2019 (or, in the event of any adjournment, at 6.30 p.m. on the date which is two days before the time of the adjourned meeting). Changes to the register of members of OSB after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the OSB General Meeting.
  - (3) To commence at the time fixed or, if later, immediately after the conclusion or adjournment of the Court Meeting.
  - (4) The Court Order is expected to be delivered to Companies House following the suspension of trading in Charter Court Shares and the Scheme Record Time on D+1, which date will then become the Effective Date. The events which are stated as occurring on subsequent dates are conditional on the Effective Date and operate by reference to this time.
  - (5) This is the latest date by which the Scheme may become effective. However, such date may be extended to such later date as may be agreed in writing by OSB and Charter Court (with the Panel's consent and Court approval (if required)).

**PART B**

**INDICATIVE STATISTICS**

Number of New OSB Shares to be issued for each Charter Court Share	0.8253
Number of OSB Shares in issue as at the Latest Practicable Date (with no OSB Shares held in treasury)	245,155,033
Number of New OSB Shares to be issued in connection with the Combination	up to 202,165,502
Number of OSB Shares in issue immediately following Admission (with no OSB Shares held in treasury)	up to 447,320,535
New OSB Shares as a percentage of the OSB Shares in issue immediately following Admission (with no OSB Shares held in treasury)	approximately 45 per cent.

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These figures are calculated assuming that the numbers of OSB Shares and Charter Court Shares in issue and to be issued on a fully diluted basis as at close of business on the Latest Practicable Date do not change and that no issues of OSB Shares (other than those described above) and Charter Court Shares occur between the Latest Practicable Date and completion of the Combination.

Please see paragraph 18 of Part XVII (Additional Information) for details of how these statistics are calculated.

## PART VI

### INFORMATION ABOUT THE COMBINATION

#### 1. INTRODUCTION

On 14 March 2019, the OSB Board and the Charter Court Board jointly announced that they had reached agreement on the terms of a recommended all-share combination pursuant to which OSB will acquire the entire issued and to be issued ordinary share capital of Charter Court to form the Combined Group.

Under the terms of the Combination, Charter Court Shareholders (other than Restricted Overseas Persons) will be entitled to receive 0.8253 New OSB Shares for each Scheme Share in issue at the Scheme Record Time.

The Combination is being implemented by means of a court-sanctioned scheme of arrangement of Charter Court under Part 26 of the Companies Act. The Scheme is subject to a number of Conditions which are summarised in paragraph 12.2 of this Part VI. The full terms and conditions of the Scheme are set out in the Scheme Document.

Subject to the satisfaction or, where applicable, waiver of the Conditions, it is expected that the Scheme will become effective in Q3 2019, with the New OSB Shares admitted to listing on the premium segment of the Official List and to trading on the Main Market by 8.00 a.m. on the first Business Day after the Effective Date (but, in any event, within 14 days after the Effective Date).

#### 2. OSB SHAREHOLDER APPROVAL OF THE COMBINATION

Due to its size, the Combination constitutes a “Class 1 transaction” for OSB for the purposes of the Listing Rules and, therefore, requires the approval of OSB Shareholders. Accordingly, the OSB General Meeting has been convened for 10.00 a.m. on 6 June 2019 at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY. OSB Shareholders will be asked to vote in favour of the OSB Resolution to approve the Combination and the issue and allotment of the New OSB Shares.

The OSB Board considers the Combination and the OSB Resolution to be in the best interests of OSB and the OSB Shareholders as a whole and unanimously recommends that OSB Shareholders vote in favour of the OSB Resolution, as the Current OSB Directors who hold OSB Shares intend to do in relation to their own individual beneficial holdings which amount in total to 1,203,775 OSB Shares, representing approximately 0.49 per cent. of OSB’s total issued ordinary share capital as at the Latest Practicable Date. The Combination has also been unanimously recommended by the Charter Court Board, with the Charter Court Directors who hold Charter Court Shares having irrevocably undertaken to vote in favour of the Scheme at the Court Meeting and the Charter Court Resolutions at the Charter Court General Meeting in respect of their own beneficial holdings which amount in total to 3,512,123 Charter Court Shares, representing approximately 1.47 per cent. of Charter Court’s issued ordinary share capital as at the Latest Practicable Date. The recommendation of the Charter Court Board and the background and reasons for such recommendation are set out in full in the Scheme Document.

#### 3. SUMMARY OF THE TERMS OF THE COMBINATION

Under the terms of the Combination, which is subject to the Conditions and to the full terms and conditions which are set out in the Scheme Document, each Charter Court Shareholder will be entitled to receive:

**for each Charter Court Share:                      0.8253 New OSB Shares**

Immediately following completion of the Combination, Charter Court Shareholders will own approximately 45 per cent. of the share capital of the Combined Group (based on the existing ordinary issued share capital of OSB and the fully diluted share capital of Charter Court) and will share in the benefits accruing to the Combined Group via the expected realisation of meaningful cost synergies.

The Combination is expected to become effective in Q3 2019, subject to satisfaction or (where applicable) waiver of the Conditions and certain further terms and conditions set out in the Scheme Document.

Following completion of the Combination, the New OSB Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the OSB Shares in issue at the time the New OSB Shares are issued pursuant to the Combination, including, subject as outlined below, the right to receive and retain in full all dividends and other distributions (if any) announced, declared, made or paid, or any other return of capital (whether by reduction of share capital or share premium account or otherwise) made, in each case by reference to a record date falling on or after the Effective Date. Applications will be made to the FCA for the New OSB Shares to be admitted to the Official List and to the London Stock Exchange for the New OSB Shares to be admitted to trading on the London Stock Exchange's Main Market for listed securities. Irrespective of the date on which the Effective Date falls, Charter Court Shareholders who receive New OSB Shares pursuant to the Scheme shall not be entitled to receive any dividend declared, made or paid by OSB by reference to a record date falling prior to the Effective Date.

The Charter Court Shares acquired under the Combination will be acquired fully paid and free from all liens, charges, equitable interests, encumbrances, options, rights of pre-emption and any other third party rights or interests of any nature whatsoever and together with all rights now or hereafter attaching or accruing to them, including, without limitation, voting rights and the right to receive and retain in full all dividends and other distributions (if any) announced, declared, made or paid, or any other return of capital (whether by reduction of share capital or share premium account or otherwise) made, in each case by reference to a record date falling on or after the Effective Date.

The structure of the Scheme and the Conditions relating to the Combination are summarised at paragraph 12 of this Part VI.

Further details of the New OSB Shares are provided at paragraph 14 of this Part VI.

#### **4. BACKGROUND TO AND REASONS FOR THE COMBINATION**

The Boards of OSB and Charter Court are confident the Combination will create a leading specialist lender in the UK with enhanced scale, bringing together the resources and capabilities of both businesses to allow the Combined Group to explore further growth opportunities and deliver attractive long term returns through the economic cycle.

In particular, following completion of the Combination, it is expected that the Combination will bring together the complementary strengths of OSB and Charter Court across products, underwriting, distribution, funding and operating platforms; benefiting from the best-in-class capabilities of both businesses.

The Boards of OSB and Charter Court believe the Combination has a strong strategic rationale and is a highly compelling opportunity to:

***Create a leading specialist lender in the UK with greater scale and resources to deploy on growth opportunities***

- create a leading specialist lender in the UK with greater scale and resources to better compete in an increasingly mature and competitive market segment and deliver sustainable returns; and
- combine resources to better access future growth opportunities in the fragmented specialist lending sector;

***Leverage complementary strengths to create a comprehensive and diversified platform across product capabilities, brands and team cultures***

*Products*

- bring together complementary product capabilities and expertise with a best-of-both approach, combining:
  - (a) OSB's leading franchises in specialist buy-to-let mortgages in the UK, including complex portfolio based origination, commercial real estate and residential development finance; with

- (b) Charter Court's strong proposition in specialist residential, new build and buy-to-let mortgages in the UK; and
- (c) leveraging mutual strengths in bridge financing with Charter Court's proprietary regulated bridging platform and mutual strengths in second charge loans;
- enhance capabilities and presence in key segments by:
  - (a) accelerating OSB's growth in specialist residential mortgages by leveraging Charter Court's automation-enabled underwriting and technology platform;
  - (b) expanding Charter Court's buy-to-let offering by leveraging best practice across the Combined Group; and
  - (c) increasing capacity for investment in new products and services, in line with OSB's and Charter Court's current risk appetite;

#### *Brand and customer strategy*

- preserve and build on the value of OSB's and Charter Court's individual lending brands (including Kent Reliance, InterBay, Heritable, Prestige and Precise Mortgages) through a multi-brand lending strategy. In addition, it is intended that the Combined Group will retain both of OSB's and Charter Court's retail savings brands (Kent Reliance and Charter Savings Bank);
- enhance the customer proposition and acquisition rates through being able to underwrite a wider range of customer cases than would have been possible as two standalone businesses; and

#### *Culture*

- bring together two complementary and highly engaged team cultures which have collaborated successfully in the past in a commercial capacity, to build one firm with a rich and skilled talent pool;

#### ***Leverage complementary underwriting capabilities to enhance the customer proposition***

- bring together OSB's and Charter Court's credit expertise while leveraging Charter Court's automation-enabled underwriting approach in conjunction with OSB's bespoke portfolio-based underwriting capabilities and in-house real estate expertise to offer an enhanced customer proposition;
- create enhanced data insight and analysis by combining each company's data sets and analytic capabilities; and
- increase underwriting efficiency through the Combined Group's ability to match a wider suite of differentiated underwriting capabilities to better serve borrower needs;

#### ***Establish a well-balanced, resilient and diversified retail-wholesale funding platform***

- bring together OSB's established Kent Reliance retail deposit franchise with Charter Court's online savings deposit platform, sophisticated securitisation funding and balance sheet management capabilities to create a resilient and diversified funding platform to support the future growth with cost efficient funding of the Combined Group; and
- maintain optionality to benefit from the potential to execute structured balance sheet management transactions across the Combined Group's enlarged balance sheet by utilising Charter Court's in-house expertise to enable efficient access to the capital markets;

#### ***Maintain two leading, independent distribution platforms to create an enhanced proposition to the broker community***

- increase breadth of channels to market via the direct to broker and packager channels;
- deliver a broad range of complementary products, offering an improved proposition and service levels with no disruption to the broker distribution networks; and



- the two distribution platforms will continue to offer the Kent Reliance and Precise Mortgages brands and will report to Alan Cleary, Managing Director of Precise Mortgages, whose role will ensure best practice of each platform is leveraged across the Combined Group to maintain and further enhance broker service levels from what are currently two of the leading platforms in the market;

***Maintain operational centres of excellence to drive service levels and platform efficiency***

- maintain centres of excellence for core processes and capabilities on a best-in-class basis across OSB's and Charter Court's existing locations in Chatham, Wolverhampton and India; and
- deliver cost efficiencies and operational enhancements by leveraging OSB's efficient India based lending, savings and support operations and capabilities to reinforce a best-in-class management expense and cost to income ratios.

***Realise meaningful cost synergies with further potential benefits***

The Board of OSB is confident that, as a direct result of the Combination, the Combined Group will generate meaningful cost synergies and create additional shareholder value. The OSB Board, having reviewed and analysed the potential cost synergies of the Combination, and taking into account the factors they can influence, believes that the Combination will result in £22 million of pre-tax cost synergies on an annual run-rate basis (based on the pro forma results of the Combined Group for the year ended 31 December 2018) by the third anniversary of the completion of the Combination.<sup>2</sup>

The OSB Board expects approximately 30 per cent. of these cost synergies to be achieved by the end of the first 12-month period following completion of the Combination, approximately 75 per cent. by the end of the second 12-month period following completion of the Combination and the full run-rate by the third anniversary of completion of the Combination. On this basis, approximately 10 per cent. of the cost synergies are expected to be recognised in the first 12-month period following completion of the Combination, approximately 40 per cent. in the second 12-month period following completion of the Combination and approximately 90 per cent. in the 12-month period ending on the third anniversary of completion of the Combination.

The quantified cost synergies, which are expected to originate from the cost bases of both OSB and Charter Court, are expected to be realised from:

- the appropriate removal of duplicate senior management roles and central and support functions (expected to contribute approximately 50 per cent. of the full run-rate pre-tax cost synergies);
- efficiencies from combined lending operations (expected to contribute approximately 20 per cent. of the full run-rate pre-tax cost synergies);
- bringing Charter Court's savings account operations in-house (expected to contribute approximately 20 per cent. of the full run-rate pre-tax cost synergies); and
- other operational efficiencies (expected to contribute approximately 10 per cent. of the full run-rate pre-tax cost synergies).

These quantified cost synergies are based on a combined cost base for OSB and Charter Court, in each case in respect of the financial year ended 31 December 2018. The Boards of OSB and Charter Court believe that, given the growth profile of both businesses, the standalone cost base of each entity would have grown over time. As a result, over time, the quantified cost synergies described above could potentially be driven across a growing cost base and future planned expenses could potentially be avoided. These potential additional financial benefits have not been quantified for reporting under the City Code.

Further detail on the expected quantified financial benefits of the Combination and the costs to achieve them is given in the paragraph headed "Quantified Financial Benefits Statement" in paragraph 5 of this Part VI.

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<sup>2</sup> This statement constitutes a quantified financial benefits statement for the purposes of the City Code. Please see paragraph 6 of Part VI (Information about the Combination) and paragraph 14 of Part XVII (Additional information).

## 5. FINANCIAL BENEFITS AND EFFECTS OF THE COMBINATION

The Boards of OSB and Charter Court believe the Combination has a strong financial rationale and expect the Combination to have the following effects:

### ***Diversified, high quality loan book and funding platform***

- the Boards of OSB and Charter Court believe the Combined Group will benefit from a more diversified, high quality specialist mortgage loan book with low impairment rates;
- the Boards of OSB and Charter Court expect the Combined Group to benefit from a resilient and diversified funding platform. This will comprise a mix of deposit and wholesale funding, utilising Charter Court's well-established capital markets capabilities in securitisation and balance sheet structuring. Were the Combination to have completed as at 31 December 2018, the Combined Group would have had a customer deposit base of £13.2 billion, equating to 77 per cent. of its total funding;
- the Boards of OSB and Charter Court believe that the increased scale of the Combined Group and the resilient and diversified funding model should enable the Combined Group to refinance its term funding scheme balances on more advantageous terms (were the Combination to have completed as at 31 December 2018 term funding balances would have stood at £2.7 billion as at 31 December 2018, representing 15.6 per cent. of total funding); and
- based on the audited accounts for OSB and Charter Court for the financial year ended 31 December 2018, the Combined Group would have had £18.2 billion of total assets and a £15.6 billion total net customer loan portfolio as at 31 December 2018, were the Combination to have completed at that time;

### ***Robust pro forma capital position***

- the Boards of OSB and Charter Court expect the Combined Group to have a strong capital position following the completion of the Combination and believe the Combined Group's greater scale will improve its ability to optimise and diversify its capital resources;
- both OSB and Charter Court have initiated internal ratings based accreditation projects for their mortgage portfolios and will continue to work towards accreditation following the completion of the Combination; and
- the Combined Group will maintain an appropriate buffer over its regulatory minimum capital requirements;

### ***MREL***

- the Boards of OSB and Charter Court expect the Combination to result in the Combined Group being subject to the Bank of England's MREL requirements for bail-in resolution entities as a result of the size of the Combined Group's balance sheet, with a transition period expected to be at least 36 months following completion of the Combination;
- the Combination is expected to accelerate the MREL requirements for OSB and Charter Court as both companies would have become subject to MREL requirements in the medium term, based on historical growth rates;
- assuming required, the Combined Group's end-state MREL requirement and appropriate transitional period to reach its end-state MREL requirement will be determined by the Bank of England. The Boards of OSB and Charter Court have considered the implications of MREL on the Combined Group in their assessment of the Combination, and believe the Combined Group is better placed to address MREL requirements than if OSB and Charter Court were each to have an MREL requirement on a standalone basis as a result of future growth; and
- the Boards of OSB and Charter Court intend to put in place a new holding company for the Combined Group after the completion of the Combination to facilitate the issuance of MREL-qualifying debt instruments and compliance with the Combined Group's expected MREL requirement.

### **Quantified Financial Benefits Statement**

The Board of OSB is confident that, as a direct result of the Combination, the Combined Group will generate meaningful cost synergies and create additional shareholder value. The OSB Board, having reviewed and analysed the potential cost synergies of the Combination, and taking into account the factors they can influence, believes that the Combination will result in £22 million of pre-tax cost synergies on an annual run-rate basis (based on the pro forma results of the Combined Group for the year ended 31 December 2018) by the third anniversary of the completion of the Combination.<sup>3</sup>

The OSB Board expects approximately 30 per cent. of these cost synergies to be achieved by the end of the first 12-month period following completion of the Combination, approximately 75 per cent. by the end of the second 12-month period following completion of the Combination and the full run-rate by the third anniversary of completion of the Combination. On this basis, approximately 10 per cent. of the cost synergies are expected to be recognised in the first 12-month period following completion of the Combination, approximately 40 per cent. in the second 12-month period following completion of the Combination and approximately 90 per cent. in the 12-month period ending on the third anniversary of completion of the Combination.

The Board of OSB expects these anticipated quantified cost synergies will accrue as a direct result of the Combination and would not be achieved on a standalone basis.

The quantified cost synergies, which are expected to originate from the cost bases of both OSB and Charter Court, are expected to be realised from:

- the appropriate removal of duplicate senior management roles and central and support functions (expected to contribute approximately 50 per cent. of the full run-rate pre-tax cost synergies);
- efficiencies from combined lending operations (expected to contribute approximately 20 per cent. of the full run-rate pre-tax cost synergies);
- bringing Charter Court's savings account operations in-house (expected to contribute approximately 20 per cent. of the full run-rate pre-tax cost synergies); and
- other operational efficiencies (expected to contribute approximately 10 per cent. of the full run-rate pre-tax cost synergies).

It is expected that the realisation of these quantified cost synergies would give rise to one-off pre-tax costs of approximately £39 million. These are expected to be phased broadly evenly across a three year period following completion of the Combination.

Aside from the one-off exceptional costs referred to above and the costs associated with the potential acceleration of the Combined Group's expected MREL requirement, the Board of OSB does not expect any material pre-tax dis-synergies to arise in connection with the Combination.

References to anticipated synergies should be read in conjunction with paragraph 14 of Part XVII (Additional information).

### **Earnings accretive to shareholders of OSB and Charter Court**

The Combination is anticipated to be earnings accretive for the shareholders of both OSB and Charter Court in 2021 (excluding the additional financing costs related to the phased implementation of the Combined Group's expected MREL requirement)<sup>4</sup>. The OSB Directors believe that the expected increase in financing costs as a result of the Combined Group's expected MREL requirement (excluded in the assessment of earnings accretion mentioned above) would be more than offset by the expected pre-tax cost synergies on an annual run-rate basis of £22 million (such cost synergies being based on the pro forma results of the Combined Group for the year ended 31 December 2018).<sup>5</sup> In

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<sup>3</sup> This statement constitutes a quantified financial benefits statement for the purposes of the City Code. Please see paragraph 14 of Part XVII (Additional Information) for further details.

<sup>4</sup> Earnings accretive on an underlying basis. This statement is not intended to be, and should not be construed as, a profit forecast for the purposes of the City Code.

<sup>5</sup> Run-rate expected to be achieved by the third anniversary of completion of the Combination. This statement constitutes a qualified financial benefits statement for the purposes of the City Code. Please see paragraph 14 of Part XVII (Additional Information) for further details.

addition, the Boards of OSB and Charter Court believe that, given the growth profile of both businesses, the standalone cost base of each entity would have grown over time. As a result, over time, the quantified cost synergies described above could potentially be driven across a growing cost base and future planned expenses could potentially be avoided. These potential additional financial benefits have not been quantified for reporting under the City Code.

### ***Strong capital generation to support a strong dividend policy***

The Boards of OSB and Charter Court expect that the delivery of meaningful cost synergies from the Combination is expected to support improved capital generation in the future. As a result, and consistent with the current dividend policy of OSB and Charter Court, the Boards of OSB and Charter Court expect the Combined Group, following the completion of the Combination, to adopt a policy of paying out at least 25 per cent. of underlying profit after taxation attributable to ordinary shareholders.

## **6. INTEGRATION PLANNING**

In the period leading up to completion of the Combination, OSB and Charter Court will work together to develop a detailed integration plan based on a low-risk approach to ensure the integration is achievable. The Boards of OSB and Charter Court believe the integration will be deliverable based on the factors and with the oversight described below.

There are no current plans for large-scale IT integration and it is intended that the transfer of Charter Court's savings account operations will be achieved by the third anniversary of completion of the Combination through the origination of new savings accounts on OSB's established savings platform.

The integration of the two businesses will be further assisted by:

- similarities across OSB's and Charter Court's business models and operating platforms, such as the use of common systems;
- experience gained from OSB and Charter Court teams working closely together under the previous commercial relationship in mortgage cash management and related loan administration services provided to OSB by Charter Court, particularly in relation to processing and servicing capabilities;
- both management teams' experience of operating a multi-brand franchise; and
- complementary and highly engaged cultures across both workforces.

It is expected that operational migration will be concluded by the third anniversary of completion of the Combination to carefully manage execution risk and maintain operational integrity.

The integration plan and its delivery will be overseen by a highly experienced Board Integration Committee with a clear focus on maintaining operational excellence and the careful delivery of the cost synergies and other benefits of the Combination. The Board Integration Committee will be chaired by David Weymouth, the Deputy Chairman of the Combined Group, with Ian Lonergan, the current CEO of Charter Court, assuming the role of Integration Director of the Combined Group to facilitate both OSB's and Charter Court's capabilities to be brought together to deliver the expected benefits of the Combination. More information on the Board Integration Committee can be found in paragraph 7.5 of Part XVI (Directors, Senior Management and Corporate Governance).

## **7. MANAGEMENT, EMPLOYEES AND OFFICE LOCATIONS**

### **7.1 Board and management of the Combined Group**

Following completion of the Combination, and subject to regulatory approvals:

- Sir Malcolm Williamson, currently Chairman of Charter Court, will assume the Chairmanship of the Combined Group;
- Andy Golding and April Talintyre, currently CEO and CFO of OSB respectively, will retain their positions of CEO and CFO respectively in the Combined Group;

- David Weymouth, currently Chairman of OSB, will become the Deputy Chairman of the Combined Group and lead a Board Integration Committee with a clear focus on the delivery of cost synergies and the other expected benefits of the Combination;
- to ensure an appropriate balance of representation and governance, Noël Harwerth, Rajan Kapoor, Tim Brooke and Ian Ward, currently non-executive directors of Charter Court, will join the six current non-executive directors on the OSB Board, with Noël Harwerth joining as Senior Independent Director;
- Rajan Kapoor will chair the OSB Audit Committee, Sir Malcolm Williamson will chair the OSB Nomination and Governance Committee, Graham Allatt will chair the OSB Risk Committee and Mary McNamara will chair the OSB Remuneration Committee (the latter of which will comprise an equal number of members of the current OSB Board and the current Charter Court Board); and
- Peter Elcock will take on the group risk role with responsibility for the integration and convergence of the risk frameworks and function. Hasan Kazmi will remain CRO for the existing OSB business.

In addition, to ensure continuity and to deliver the benefits of the transaction to both sets of shareholders, following completion of the Combination, and subject to regulatory approvals:

- Ian Lonergan, currently CEO of Charter Court, will assume the role of Integration Director of the Combined Group for up to 18 months to facilitate bringing together OSB's and Charter Court's capabilities to deliver the expected benefits of the Combination;
- Sebastien Maloney, currently CFO of Charter Court, will be retained as an adviser to the Combined Group for up to 12 months to facilitate the integration of Charter Court's in-house capital markets and balance sheet management capabilities into the Combined Group to best establish the potential use of these capabilities across the enlarged balance sheet; and
- Philip Jenks, currently Deputy Chairman of Charter Court, will be retained as an adviser to the Integration Committee of the Combined Group for up to 12 months.

Subject to engagement with shareholders, the remuneration of Andy Golding and April Talintyre may be adjusted to reflect the growth in their roles and duties as a result of the Combination. Such adjustments are intended to be in line with the remuneration policy of OSB (as described in paragraph 3 of Part XVI (Directors, senior management and corporate governance)).

## **7.2 Employees**

Following completion of the Combination, the executive leadership of the Combined Group will aim to retain the best talent of Charter Court and OSB. The OSB Board expects that, to achieve the expected benefits of the Combination, some operational and administrative restructuring may be required following completion of the Combination. The synergy work carried out to date has confirmed the potential to reduce the duplication of roles, in particular as a result of the overlap in central and support functions between OSB and Charter Court, as well as efficiencies from combined lending operations, both of which are expected to lead to a decrease in the number of full-time employees in the Combined Group. It is currently expected that the number of full-time employees of the Combined Group, being approximately 1,684 as at 31 December 2018, will reduce by approximately 14 per cent., some of which would take place via natural attrition. This also does not take into account expected new roles to be created (primarily at OSB's India-based operations). The restructuring is expected to be phased over three years following completion of the Combination however, the detailed steps for such a restructuring are subject to further review and will be subject to any required consultation with employees and/or their representatives. It is expected that, where possible, the Combined Group will seek to review opportunities to reallocate staff from discontinued roles arising from the restructuring to other appropriate new roles that may be created from organic growth in the Combined Group.

It is not envisaged that there will be any material change to the balance of skills and functions of the employees and management in the Combined Group.



OSB intends to safeguard the existing contractual and statutory employment rights of the employees of OSB and Charter Court in accordance with applicable law upon completion of the Combination, and does not envisage making any material changes to the conditions of employment of the Charter Court employees. OSB has agreed that, following completion of the Combination, it will amend the redundancy policies operated within the Combined Group to provide, within a period following completion of the Combination to be agreed between OSB and Charter Court (and to be based on an anticipated integration period), an enhanced level of redundancy pay of twice statutory redundancy plus 1.5 weeks salary per year of service (with pro rata credit for part years' of service in respect of the 1.5 weeks).

### **7.3 Charter Court Executive Directors**

In connection with Ian Lonergan assuming the role of Integration Director of the Combined Group following the Combination, and Sebastien Maloney being retained as an adviser to the Combined Group following the Combination, OSB and Charter Court have agreed the following terms.

In respect of Ian Lonergan it has been agreed that, subject to the variations explained below, his current remuneration arrangements will continue during his service as Integration Director of the Combined Group. Following completion of the Combination, Ian Lonergan's annual bonus opportunity will be reduced from 125 per cent. of base salary per annum to 100 per cent. of base salary per annum. Any bonus will otherwise be delivered under terms broadly equivalent to those of OSB's normal annual bonus and deferral arrangements, save that in the event of a good leaver departure within six months of completion of the Combination any time-based pro-rating would be based on a minimum of six months' assumed service; and payment of the full bonus will require "on target" performance. Ian Lonergan's existing awards under the Charter Court Share Plans will be treated in line with all other awards under the plans, including the grant of replacement PSP awards, as summarised below at paragraph 15. If he remains in employment until the normal grant dates, Ian Lonergan will participate in the OSB Performance Share Plan 2014 in 2020 and may be eligible to participate in 2021 at a grant level of 100 per cent. (reduced from the current level of 125 per cent.). As an employee of the Combined Group, Ian Lonergan will be subject to the amended enhanced redundancy arrangements to be implemented by OSB as referred to above, save that the redundancy payment for Ian Lonergan will be limited to statutory redundancy plus 1.5 weeks' pay per year of service (with pro rata credit for part years' service in respect of those 1.5 weeks). If his employment is terminated at the end of the 18 months from completion of the Combination, or earlier by OSB other than for cause, Ian Lonergan will not be required to serve any notice period and will be made a payment in lieu of 12 months' notice. The period of notice that Ian Lonergan will be required to give of his resignation will reduce on a monthly basis over the final 12 months of the period of the arrangement, so as not to exceed the full duration of the arrangement (subject to any statutory requirements as to minimum notice). On his departure, it has been agreed that Ian Lonergan will be treated for his remuneration arrangements (including for determining eligibility for a payment in line with the enhanced element of the redundancy arrangements referred to above) as a redundant good leaver save where the departure is as a result of his resignation or dismissal for cause. On such a good leaver departure, the vesting of performance share plan awards would (or, in the case of an award granted in 2021, may) occur, subject to performance and time pro-rating, at the time of the departure.

It has been agreed that Sebastien Maloney will leave his current employment on completion of the Combination, and be provided with a payment in lieu of 12 months' base salary in line with his current employment contract and a redundancy payment. Sebastien Maloney will then be retained as an adviser to the Combined Group for a period of up to 12 months from completion of the Combination. Other than the incentive fees/cash PSP equivalent described below, he will be entitled to an overall payment of up to £540,600 (paid pro-rata monthly) and will also be entitled to receive incentive fees calculated on the basis of an aggregate maximum opportunity of £430,500. The amount of incentive fee payable will be based on performance conditions, with payment of the full fee opportunity requiring on target performance to be achieved. The performance metrics, as well as the other terms of this incentive fee arrangement, will be broadly equivalent to those applied under OSB's normal annual bonus and current deferral arrangements, save that in the event of a good leaver departure within six months of completion of the Combination any time-based pro-rating would be based on a minimum of six months'

assumed service. Sebastien Maloney's existing awards under the Charter Court Share Plans will be treated in line with all other awards under the plans, save that as he will not receive the replacement PSP awards summarised below at paragraph 15, OSB has agreed to provide him with a cash equivalent for those awards which will become payable on the same terms as apply to the replacement awards. On termination of his contract, other than by way of early termination by Sebastien Maloney or by OSB for serious breach of the contract or gross misconduct by Sebastien Maloney, Sebastien Maloney will be treated as a good leaver for the purpose of the incentive fee arrangement described above, and will be entitled to: (i) a termination payment equal to 3/104ths of his current salary per year of service (inclusive of his years of service as an employee of Charter Court prior to completion of the Combination, with pro rata credit for part years' service); and (ii) payment of any amount due in respect of the cash equivalent replacement share awards (as determined based on performance and subject to time pro-rating, in accordance with the terms of such awards).

All awards under any share plan (or their cash equivalent, if applicable), including any deferral, shall be subject to OSB's 2019 malus and clawback provisions.

The above is subject to obtaining any necessary or appropriate approvals from any regulatory authority, and to any provision of any applicable law or rule of any regulatory authority.

OSB has not held discussions in respect of the remuneration or incentive arrangements that may apply following completion of the Combination with any of the other Charter Court Directors.

#### **7.4 Headquarters and locations**

Upon completion of the Combination, OSB intends that the Combined Group will maintain its current locations and be headquartered in Chatham, United Kingdom. Charter Court's current headquarters in Wolverhampton will be retained as a centre of excellence. In addition, OSB and Charter Court intend to consolidate their existing London premises to new premises in London following completion of the Combination.

The OSB Board does not envisage any other changes with regard to the redeployment of OSB or Charter Court's existing material fixed assets, in particular there are no current plans for large-scale IT integration. Owing to the nature of its business, Charter Court has no research and development function.

#### **7.5 Pensions**

Following completion of the Combination, OSB does not intend to make any material changes with regard to the agreed employer contributions into Charter Court's existing defined contribution pension schemes or the accrual of benefits to existing members or the admission of new members to such pension schemes.

#### **7.6 Brands**

Following the completion of the Combination, OSB intends to retain and operate the lending brands of both OSB and Charter Court (including Kent Reliance, InterBay, Prestige and Precise Mortgages). In addition, OSB intends to operate both of OSB's and Charter Court's retail savings brands (Kent Reliance and Charter Savings Bank).

#### **7.7 Other**

No statements in this paragraph 7 constitute "post-offer undertakings" for the purposes of Rule 19.5 of the City Code.

### **8. INFORMATION ON THE OSB GROUP**

OSB began trading as a bank on 1 February 2011 and was admitted to the Main Market of the London Stock Exchange in June 2014. OSB joined the FTSE 250 index in June 2015. OSB is a specialist lending and retail savings group authorised by the PRA and regulated by the FCA and the PRA.

Based in Chatham, Kent, the OSB Group trades under the Kent Reliance, InterBay Commercial, Prestige Finance, and Heritable Development Finance brands in the UK. The OSB Group also has a presence in the Channel Islands under the Jersey Home Loans and Guernsey Home Loans brands.

OSB primarily targets underserved market sub-sectors that offer high growth potential, attractive risk-adjusted returns and where it has established expertise, platforms and capabilities. These include private rented sector/professional buy-to-let, commercial and semi-commercial mortgages, residential development finance, bespoke and specialist residential lending, secured funding lines and asset finance. OSB targets its customers through specialist brokers and independent financial advisers, and is differentiated through its use of high skilled, bespoke underwriting and its efficient operating model.

Please see Part VII of this Prospectus (Information about the OSB Group) for further information.

## **9. INFORMATION ON THE CHARTER COURT GROUP**

Charter Court began trading as a bank on 2 March 2015 and was admitted to the Main Market of the London Stock Exchange in October 2017. Charter Court joined the FTSE 250 index in March 2018. Charter Court is a specialist lending and retail savings group authorised by the PRA and regulated by the FCA and the PRA.

Based in Wolverhampton, the Charter Court Group trades under the Charter Savings Bank, Precise Mortgages, and Exact Mortgage Experts brands in the UK.

Charter Court targets underserved market sub-sectors underpinned by positive long-term market dynamics, and where it has established expertise spanning the entire mortgage lifecycle through its highly-skilled and experienced teams. These markets include buy-to-let, residential, bridging and second charge mortgage lending. Charter Court uses a broad and effective distribution network of intermediaries to target its customers, and is differentiated through its scalable automated technology and systems.

Please see Part VIII of this Prospectus (Information about the Charter Court Group) for further information.

## **10. CURRENT TRADING AND PROSPECTS**

### **10.1 OneSavings Bank plc**

OSB released its results for the financial year ended 31 December 2018 on 14 March 2019. A copy of the OSB 2018 Annual Report and Accounts is available on OSB's website at [www.osb.co.uk](http://www.osb.co.uk).

On 15 May 2019, OSB released its trading update for the first quarter of 2019, ended 31 March 2019. The OSB trading update for the first quarter of 2019 included the following statements:

- Strong financial and operational performance has continued in the first quarter.
- Loan book growth of 5 per cent. for the three months to 31 March 2019 with net loans and advances growing by £448 million to £9.4 billion during the quarter (31 March 2018: £368 million and £7.7 billion, respectively).
- Organic originations of £799 million in the first three months of 2019 (Q1 2018: £689 million).
- Asset pricing remains stable, however as previously guided we continue to see marginal NIM dilution, as the higher yielding back book runs off and front end pricing becomes more dominant in the overall make up of our net interest margin.
- Andy Golding, CEO of OSB, said: "I am delighted with the performance that OneSavings Bank has achieved so far this year. The loan book growth to £9.4 billion for the first quarter of the year was supported by £0.8 billion of organic originations. Our lending and retail savings franchises remain strong and we have seen a good start to the year, with lending exceeding expectations. I am particularly pleased by the strong growth in our commercial and residential propositions. However it is still early in the year, and given the continued uncertainty surrounding Brexit, there is no change in our outlook for 2019."

Since 31 March 2019, the OSB Group's financial performance has been in line with management's expectations.

## 10.2 Charter Court Financial Services Group plc

Charter Court released its results for the financial year ended 31 December 2018 on 14 March 2019. A copy of the Charter Court 2018 Annual Report and Accounts is available on Charter Court's website at [www.chartercourtfss.co.uk](http://www.chartercourtfss.co.uk).

On 15 May 2019, Charter Court released its trading update for the first quarter of 2019, ended 31 March 2019. The Charter Court trading update for the first quarter of 2019 included the following statements:

- Strong balance sheet growth maintained
  - Loan book up 17.9 per cent. year-on-year to £6.5 billion at 31 March 2019 (31 March 2018: £5.5 billion) or 28.1 per cent. to £7.1 billion excluding the impact of structured asset sales in the quarter
  - Record first-quarter new loan originations of £710 million (Q1 2018: £668 million) with strong performance across core buy to let, residential and short-term mortgage segments
  - High asset quality and strong credit performance maintained in the quarter
- Optimal funding mix maintained
  - Continued benefit of dynamic funding strategy leveraging customer deposits, wholesale and central bank facilities
  - Customer deposits up 29.7 per cent. year-on-year to £5.6 billion at 31 March 2019 (31 March 2018: £4.3 billion)
  - Residual interest in two securitisations sold for a pre-tax gain of £30 million in January 2019
- Well-capitalised for continued growth
  - CET 1 ratio of 16.3 per cent. (unaudited)
- Ian Lonergan, CEO of Charter Court, said: "I am pleased to report another strong quarter as we continued to deliver on our robust mortgage pipeline to generate record first quarter originations while maintaining high asset quality and strong credit performance. Despite a challenging macroeconomic and market backdrop, the Group completed the sale of its residual interest in two securitisations in January for a pre-tax gain of £30 million, equivalent to a 5.3 per cent. premium on the underlying £564 million of mortgage assets. Our performance in the first quarter continues to reflect the resilience of our lending operations and demonstrates our ability to structure and execute complex transactions, even in difficult market conditions."

Since 31 March 2019, the financial performance of the Charter Court Group has been in line with the expectations of its management.

## 11. DIVIDENDS AND DIVIDEND POLICY

Under the terms of the Combination, OSB and Charter Court have agreed that:

- Charter Court Shareholders will be entitled to receive and retain:
  - the dividend of 12.7 pence per Charter Court Share in respect of the completed twelve-month period ended 31 December 2018, as announced by Charter Court in the Charter Court Preliminary Results Announcement; and
  - should completion of the Combination occur after the record date for Charter Court's 2019 half yearly interim dividend in respect of the completed six-month period ending 30 June

2019 (subject to such record date being no earlier than 20 August 2019), any dividend announced, declared, made or paid by Charter Court, prior to the Effective Date, in respect of the completed six-month period ending 30 June 2019 without any reduction to the Consideration, provided that such dividend does not exceed one third of the total dividend per Charter Court Share for the completed twelve-month period ended 31 December 2018,

(any such dividend (or part thereof) that is permissible under these criteria being a “**Charter Court Permitted Dividend**”); and

- OSB Shareholders will be entitled to receive and retain:
  - the dividend of 14.6 pence per OSB Share in respect of the completed twelve-month period ended 31 December 2018, as announced by OSB in the OSB Preliminary Results Announcement; and
  - should completion of the Combination occur after the record date for OSB’s 2019 half yearly interim dividend in respect of the completed six-month period ending 30 June 2019 (subject to such record date being no earlier than 20 August 2019), any dividend announced, declared, made or paid by OSB, prior to the Effective Date, in respect of the completed six-month period ending 30 June 2019, provided that such dividend does not exceed one third of the total dividend per OSB Share for the completed twelve-month period ended 31 December 2018,

(any such dividend (or part thereof) that is permissible under these criteria being an “**OSB Permitted Dividend**”).

If, on or after the date of the Announcement and prior to the Effective Date, any dividend and/or other distribution and/or other return of value is announced, declared, made or paid or becomes payable:

- in respect of Charter Court Shares, other than a Charter Court Permitted Dividend or a Charter Court Equalising Dividend, or in excess of a Charter Court Permitted Dividend or a Charter Court Equalising Dividend, OSB reserves the right (without prejudice to any right OSB may have, with the consent of the Panel, to invoke Condition 4(H)(ii) in the Scheme Document) to (at OSB’s sole discretion): (i) reduce the Consideration by an amount equivalent to all or any part of such excess, in the case of Charter Court Permitted Dividends or Charter Court Equalising Dividends, or otherwise by the amount of all or part of any such dividend and/or other form of capital return or distribution, in which case any reference in the Announcement or in the Scheme Document (or, in the event that the Combination is to be implemented by means of an Offer, the Offer Document) to the Consideration will be deemed to be a reference to the Consideration as so reduced; and/or (ii) declare and pay an equalising dividend to OSB Shareholders so as to reflect the value attributable to all or any part of such excess, in the case of Charter Court Permitted Dividends or Charter Court Equalising Dividends, or otherwise by the amount of all or part of any such dividend and/or other form of capital return or distribution (any such equalising dividend declared or paid in accordance with this point (ii) being an “**OSB Equalising Dividend**”); and/or
- in respect of OSB Shares, other than an OSB Permitted Dividend or an OSB Equalising Dividend, or in excess of an OSB Permitted Dividend or an OSB Equalising Dividend, Charter Court shall be entitled to declare and pay an equalising dividend to Charter Court Shareholders so as to reflect the value attributable to all or any part of such excess, in the case of OSB Permitted Dividends or OSB Equalising Dividends, or otherwise by the amount of all or part of any such dividend and/or other form of capital return or distribution, without any consequential change to the Consideration (a “**Charter Court Equalising Dividend**”).

The Charter Court Directors have confirmed that Charter Court has not announced, declared, made or paid any dividend and/or other distribution and/or other return of value other than a Charter Court Permitted Dividend in the period commencing on the date of the Firm Offer Announcement and ending on the Latest Practicable Date.

The OSB Directors have confirmed that OSB has not announced, declared, made or paid any dividend and/or other distribution and/or other return of value other than an OSB Permitted Dividend in the period commencing on the date of the Firm Offer Announcement and ending on the Latest Practicable Date.



### ***Dividend policy for the Combined Group***

Given the expected strong capital generation and consistent with the current dividend policy of OSB and Charter Court, the Boards of OSB and Charter Court expect the Combined Group, following the completion of the Combination, to adopt a policy of paying out at least 25 per cent. of underlying profit after taxation attributable to ordinary shareholders.

Irrespective of the date on which the Effective Date falls, Charter Court Shareholders will not be entitled to receive any dividend planned, announced, declared, made or paid by OSB for the benefit of the OSB Shareholders by reference to a record date falling prior to the Effective Date.

## **12. STRUCTURE OF THE COMBINATION**

### **12.1 Scheme of arrangement**

The Combination is being effected by means of a Court-sanctioned scheme of arrangement between Charter Court and the Scheme Shareholders under Part 26 of the Companies Act.

The purpose of the Scheme is to provide for OSB to become the holder of the entire issued and to be issued share capital of Charter Court. This is to be achieved by the transfer of the Scheme Shares to OSB, in consideration for which the Scheme Shareholders will receive the Consideration.

To become effective, the Scheme must be approved at the Court Meeting by a majority in number representing at least 75 per cent. of the voting rights of the holders of Scheme Shares in issue as at the Voting Record Time (or the relevant class or classes thereof, if applicable) present and voting (and entitled to vote), either in person or by proxy, at such Court Meeting. The Scheme also requires the Charter Court Resolutions to be approved by at least 75 per cent. of the voting rights of Charter Court Shareholders present and voting, either in person or by proxy, at the Charter Court General Meeting and the OSB Resolution being passed by the requisite majority of OSB Shareholders at the OSB General Meeting. The Court Meeting has been convened for 10.30 a.m. on 6 June 2019 and the Charter Court General Meeting has been convened for 10.45 a.m. on 6 June 2019. Following the Charter Court Meetings, the Scheme shall not become effective unless the Scheme is sanctioned by the Court (with or without modification but subject to any modification being on terms reasonably acceptable to Charter Court and OSB) and the Scheme Court Order is delivered to the Registrar of Companies for registration.

The Scheme is also subject to further terms and conditions that are set out in the Scheme Document.

The Scheme Document includes full details of the Scheme, together with an explanatory statement providing details of the Combination, and the notices convening the Court Meeting and the Charter Court General Meeting. The Scheme Document also contains the expected timetable for the Combination and specifies the necessary actions to be taken by Charter Court Shareholders. The Scheme Document and Forms of Proxy are being made available to all Charter Court Shareholders at no charge for them.

Once the necessary approvals from Charter Court Shareholders and OSB Shareholders have been obtained and the other Conditions have been satisfied or (where applicable) waived and the Scheme has been sanctioned by the Court, the Scheme will become effective upon delivery of the Scheme Court Order to the Registrar of Companies for registration.

Upon the Scheme becoming effective, it will be binding on all Charter Court Shareholders, irrespective of whether or not they attended or voted at the Court Meeting or the Charter Court General Meeting (and if they attended and voted, whether or not they voted in favour).

If the Scheme does not become effective on or before the Longstop Date, it will lapse and the Combination will not proceed (unless the Panel otherwise consents).

The Scheme is governed by English law and is subject to the jurisdiction of the Court. The Scheme is subject to the applicable requirements of the City Code, the Panel, the London Stock Exchange and the FCA.

## 12.2 Conditions

The Combination is subject to the terms and conditions set out in the Scheme Document, including, among other things, upon:

- the CMA confirming, in terms reasonably satisfactory to OSB, that the Combination or any matter arising therefrom or related thereto or any part of it will not be subject to a reference under section 33 of the Enterprise Act 2002;
- in respect of OSB and each other person required to give a notice under section 178 of FSMA in connection with the Combination, the appropriate regulator(s) (as defined under section 178(2A) of FSMA) of each UK authorised person (as defined under section 191G of FSMA) over which the Combination contemplates an acquisition of or increase in control:
  - giving notice for the purposes of section 189(4)(a) of FSMA that it has determined to approve such acquisition of or increase in control, which (if given on any terms which may reasonably be expected to have an adverse impact on the Wider OSB Group or the Wider Charter Court Group) is on terms satisfactory to OSB (acting reasonably); or
  - being treated, by virtue of section 189(6) of FSMA, as having approved such acquisition of or increase in control;
- the Charter Court General Meeting and the Court Meeting being held no later than 30 June 2019 or such later date as may be agreed in writing between OSB and Charter Court with the consent of the Panel and the approval of the Court (if such approval is required);
- the Scheme being approved by the requisite majority of Charter Court Shareholders at the Court Meeting and the Charter Court Resolutions being passed by the requisite majority of Charter Court Shareholders at the Charter Court General Meeting;
- the OSB Resolution being passed by the requisite majority of OSB Shareholders at the OSB General Meeting;
- the Scheme being sanctioned by the Court no later than the later of: (a) the 22nd day after the expected date of the Court Sanction Hearing to be set out in the Scheme Document; and (b) 30 days after all the Conditions (other than the Scheme Condition) have been satisfied or waived;
- the Scheme becoming effective by the Longstop Date; and
- Admission becoming effective.

In respect of condition 4(B) (as summarised in the second bullet point of this paragraph 12.2), under the terms of the irrevocable undertaking provided by Elliott in favour of OSB, Elliott has unconditionally undertaken to take (and to procure that all persons that are required to give notice under section 178 of FSMA in connection with the Combination by virtue of, or as a result of, any decision by Elliott to acquire or increase its interest in the New OSB Shares take) all reasonable steps to satisfy the Change in Control Condition in respect of its and any member of its group's proposed interest in the New OSB Shares as contemplated by the Combination. OSB has agreed not to waive the Change in Control Condition in respect of Elliott (if such Condition is applicable to Elliott) until the Change in Control Condition has been satisfied in respect of Elliott. Further details of this irrevocable undertaking (including the circumstances in which it will fall away) are set out in paragraph 17 of this Part VI.

## 12.3 Procedure

Before the Court is asked to sanction the Scheme, the Scheme will require the approval of Scheme Shareholders at the Court Meeting and the passing of the Charter Court Resolutions at the Charter Court General Meeting.

## 12.4 Court Meeting

The Court Meeting, which has been convened for 10.30 a.m. on 6 June 2019, is being held at the direction of the Court to seek the approval of Charter Court Shareholders entitled to vote for the Scheme.

At the Court Meeting, voting will be by way of poll and each Charter Court Shareholder present (and entitled to vote), in person or by proxy, will be entitled to one vote for each Charter Court Share held. In order for the resolution to be passed, it must be approved by a majority in number of Charter Court Shareholders representing not less than 75 per cent. in value of the voting rights of Charter Court Shareholders (other than holders of Excluded Shares) who are on the register of members of Charter Court at the Voting Record Time and who are present and voting (and entitled to vote), whether in person or by proxy, at the Court Meeting (and at any separate class meeting which may be required (or any adjournment thereof)).

## **12.5 The Charter Court General Meeting**

The Charter Court General Meeting has been convened for 10.45 a.m. on 6 June 2019, or as soon thereafter as the Court Meeting has concluded or been adjourned, to consider and, if thought fit, pass the Charter Court Resolutions to:

- authorise the Charter Court Directors to effect the Scheme; and
- approve certain amendments to the Articles to ensure that, subject to the Scheme becoming Effective, any Charter Court Shares issued to any person (including any participant in the Charter Court Share Plans) (other than to OSB and/or its nominees) at or after the Scheme Record Time will be compulsorily acquired by, or to the order of, OSB, in consideration of (subject to certain terms and conditions) the issue of New OSB Shares and payment of cash consideration on the same basis as under the Scheme.

The proposed amendments to the Charter Court Articles referred to above are set out in full in the Scheme Document.

At the Charter Court General Meeting, voting will be by way of poll and each Charter Court Shareholder present, in person or by proxy, will be entitled to one vote for each Charter Court Share held. In order for the Charter Court Resolutions to be passed, they must be approved by votes in favour representing at least 75 per cent., of the votes cast either in person or by proxy at the Charter Court General Meeting.

## **12.6 Scheme Sanction**

Before the Scheme can become effective in accordance with its terms, the Court must sanction the Scheme at the Court Sanction Hearing and issue the Court Order. Charter Court will give adequate notice of the date and time of the Court Sanction Hearing, once known, by issuing an announcement through a Regulatory Information Service. The Court Sanction Hearing, in accordance with the Co-operation Agreement, is to be held on a date to be agreed in writing between Charter Court and OSB (acting reasonably in good faith) or otherwise set for a date no earlier than the earlier in time to occur of: (i) the date on which all the Conditions (other than the Scheme Condition) have been satisfied; and (ii) the date that is one month prior to the Longstop Date.

The Scheme will become effective on delivery of a copy of the Court Order to the Registrar of Companies.

Upon the Scheme becoming effective:

- it will be binding on all holders of Charter Court Shares (other than Excluded Shares) on the register of members of Charter Court at the Scheme Record Time irrespective of whether or not they attended the Charter Court Meetings or voted in favour of, or against, the Scheme at the Court Meeting and/or the Charter Court Resolutions at the Charter Court General Meeting;
- share certificates in respect of Charter Court Shares will cease to be valid and every Charter Court Shareholder shall be bound at the request of Charter Court to deliver up their share certificate(s) to Charter Court (or any person appointed by Charter Court to receive the same) or to destroy the same; and
- entitlements to Charter Court Shares held within the CREST system will be cancelled.

The Charter Court Shares will be acquired fully paid and free from all liens, charges, equitable interests, encumbrances and rights of pre-emption and any other interests of any nature whatsoever and together with all rights attaching thereto.

If the Scheme does not become effective in accordance with its terms on or before the Longstop Date, it will lapse and the Combination will not proceed (unless the Panel (and, if applicable, the Court) otherwise consents).

The Scheme is governed by English law and is subject to the jurisdiction of the courts of England and Wales. The Scheme is also subject to the applicable requirements of the City Code, the Panel, the Listing Rules, the London Stock Exchange, the FCA and the Registrar of Companies.

## **12.7 Modifications to the Scheme**

The Scheme contains a provision for Charter Court and OSB to consent jointly on behalf of all persons concerned, to any modification of, or addition to, the Scheme or to any condition approved or imposed by the Court. The Court would be unlikely to approve any modification of, or addition to, or impose a condition on, the Scheme which might be material to the interests of Charter Court Shareholders unless Charter Court Shareholders were informed of such modification, addition or condition and given the opportunity to vote on that basis. It would be a matter for the Court to decide, in its discretion, whether or not a further meeting of Charter Court Shareholders (and any separate class meeting(s)) should be held in these circumstances.

## **12.8 Fractional entitlements**

Fractions of New OSB Shares will not be allotted or issued to Charter Court Shareholders pursuant to the Scheme. Instead, the fractional entitlements of Scheme Shareholders at the Scheme Effective Time to New OSB Shares shall be aggregated and OSB shall procure that the maximum whole number of New OSB Shares resulting therefrom shall be allotted and issued to a person appointed by OSB to hold such New OSB Shares on behalf of the relevant Scheme Shareholders. OSB shall procure that such New OSB Shares are sold in the market as soon as practicable after the Scheme Effective Time and that the net proceeds of sale (after the deduction of all commissions and expenses incurred in connection with such sale, including any value added tax payable on the proceeds of sale) shall be paid in due proportion to the relevant Scheme Shareholders (rounded down to the nearest penny) in accordance with the provisions of the Scheme. However, fractional entitlements to amounts (after the deduction of all commissions and expenses incurred in connection with such sale, including any value added tax payable on the proceeds of sale) of £1.00 or less shall not be paid to the relevant Scheme Shareholders who would otherwise be entitled to them under the Combination, but shall be retained for the benefit of OSB.

## **13. CHARTER COURT SHARE PLANS**

Charter Court and OSB have agreed the following arrangements in respect of awards under the Charter Court Share Plans, subject to any necessary or appropriate approvals from any regulatory authority, and to any provision of any applicable law or rules of any regulatory authority.

### **13.1 Treatment of existing awards**

Awards under the Charter Court Performance Share Plan 2017 will, to the extent not already vested and in accordance with the rules of the plan, vest and become exercisable on the date on which the Court sanctions the Scheme. Awards granted in 2017 will become capable of vesting to the full extent determined by the applicable performance conditions (as determined by the Charter Court Remuneration Committee), without reduction for time. A time-based proportion of Awards granted in 2018 and 2019 will become capable of vesting, on the basis of an agreed time-based proportion of 2/3rds for awards granted in 2018 and on the basis of the proportion of the normal vesting period elapsed to the date of the Court Sanction Hearing for awards granted in 2019. The extent to which that proportion of these Awards will vest will be determined by the applicable performance conditions (as determined by the Charter Court Remuneration Committee).

Awards granted in 2019 under the Charter Court Deferred Bonus Plan 2017 will, in accordance with the rules of the plan, vest in full on the date on which the Court sanctions the Scheme.

Options granted under the Charter Court Sharesave Scheme will become exercisable on the date on which the Court sanctions the Scheme to the extent of participants' savings accrued to the date of exercise. Alternatively, OSB will offer participants the choice to roll-over options under the Charter Court Sharesave Scheme into equivalent options over OSB Shares.

Participants in the Charter Court Share Plans will be contacted regarding the effect of the Combination on their rights under these schemes and appropriate proposals will be made to such participants in due course. Details of the proposals will be set out in the Scheme Document or, as the case may be, the Offer Document and in separate letters to be sent to participants in the Charter Court Share Plans.

The Combination will extend to any Charter Court Shares which are unconditionally allotted, issued or transferred to satisfy the exercise of options or vesting of awards under the Charter Court Share Plans prior to the Scheme Record Time. As the Scheme will not extend to Charter Court Shares issued after the Scheme Record Time, it is proposed the Charter Court Articles will be amended such that any Charter Court Share issued after the Scheme Record Time will be automatically transferred to OSB in consideration for the same consideration as is payable under the Scheme.

### **13.2 Continuation of PSP awards**

OSB has agreed that the portion of awards granted in 2018 and 2019 under the Charter Court Performance Share Plan 2017 that will not be capable of vesting due to time pro rating at the time of the sanction of the Scheme by the Court (being one third of such awards granted in 2018, and the relevant proportion for awards granted in 2019 being dependent on the date of the Court Sanction Hearing) will be replaced by the grant of an award over an equivalent number of OSB Shares under terms substantively aligned with the OSB Performance Share Plan 2014, with such replacement awards to be subject to the same vesting schedule and performance conditions as apply to awards granted by OSB in 2018 and 2019 respectively. In the event of a need to apply time pro-rating to such awards (such as in the event of a good leaver), the pro-rating of the awards granted in replacement of awards granted in 2018 will be assessed by reference to the period of one year from the date the Scheme becomes effective (and by reference to the remainder of the applicable performance period in the case of awards granted in replacement of awards granted in 2019).

## **14. THE NEW OSB SHARES**

Subject to the Scheme becoming effective in accordance with its terms, Charter Court Shareholders (other than Restricted Overseas Persons) on the register of members of Charter Court at the Scheme Record Time will be entitled to receive 0.8253 New OSB Shares for each Scheme Share held.

The New OSB Shares will be issued in registered form and will be capable of being held in certificated and uncertificated form.

The New OSB Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the OSB Shares in issue at the time the New OSB Shares are issued pursuant to the Scheme, including in relation to the right to receive notice of, and to attend and vote at, general meetings of OSB, the right to receive and retain any dividends and other distributions declared, made or paid by reference to a record date falling on or after the Effective Date, and to the right to participate in the assets of OSB upon a winding-up of OSB.

The New OSB Shares will be issued free from all liens, charges, encumbrances and other third-party rights and/or interests of any nature whatsoever.

## **15. DELISTING OF CHARTER COURT SHARES**

It is intended that the last time for dealing in Charter Court Shares on the London Stock Exchange will be 4.30 p.m. on the first Business Day following the Scheme Court Sanction Hearing, such that no transfers of Charter Court Shares will be registered after 6.00 p.m. on that date. It is intended that dealings in Charter Court Shares on the London Stock Exchange will be formally suspended before markets open on the second Business Day following the Scheme Court Sanction Hearing.

It is further intended that, prior to the Scheme becoming effective in accordance with its terms, an application will be made by Charter Court to the London Stock Exchange to cancel trading in Charter Court Shares on its Main Market for listed securities and to the FCA to cancel the listing of the Charter Court Shares from the Official List, in each case to take effect shortly after the Effective Date (and subject to the Scheme becoming effective).



On the Effective Date, Charter Court will become a wholly-owned subsidiary of OSB and share certificates in respect of Charter Court Shares will cease to be valid. In addition, entitlements to the Charter Court Shares held within the CREST system will be disabled from the Scheme Record Time and expired and removed soon thereafter.

## **16. LISTING, DEALINGS AND SETTLEMENT OF THE NEW OSB SHARES**

Prior to the Combination completing, applications will be made to the London Stock Exchange for the New OSB Shares to be admitted to trading on its Main Market for listed securities and to the FCA for the New OSB Shares to be admitted to the premium listing segment of the Official List.

It is expected that the New OSB Shares will be admitted to trading on the London Stock Exchange by 8.00 a.m. on the first Business Day following the Effective Date and dealings for normal settlement in the New OSB Shares will commence at, or shortly after, that time.

No application has been made, or is currently intended to be made, by OSB for the New OSB Shares to be admitted to listing or trading on any other exchange.

## **17. IRREVOCABLE UNDERTAKINGS**

OSB has received irrevocable undertakings from the Charter Court Directors who hold Charter Court Shares and Elliott to vote in favour of the Scheme at the Court Meeting and the Charter Court Resolutions at the Charter Court General Meeting in respect of a total of 79,223,469 Charter Court Shares, representing, in aggregate, approximately 33.10 per cent. of the ordinary issued share capital of Charter Court as at the Latest Practicable Date. Under the terms of its irrevocable undertakings, Elliott has unconditionally undertaken to take (and to procure that all persons that are required to give notice under section 178 of FSMA in connection with the Combination by virtue of, or as a result of, any decision by Elliott to acquire or increase its interest in the New OSB Shares take) all reasonable steps to satisfy the Change in Control Condition in respect of its and any member of its group's proposed interest in the New OSB Shares as contemplated by the Combination.

In addition, OSB has received a letter of intent from Merian to vote in favour of the Scheme at the Court Meeting and the Charter Court Resolutions to be proposed at the Charter Court General Meeting in respect of 34,834,451 Charter Court Shares, representing, in aggregate approximately 14.56 per cent. of Charter Court's issued share capital as at the Latest Practicable Date.

Charter Court has received irrevocable undertakings from the OSB Directors who hold OSB Shares to vote in favour of the OSB Resolution at the OSB General Meeting in respect of a total of 1,203,775 OSB Shares, representing, in aggregate, approximately 0.49 per cent. of the ordinary issued share capital of OSB as at the Latest Practicable Date.

Charter Court has also received a letter of intent from Merian to vote in favour of the OSB Resolution to be proposed at the OSB General Meeting in respect of a total of 28,755,206 OSB Shares representing, in aggregate, approximately 11.73 per cent. of OSB's issued share capital as at the Latest Practicable Date.

Further details of these irrevocable undertakings and letters of intent (including the circumstances in which they will fall away) are set out in paragraph 15 of Part XVII (Additional Information).

## **18. DILUTION**

Following completion of the Combination, the issue and allotment of the New OSB Shares will result in OSB's issued ordinary share capital increasing by 82 per cent. relative to the number of OSB Shares in issue as at the Latest Practicable Date. Immediately following completion of the Combination, former Charter Court Shareholders will own approximately 45 per cent. of the issued ordinary share capital of the Combined Group (based on the existing ordinary issued share capital of OSB and the fully diluted share capital of Charter Court).<sup>6</sup>

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<sup>6</sup> Please see paragraph 18 of Part XVII (Additional Information) for details of how the dilution statistics are calculated.

## PART VII

### INFORMATION ABOUT THE OSB GROUP

*The following information should be read in conjunction with the information appearing elsewhere in, or incorporated by reference in, this Prospectus, including the financial and other information in, or incorporated by reference in, Part IX (Financial information in relation to OSB and the OSB Group) and Part X (Operating and financial review of the OSB Group).*

#### 1. INTRODUCTION

OSB began trading as a bank on 1 February 2011 and was admitted to the Main Market of the London Stock Exchange in June 2014. OSB joined the FTSE 250 index in June 2015. OSB is a specialist lending and retail savings group authorised by the PRA and regulated by the FCA and the PRA.

Based in Chatham, Kent, the OSB Group trades under the Kent Reliance, InterBay Commercial, Prestige Finance, InterBay Asset Finance, and Heritable Development Finance brands in the UK. The OSB Group also has a presence in the Channel Islands under the Jersey Home Loans and Guernsey Home Loans brands.

OSB primarily targets underserved market sub-sectors that offer high growth potential, attractive risk-adjusted returns and where it has established expertise, platforms and capabilities. These include private rented sector/professional buy-to-let, commercial and semi-commercial mortgages, residential development finance, bespoke and specialist residential lending, secured funding lines and asset finance. OSB targets its customers through specialist brokers and independent financial advisers, and is differentiated through its use of high skilled, bespoke underwriting and its efficient operating model.

OSB has grown organically and through acquisition (in particular, the acquisition of back book portfolios).

#### 2. BUSINESS OVERVIEW

OSB's strategic objective is to be a leading specialist lender in its chosen sub-sectors, supported by a strong retail savings franchise. OSB's priorities and business overview are as follows:

##### ***Specialist lending business***

Be a leading specialist lender in chosen markets; retaining focus on bespoke and responsive underwriting; and further deepening relationships and reputation for delivery with intermediaries.

##### *Buy-to-Let/SME*

- Buy-to-Let mortgages: The OSB Group provides loans to entities and individuals, secured on residential property held for investment purposes.
- Commercial mortgages: The OSB Group provides loans to entities and individuals, secured on commercial and semi-commercial properties held for investment purposes or for owner-occupation.
- Residential development: The OSB Group provides development loans to small and medium-sized developers of residential property. Loans are staged, with monitoring surveyors signing off each stage of the development before funds are released.
- Funding lines: The OSB Group provides funding lines (loans) to non-bank finance companies secured against portfolios of financial assets, principally mortgages and leases.
- Asset finance: The OSB Group provides loans under hire purchase, leasing and refinancing arrangements to UK SMEs and small corporates to finance business-critical assets.

##### *Residential*

- First Charge: The OSB Group provides loans to individuals, secured by a first charge against their residential home. The target market includes high net worth and complex income

customers. OSB is also an expert in shared ownership, lending to first-time buyers and key workers buying a property in conjunction with a housing association.

- Second charge: The OSB Group provides loans to individuals seeking to raise additional funds secured by a second charge against their residential home. It predominantly targets good credit quality borrowers.
- Funding lines: The OSB Group provides funding lines to non-bank lenders who operate in high yielding, specialist sub-segments such as residential bridge finance.

### **Funding**

The OSB Group is predominantly funded by retail savings originated through the long established Kent Reliance name, building upon over 150 years of heritage in savings. It delivers a variety of fixed, notice, easy access and regular savings products, including ISAs, to customers and includes online and postal channels, as well as a network of branches and third party operated agencies in the South East of England. This provides a stable funding platform for OSB to grow its loan book.

Diversification of funding is currently provided by access to a securitisation programme and the TFS, which OSB joined in 2016. OSB monitors the wholesale funding markets for opportunities to access the securitisation markets and is fully prepared to access such markets as and when it considers appropriate in light of market conditions and other relevant circumstances. OSB is fully prepared to execute securitisation transactions, including funding transactions and/or transactions which would result in the full de-recognition of the underlying mortgage assets, through the sale of residual positions in future securitisation vehicles. De-recognition of the underlying mortgage assets and associated risk-weighted assets could provide capital resources to support lending growth and may result in a gain (or loss) on sale.

### **Operating model**

Deliver distribution, sales and risk processes under a coordinated structure; leverage OSB's unique and cost efficient operating model including OSB India; and maintain an efficient, scalable and resilient infrastructure. OSB India undertakes a range of primary processing services at a significantly lower cost than an equivalent UK-based operation, whilst delivering consistently high quality service levels and additionally supports IT finance and human resources.

Further information on OSB's business model is set out in the OSB 2018 Annual Report and Accounts under the heading "Strategic report", such information is to be incorporated by reference into, and form part of, this Prospectus.

## **3. RISK MANAGEMENT**

The OSB Group operates a number of policies designed to manage the risks to which the OSB Group is exposed. The table below sets out the sections of the OSB 2018 Annual Report and Accounts that contain information in respect of the OSB Group's risk management policies which are incorporated by reference into, and form part of, this Prospectus.

<b>Reference document</b>	<b>Topic</b>	<b>Information incorporated by reference into this Prospectus</b>	<b>Page number in reference document</b>
OSB 2018 Annual Report and Accounts	Risk management	All text and tables under the heading " <i>Risk review</i> "	36-40
		All text and tables under the heading " <i>Principal risks and uncertainties</i> "	41-49
		All text and tables under the heading " <i>Risk Committee report</i> "	87-89

#### **4. EMPLOYEES**

OSB's employees are central to the OSB business and their skills, expertise and enthusiasm are fundamental to achieving the OSB Group's strategic goals. In 2018, the OSB Group reached a milestone of 1,000 employees across the UK and India by welcoming 165 new employees in the UK and 147 new employees in India. OSB regularly asks its employees for their opinion in company-wide surveys. Responses from UK employees enabled OSB to enhance the working experience, resulting in the Bank being included in The Sunday Times 100 Best Companies to Work For. It takes the same approach at OSB India, which was officially certified by the Great Place to Work Institute as a 'Great place to work' in 2018.

OSB provides learning and development opportunities for all of its employees, through a mix of internal and externally sourced content. In 2018, there were 995 attendees at 160 separate workshops or learning events delivered by the OSB Group's People Development Team in the UK and a further 97 OSB attendees at other events delivered by external training providers. OSB has a genuine desire to retain, support and develop its employee base. During 2018, 44 employees in the UK and 42 employees in India were formally promoted to a more senior grade. Regretted attrition rate for 2018 was 9% for UK employees and 11% for employees in India.

Employees are encouraged to hold shares in OSB for the long term via an annual Sharesave Scheme. The OSB Group first launched its annual Sharesave Scheme in June 2014.

#### **5. INFORMATION TECHNOLOGY**

OSB aims to deliver efficient, scalable and resilient infrastructure. The ongoing growth of OSB has challenged its automation programmes and resulted in an increase in the number of manual processes. Whilst key manual processes are well managed and there is continuing investment in automation, the challenges presented by the pace of growth remain a key area of management focus.

OSB continues to invest in IT security, supported by market leading data security and resilience experts. The effectiveness of OSB's IT security is overseen by a dedicated IT Security Governance Committee, with specialist IT security staff employed by OSB. Moreover, OSB has developed a thorough testing schedule of its IT to validate its responses to a range of significant scenarios and a range of back-up technologies are employed to provide real-time replication of various critical systems while disaster recovery capabilities are tested annually.

The OSB Group relies on a number of third parties to provide IT services and software licences.

## PART VIII

### INFORMATION ABOUT THE CHARTER COURT GROUP

#### 1. INTRODUCTION

Charter Court is a specialist lending and retail savings group serving the UK residential mortgage market through intermediaries and an online retail savings bank offering sight and term deposits directly to consumers. Charter Court is a leading specialist lender in the UK based on volume of mortgages generated in 2018 in the core markets in which it operates and is purpose built to meet increasing customer demand for specialist mortgages, attractive savings products, exceptional value and great service.

Based in Wolverhampton, the Charter Court Group trades under the Charter Savings Bank, Precise Mortgages, and Exact Mortgage Experts brands in the UK. Its wholly-owned subsidiary, CCFSL, is authorised by the PRA and regulated by the FCA and the PRA.

The Charter Court Group was founded in November 2008, initially to provide credit consultancy and mortgage administration services for pools of mortgage loans owned by third parties. The Charter Court Group's founder shareholders were Elliott International, L.P. and Elliott Associates, L.P. and members of the Charter Court Group's management.

By October 2010, Charter Court was granted permission by the Financial Services Authority (now the FCA) to act as an authorised mortgage administrator and lender, among the first such authorisations obtained by any new mortgage administrator or lender in the UK since the onset of the global financial crisis in late 2007 and early 2008. Cumulative mortgage lending by the Charter Court Group reached £11.051 billion by 31 December 2018.

In December 2013, the Charter Court Group successfully completed its first residential-mortgage-backed securitisation transaction. The success of the first transaction paved the way for ten subsequent securitisations by the end of 2018.

In January 2015, Charter Court obtained its banking licence from the PRA, putting it among the first new banks in the UK to be granted a licence since the onset of the global financial crisis. This was followed in March 2015 by the launch of Charter Savings Bank as an online retail savings bank. Retail deposit balances with Charter Savings Bank had reached £5.1 billion by 31 December 2018.

Charter Court successfully completed a premium listing on the Main Market of the London Stock Exchange on 4 October 2017 and joined the FTSE 250 index in March 2018.

#### 2. BUSINESS OVERVIEW

Charter Court firmly targets underserved market sub-sectors underpinned by positive long-term market dynamics, and where it has established expertise spanning the entire mortgage lifecycle through its highly-skilled and experienced teams. These markets include:

- Buy-to-let mortgages – utilised by professional and non-professional landlords through a wide product offering, including personal and limited company ownership and lifetime trackers;
- Specialist residential mortgages – targeting prime borrowers, complex prime borrowers (including self-employed, Help-to-Buy, Right to Buy and new-build) and near-prime borrowers (with imperfections in their credit history that are considered minor by the Charter Court Group);
- Bridging loans – serving regulated and unregulated borrowers focussing on lending to prime borrowers only (with loan-to-value ratios of up to 75 percent and no maximum loan size) to fund short term cash flow needs, for example to cover light and heavy refurbishments, home improvements, auction purchases and also to “bridge” delays in obtaining mortgages and “chain breaks”; and



- Second charge mortgages – lending to prime residential and buy-to-let customers, with low loan-to-value ratios, who require additional capital and who wish to secure a loan from the Charter Court Group with a charge against a property which is already charged to another lender.

Charter Court uses a broad and effective distribution network of intermediaries to target its customers, and is differentiated through its scalable automated technology and systems.

### ***Funding***

The Charter Court Group is predominantly funded by retail savings originated through the Charter Savings Bank brand, which includes online and postal channels. Diversification of funding is currently provided by access to a securitisation programme and the introduction of alternative retail savings products such as ISAs and pooled deposits. The Charter Court Group monitors the wholesale funding markets for opportunities to access the securitisation markets and is fully prepared to access such markets as and when it considers appropriate in light of market conditions and other relevant circumstances.

### ***Organisational structure***

The Charter Court Group operates through three core brands:

- Precise Mortgages – the brand under which the Charter Court Group has organically originated £11.051 billion in mortgage loans cumulatively since inception in November 2008, substantially all of which are distributed via more than 23,000 intermediaries, focussing on buy-to-let mortgages, specialist residential mortgages, bridging loans and second charge mortgages. As at 31 December 2018, Precise Mortgages had a net loan book of £6.7 billion in aggregate;
- Charter Savings Bank – the brand under which the Charter Court Group provides multi-award-winning retail savings products directly to customers, via its online and postal distribution channels, having a total of £5.1 billion in retail deposits on its balance sheet as at 31 December 2018 and having attracted £8.6 billion in retail and pooled deposits cumulatively since March 2015; and
- Exact Mortgage Experts – the brand under which the Charter Court Group provides Fitch-rated mortgage administration services, collections and other services (including specialist analytics and credit consultancy) in relation to mortgages originated by selected third parties, including other specialist lenders. As at 31 December 2018, Exact Mortgage Experts managed mortgage assets with a value of £7.8 billion in aggregate.

The Charter Court Group originates the vast majority of its mortgage lending organically through its network of more than 23,000 intermediaries (of whom more than 7,000 had introduced customers to the Charter Court Group resulting in an offer of lending in the twelve months to 31 December 2018).

The Charter Court Group's mortgage lending activities are predominantly funded by fixed term deposits which have been originated largely through its online/postal, direct to customer retail savings business. Diversification of funding sources is provided principally by the Charter Court Group's securitisation programmes and pooled deposits. Additionally, the Charter Court Group joined the Bank of England's FLS and TFS programmes in 2016 and currently has access to other Bank of England liquidity facilities and to two warehouse facilities providing up to £600 million in aggregate of senior funding capacity for the Charter Court Group.

The Charter Court Group has put in place a robust control and risk environment to support the Charter Court Group's current risk appetite, regulatory requirements and future growth strategy and the Charter Court Group maintains open and cooperative relationships with the PRA and the FCA, its principal regulators.

### 3. RISK MANAGEMENT

The Charter Court Group operates a number of policies designed to manage the risks to which the Charter Court Group is exposed. The table below sets out the sections of the Charter Court 2018 Annual Report and Accounts that contain information in respect of the Charter Court Group's risk management policies which are incorporated by reference into, and form part of, this Prospectus.

Reference document	Topic	Information incorporated by reference into this Prospectus	Page number in reference document
Charter Court 2018 Annual Report and Accounts	Risk management	All text and tables under the heading " <i>Risk management</i> "	27-44
		All text and tables under the heading " <i>Risk Committee report</i> "	79-80

### 4. EMPLOYEES

The table below shows the Charter Court Group's average monthly number of employees (including executive Directors) in each of the last two financial years, broken down by operational areas.

	Year ended 31 December 2018	Year ended 31 December 2017
Processing, collections and recovery	212	172
Sales and marketing	45	37
Compliance	30	21
Finance	60	55
Operations and administrative support	230	177
<b>Total</b>	<b>577</b>	<b>462</b>

The Charter Court Group seeks to maintain good relations with its employees and to embed a strong and supportive workplace culture with clear values and was recognised as one of the top twenty employers in the 2018 Sunday Times "Best Companies to Work For" survey and one of the top three employers in the same survey in 2017 (it was also the highest placed bank in both years). Employee attrition is comparatively low for the UK market generally and the Charter Court Group has a proven ability to recruit high calibre employees from large institutions and has access to a deep pool of well-educated and highly skilled individuals in the West Midlands, with the Charter Court Group's London office having provided further access to a wider talent pool.

### 5. INFORMATION TECHNOLOGY

The Charter Court Group is committed to maintaining high standards of data protection, security of Charter Court Group information and security of client information and pursues a strategy of maintaining and developing a bespoke, legacy-free, scalable and secure technology platform, utilising up to date security software and technologies. All operations are delivered on non-proprietary, supported versions of applications and infrastructure and systems are scalable to meet both organic and inorganic growth scenarios. The Charter Court Group has invested significantly to ensure that its technology is capable of delivering solutions that are fit-for-purpose and support business requirements.

The Charter Court Group has invested in disaster recovery systems and processes in relation to its information technology systems which are regularly monitored and tested. Primary systems are backed up to a disaster recovery centre and the Charter Court Group has established a comprehensive cyber security framework.

The Charter Court Group relies on a number of third parties to provide IT services and software licences including the provision of network and security infrastructure management and the core banking platform for Charter Savings Bank.

## PART IX

### FINANCIAL INFORMATION IN RELATION TO OSB AND THE OSB GROUP

#### PART A: SELECTED HISTORICAL FINANCIAL INFORMATION RELATING TO THE OSB GROUP

The selected financial information for the OSB Group set out below has, except as otherwise stated, been extracted without material adjustment from the historical financial information incorporated by reference as set out in Part B of this Part IX below. Investors should read the whole of this Prospectus before making an investment decision and should not rely solely on the summarised information in this Part IX.

##### 1. Consolidated statement of comprehensive income

The table below sets out certain consolidated income statement information of the OSB Group for the three years ended 31 December 2018, 31 December 2017 and 31 December 2016, prepared in accordance with IFRS.

	Year ended 31 December		
	2018 (£m)	2017 (£m)	2016 (£m)
Total income	282.1	238.1	201.4
Profit before taxation	183.8	167.7	163.1
Taxation	(43.5)	(40.8)	(42.2)
Profit for the year	140.3	126.9	120.9
<b>Total comprehensive income for the year</b>	<b>139.9</b>	<b>126.7</b>	<b>121.9</b>

The above results are derived wholly from continuing operations.

##### 2. Consolidated statement of financial position

The table below sets out certain consolidated balance sheet information of the OSB Group for the three years ended 31 December 2018, 31 December 2017 and 31 December 2016, prepared in accordance with IFRS.

	Year ended 31 December		
	2018 (£m)	2017 (£m)	2016 (£m)
Total assets	10,460.2	8,589.1	6,580.9
Total liabilities	9,779.5	8,010.3	6,162.5
Total equity	680.7	578.8	418.4
<b>Total equity and liabilities</b>	<b>10,460.2</b>	<b>8,589.1</b>	<b>6,580.9</b>

##### 3. Consolidated statement of cash flows

The table below sets out certain consolidated cash flow information of the OSB Group for the three years ended 31 December 2018, 31 December 2017 and 31 December 2016, prepared in accordance with IFRS.

	Year ended 31 December		
	2018 (£m)	2017 (£m)	2016 (£m)
Net cash (used in)/generated from operating activities	(85.1)	(511.1)	(323.8)
Net cash (used in)/generated from investing activities	(45.6)	26.0	381.9
Net cash (used in)/generated from financing activities	289.0	1,165.7	56.7
Net increase in cash and cash equivalents	158.3	680.6	114.8
Cash and cash equivalents at the beginning of the year	1,165.9	485.3	370.5
Cash and cash equivalents at the end of the year	1,324.2	1,165.9	485.3

## **PART B: HISTORICAL FINANCIAL INFORMATION RELATING TO THE OSB GROUP**

The audited consolidated financial statements of OSB included in:

- (A) the OSB 2018 Annual Report and Accounts;
- (B) the OSB 2017 Annual Report and Accounts; and
- (C) the OSB 2016 Annual Report and Accounts,

together with the audit opinions thereon and notes thereto, are incorporated by reference into this Prospectus as set out in paragraph 20 of Part XVII (Additional Information) and available for inspection as set out in paragraph 19 of Part XVII (Additional Information).

Each of these consolidated financial statements was prepared in accordance with IFRS. Each of the consolidated financial statements was audited by KPMG and the audit report for each such financial year was unqualified. KPMG is a firm of chartered accountants registered with the Institute of Chartered Accountants in England and Wales.

## PART C: CAPITALISATION AND INDEBTEDNESS

The tables below set out the OSB Group's capitalisation as at 31 December 2018 and its indebtedness and its indirect and contingent indebtedness as at 31 March 2019. The OSB Group's statements of indebtedness and indirect and contingent indebtedness have been prepared under IFRS using policies which are consistent with those used in preparing the OSB Group's audited financial information for the year ended 31 December 2018.

### 1. Capitalisation

The table below sets out the OSB Group's capitalisation as at 31 December 2018. There has been no material change in the capitalisation of the OSB Group since 31 December 2018.

	<b>£m</b>
Share capital	2.4
Share premium	158.8
Other reserves <sup>(1)</sup>	79.9
<b>Total Capitalisation<sup>(2)</sup></b>	<b>241.1</b>

(1) Other reserves include £22 million of Perpetual Subordinated Bonds and £60m of Additional Tier 1 securities classified as equity.

(2) Total capitalisation does not include the retained earnings reserve.

As at 31 December 2018, OSB had issued 244.5 million ordinary shares of 1 pence.

The capitalisation information has been extracted without adjustment from the audited financial statements of OSB for the year ended 31 December 2018 incorporated by reference into this Prospectus as set out in paragraph Part B of this Part IX.

### 2. Indebtedness

The table below sets out the OSB Group's unaudited indebtedness as at 31 March 2019.

	<b>£m</b>
Subordinated liabilities	10.6
Perpetual subordinated bonds	15.1
<b>Total Indebtedness</b>	<b>25.7</b>

Subordinated liabilities are repayable at the dates stated or earlier at the option of the OSB Group with the prior consent of the PRA. All subordinated liabilities are denominated in pounds Sterling and are unlisted.

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

Retail customer deposits and amounts owed to credit institutions are not classified as indebtedness as the taking of deposits and drawing of funds from the Bank of England funding schemes is considered part of the core business of the OSB Group.

Also excluded from the table above is a net derivative liability in relation to interest rate hedging and a put/call option over Heritable Capital Limited as part of the development finance joint venture.

### 3. Indirect and Contingent Indebtedness

The table below sets out the OSB Group's unaudited indirect and contingent indebtedness as at 31 March 2019.

	<b>£m</b>
Assets pledged as collateral against loans and advances to customers and credit institutions	2,852.8
Other encumbered assets <sup>(1)</sup>	35.4
Other contingent liabilities	–
<b>Total Indirect and Contingent Indebtedness</b>	<b>2,888.2</b>

(1) Represents assets that are not pledged but that the OSB Group believes it is restricted from using to secure funding for legal or other reasons.



## PART X

### OPERATING AND FINANCIAL REVIEW OF THE OSB GROUP

The following discussion of the OSB Group's financial condition and results of operations should be read in conjunction with the financial information on the OSB Group and the notes related thereto set out in Part IX (Financial information in relation to OSB and the OSB Group). The financial information included in this Part X has been extracted without material adjustment from the financial information referred to in Part IX (Financial information in relation to OSB and the OSB Group) which has been incorporated into this Prospectus by reference. The financial information referred to in this Part X has been prepared in accordance with IFRS.

The following discussion of the OSB Group's results of operations and financial condition contains forward looking statements. The OSB Group's actual results could differ materially from those discussed in the forward looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this Prospectus, particularly in the Parts headed 'Risk Factors' and 'Forward Looking Statements'.

The tables below set out the sections of the OSB 2018 Annual Report and Accounts, the OSB 2017 Annual Report and Accounts and the OSB 2016 Annual Report and Accounts which contain information in respect of the OSB Group's operating and financial review and which are incorporated by reference into, and form part of, this Prospectus. The parts of these documents which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this Prospectus. To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this Prospectus. In the event of any inconsistencies between any information incorporated by reference, and the information contained in this Prospectus, the information contained in this Prospectus will take precedence and supersede any information incorporated by reference into this Prospectus.

#### Operating and financial review for the year ended 31 December 2018

<b>Reference document</b>	<b>Information incorporated by reference into this Prospectus</b>	<b>Page number in reference document</b>
OSB 2018 Annual Report and Accounts	All text and tables under the heading " <i>Operating and financial review</i> "	24-29
	All text and tables under the heading " <i>Key performance indicators</i> "	30-31
	All text and tables under the heading " <i>Financial review</i> "	32-35
	All text and tables under the heading " <i>Risk review</i> "	36-40
	All text and tables under the heading " <i>Principal risks and uncertainties</i> "	41-49
	All text and tables under the heading " <i>Notes to the Financial Statements</i> "	122-182

## Operating and financial review for the year ended 31 December 2017

<b>Reference document</b>	<b>Information incorporated by reference into this Prospectus</b>	<b>Page number in reference document</b>
OSB 2017 Annual Report and Accounts	All text and tables under the heading " <i>Operating and financial review</i> "	20-25
	All text and tables under the heading " <i>Key performance indicators</i> "	26-27
	All text and tables under the heading " <i>Financial review</i> "	28-31
	All text and tables under the heading " <i>Risk review</i> "	32-38
	All text and tables under the heading " <i>Principal risks and uncertainties</i> "	39-48
	All text and tables under the heading " <i>Notes to the Financial Statements</i> "	112-177

## Operating and financial review for the year ended 31 December 2016

<b>Reference document</b>	<b>Information incorporated by reference into this Prospectus</b>	<b>Page number in reference document</b>
OSB 2016 Annual Report and Accounts	All text and tables under the heading " <i>Operating and financial review</i> "	22-27
	All text and tables under the heading " <i>Key performance indicators</i> "	28-29
	All text and tables under the heading " <i>Financial review</i> "	30-33
	All text and tables under the heading " <i>Chief Risk Officer's report</i> "	34-41
	All text and tables under the heading " <i>Principal risks and uncertainties</i> "	42-45
	All text and tables under the heading " <i>Notes to the Financial Statements</i> "	104-158

## PART XI

### FINANCIAL INFORMATION IN RELATION TO CHARTER COURT AND THE CHARTER COURT GROUP

#### PART A: SELECTED HISTORICAL FINANCIAL INFORMATION RELATING TO THE CHARTER COURT GROUP

The selected financial information for the Charter Court Group set out below has, except as otherwise stated, been extracted without material adjustment from the historical financial information incorporated by reference as set out in Part B of this Part XI below. Investors should read the whole of this Prospectus before making an investment decision and should not rely solely on the summarised information in this Part XI.

##### 1. Consolidated statement of comprehensive income

The table below sets out certain consolidated income statement information of the Charter Court Group for the three years ended 31 December 2018, prepared in accordance with IFRS.

	Year ended 31 December		
	2018 (£m)	2017 (£m)	2016 (£m)
Total income	224.9	170.2	93.3
Profit before taxation	158.2	111.7	48.9
Taxation	(37.4)	(30.4)	(11.6)
Profit for the year	120.8	81.3	37.3
<b>Total comprehensive income for the year</b>	<b>120.8</b>	<b>81.3</b>	<b>37.3</b>

##### 2. Condensed consolidated statement of financial position

The table below sets out certain consolidated balance sheet information of the Charter Court Group for the three years ended 31 December 2018, prepared in accordance with IFRS.

	Year ended 31 December		
	2018 (£m)	2017 (£m)	2016 (£m)
Total assets	7,786.5	6,424.4	4,157.3
Total liabilities	7,336.2	6,089.4	3,923.8
Total equity	450.3	335.0	233.5
<b>Total equity and liabilities</b>	<b>7,786.5</b>	<b>6,424.4</b>	<b>4,157.3</b>

##### 3. Condensed consolidated cash flow statement

The table below sets out certain consolidated cash flow information of the Charter Court Group for the three years ended 31 December 2018, prepared in accordance with IFRS.

	Year ended 31 December		
	2018 (£m)	2017 (£m)	2016 (£m)
Net cash (used in)/generated from operating activities	(850.0)	189.6	30.8
Net cash (used in)/generated from investing activities	238.1	342.8	(6.2)
Net cash (used in)/generated from financing activities	626.3	220.4	(348.3)
Net increase in cash and cash equivalents	14.4	752.8	(323.7)
Cash and cash equivalents at the beginning of the year	966.8	214.0	537.7
Cash and cash equivalents at the end of the year	981.2	966.8	214.0

## **PART B: HISTORICAL FINANCIAL INFORMATION RELATING TO THE CHARTER COURT GROUP**

The audited consolidated financial statements of Charter Court included in:

- (A) the Charter Court 2018 Annual Report and Accounts;
- (B) the Charter Court 2017 Annual Report and Accounts; and
- (C) the Charter Court 2016 Annual Report and Accounts,

together with the audit opinions thereon and notes thereto, are incorporated by reference into this Prospectus as set out in paragraph 20 of Part XVII (Additional Information) and available for inspection as set out in paragraph 19 of Part XVII (Additional Information).

Each of these consolidated financial statements was prepared in accordance with IFRS. Each of the consolidated financial statements was audited by Deloitte LLP and the audit report for each such financial year was unqualified. Deloitte LLP, whose registered address is at 1 New Street Square, London EC4A 3HQ, is a member of the Institute of Chartered Accountants in England and Wales.

The audited consolidated financial statements of Charter Court have been prepared in a manner consistent with the accounting policies and presentation adopted by the OSB Group in relation to the audited consolidated financial statements of the OSB Group and, as a result, no material adjustment needs to be made to the audited consolidated financial statements of Charter Court to achieve consistency with the audited consolidated financial statements of the OSB Group.

## PART C: CAPITALISATION AND INDEBTEDNESS

The tables below set out the Charter Court Group's capitalisation as at 31 December 2018 and its indebtedness and its indirect and contingent indebtedness as at 31 March 2019. The Charter Court Group's statement of indebtedness and statement of net financial indebtedness have been prepared under IFRS using policies which are consistent with those used in preparing the Charter Court Group's audited financial information for the year ended 31 December 2018.

### 1. Capitalisation

The table below sets out the Charter Court Group's capitalisation as at 31 December 2018. There has been no material change in the capitalisation of the Charter Court Group since 31 December 2018.

	<b>£m</b>
Share capital	2.4
Share premium	19.0
Own shares	(0.4)
<b>Total Capitalisation<sup>(1)</sup></b>	<b>21.0</b>

(1) Total capitalisation does not include the retained earnings reserve

### 2. Indebtedness

The table below sets out the Charter Court Group's indebtedness as at 31 March 2019.

	<b>£m</b>
Deposits from banks	1,190.4
Debt securities in issue	359.3
<b>Total Indebtedness</b>	<b>1,549.7</b>

### 3. Net financial indebtedness

The table below sets out the Charter Court Group's net financial indebtedness as at 31 March 2019.

	<b>£m</b>
Assets pledged as collateral against liabilities to credit institutions	1,645.3
Other encumbered assets	399.0
Other contingent liabilities	—
<b>Total Indirect and Contingent Indebtedness</b>	<b>2,044.3</b>



## PART XII

### OPERATING AND FINANCIAL REVIEW OF THE CHARTER COURT GROUP

The following discussion of the Charter Court Group's financial condition and results of operations should be read in conjunction with the financial information on the Charter Court Group and the notes related thereto set out in Part XI (Financial information in relation to Charter Court and the Charter Court Group). Except as otherwise stated, the financial information included in this Part XII has been extracted without material adjustment from the financial information referred to in Part XI (Financial information in relation to Charter Court and the Charter Court Group) which has been incorporated into this Prospectus by reference. The financial information referred to in this Part XII has been prepared in accordance with IFRS.

The following discussion of the Charter Court Group's results of operations and financial condition contains forward looking statements. The Charter Court Group's actual results could differ materially from those discussed in the forward looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this Prospectus, particularly in the Parts headed 'Risk Factors' and 'Forward Looking Statements'.

The tables below set out the sections of the Charter Court 2018 Annual Report and Accounts, the Charter Court 2017 Annual Report and Accounts and the Charter Court 2017 Prospectus which contain information in respect of the Charter Court Group's operating and financial review and which are incorporated by reference into, and form part of, this Prospectus. The parts of these documents which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this Prospectus. The purpose of the tables below is to enable investors to identify easily the items of information which have been incorporated by reference into this Prospectus. To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this Prospectus. In the event of any inconsistencies between any information incorporated by reference, and the information contained in this Prospectus, the information contained in this Prospectus will take precedence and supersede any information incorporated by reference into this Prospectus.

#### Operating and financial review for the year ended 31 December 2018

<b>Reference document</b>	<b>Information incorporated by reference into this Prospectus</b>	<b>Page number in reference document</b>
Charter Court 2018 Annual Report and Accounts	All text and tables under the heading "Business overview"	2-5
	All text and tables under the heading "Chief Financial Officer's review"	15-17
	All text and tables under the heading "Business review by segment"	19-26
	All text and tables under the heading "Risk management"	27-44
	All text and tables under the heading "Consolidated financial statements"	117-120
	All text and tables under the heading "Notes to the consolidated financial statements"	121-156

## Operating and financial review for the year ended 31 December 2017

<b>Reference document</b>	<b>Information incorporated by reference into this Prospectus</b>	<b>Page number in reference document</b>
Charter Court 2017 Annual Report and Accounts	All text and tables under the heading " <i>Business overview</i> "	1-5
	All text and tables under the heading " <i>Chief Financial Officer's review</i> "	14-15
	All text and tables under the heading " <i>Business review by segment</i> "	16-23
	All text and tables under the heading " <i>Risk management</i> "	24-34
	All text and tables under the heading " <i>Consolidated financial statements</i> "	99-102
	All text and tables under the heading " <i>Notes to the consolidated financial statements</i> "	103-144

## Operating and financial review for the year ended 31 December 2016

<b>Reference document</b>	<b>Information incorporated by reference into this Prospectus</b>	<b>Page number in reference document</b>
Charter Court 2017 Prospectus	All text and tables under the heading " <i>Selected financial information and key performance indicators</i> "	94-98
	All text and tables under the heading " <i>Operating and Financial Review</i> "	99-118
	All text and tables under the heading " <i>Historical financial information</i> "	133-190

## **PART XIII**

### **UNAUDITED PRO FORMA FINANCIAL INFORMATION**

#### **PART A: UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE COMBINED GROUP**

The unaudited pro forma income statement of the Combined Group has been prepared based on the consolidated income statement of OSB for the year ended 31 December 2018 and the consolidated income statement of Charter Court for the year ended 31 December 2018 to illustrate the effect on the income statement of OSB of the Combination as if it had taken place on 1 January 2018.

The unaudited pro forma statement of net assets of the Combined Group has been prepared based on the audited consolidated balance sheet of OSB as at 31 December 2018 and the audited consolidated balance sheet of Charter Court as at 31 December 2018 to illustrate the effect on the net assets of OSB of the Combination as if it had taken place on 31 December 2018.

The unaudited pro forma income statement of the Combined Group and the unaudited pro forma statement of net assets of the Combined Group together form the Unaudited Pro Forma Financial Information.

The Unaudited Pro Forma Financial Information set out in this Part XIII has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not represent OSB's or the Combined Group's actual financial position or results.

The Unaudited Pro Forma Financial Information has been prepared on a consistent basis with the accounting policies and presentation adopted by OSB in relation to the period ended 31 December 2018 on the basis of the notes set out below and in accordance with Annex II to the PD Regulation. The adjustments in the Unaudited Pro Forma Financial Information are expected to have a continuing impact on the Combined Group, unless stated otherwise.

Furthermore, the Unaudited Pro Forma Financial Information set out in this Part XIII does not constitute financial statements within the meaning of section 434 of the Companies Act.

In addition to the matters noted above, the Unaudited Pro Forma Financial Information does not reflect the effect of anticipated synergies and efficiencies associated with the Combination.

Shareholders should read the whole of this Prospectus and not rely solely on the summarised financial information contained in this Part XIII. KPMG's report on the Unaudited Pro Forma Financial Information is set out in Part B of this Part XIII.

## 1. UNAUDITED PRO FORMA INCOME STATEMENT RELATING TO THE COMBINED GROUP

The table below sets out the unaudited pro forma income statement relating to the Combined Group for the year ended 31 December 2018.

	Adjustments				Combined Group Pro forma (£m)
	OSB for the year ended 31 December 2018 (£m)	Charter Court for the year ended 31 December 2018 (£m)	Adjustments to conform disclosures (£m)	Combination with Charter Court (£m)	
	Note 1	Note 2	Note 3	Note 4	
Interest receivable and similar income	407.9	275.5	–	–	683.4
Interest payable and similar charges	(120.6)	(95.0)	–	–	(215.6)
<b>Net interest income</b>	<b>287.3</b>	<b>180.5</b>	–	–	<b>467.8</b>
Fair value gains/(losses) on financial instruments	(5.1)	–	–	–	(5.1)
Non-interest income	–	8.0	(7.4)	–	0.6
Loss on sale of financial instruments	(0.1)	–	–	–	(0.1)
Fees and commissions receivable	1.7	–	7.4	–	9.1
Fees and commissions payable	(1.1)	–	–	–	(1.1)
External servicing fees	(0.6)	–	–	–	(0.6)
Gain on sale of loans	–	36.4	–	–	36.4
<b>Total income</b>	<b>282.1</b>	<b>224.9</b>	–	–	<b>507.0</b>
Administrative expenses	(74.9)	(64.6)	0.9	0.2	(138.4)
Depreciation and amortisation	(4.7)	–	(0.8)	–	(5.5)
Impairment losses	(8.1)	(2.1)	–	–	(10.2)
FSCS and other regulatory provisions	(0.8)	–	(0.1)	–	(0.9)
Exceptional fair value loss on Heritable option	(9.8)	–	–	–	(9.8)
Exceptional transaction costs	–	–	–	(33.6)	(33.6)
<b>Profit before tax</b>	<b>183.8</b>	<b>158.2</b>	–	<b>(33.4)</b>	<b>308.6</b>
Taxation	(43.5)	(37.4)	–	–	(80.9)
<b>Profit for the year</b>	<b>140.3</b>	<b>120.8</b>	–	<b>(33.4)</b>	<b>227.7</b>

### Notes

- (1) The figures for OSB have been extracted without adjustment from the audited financial statements of OSB for the year ended 31 December 2018 incorporated by reference into this Prospectus as set out in Part IX (Financial information in relation to Charter Court and the Charter Court Group).
- (2) The figures for Charter Court have been extracted without adjustment from the audited financial statements of Charter Court for the year ended 31 December 2018 incorporated by reference into this Prospectus as set out in Part XI (Financial information in relation to OSB and the OSB Group).
- (3) This column reflects the following reclassifications to align the presentation of Charter Court's income statement to that of OSB:
  - (i) OSB discloses 'Mortgage administration income' and 'Mortgage administration fees' within 'Fees and commissions receivable' whereas Charter Court discloses such items in 'Non-interest income'. This resulted in a £7.4 million reclassification between the aforementioned line items.
  - (ii) OSB discloses 'Depreciation and amortisation' separately in its income statement whereas Charter Court includes these charges within 'Administrative expenses'. This resulted in a £0.8 million reclassification between the aforementioned line items.
  - (iii) OSB discloses movements in FSCS and other regulatory provisions in a separate line item whereas Charter Court discloses these within 'Administrative expenses'. This resulted in a £0.1 million reclassification between the aforementioned line items.

- (4) This column reflects an adjustment of £33.6 million within the line item 'Exceptional transaction costs' representing an estimate of the transaction costs to be incurred on successful completion of the Combination. £0.2 million was charged to 'Administrative expenses' in 2018, however, this been reclassified to 'Exceptional transaction costs' and treated as not tax deductible for the purposes of the Unaudited Pro Forma Financial Information. This adjustment will not have a continuing impact.
- (5) In preparing the unaudited pro forma income statement, no account has been taken of the trading activity or other transactions of OSB or Charter Court since 31 December 2018. Neither has any adjustment been made for any synergies, or related costs (which will be incurred post completion of the Combination), which are anticipated to be achieved from the Combination.



## 2. UNAUDITED PRO FORMA STATEMENT OF NET ASSETS RELATING TO THE COMBINED GROUP

The table below sets out the unaudited pro forma statement of net assets relating to the Combined Group as at 31 December 2018.

	Adjustments				Combined Group Pro forma (£m)
	OSB as at 31 December 2018 (£m)	Charter Court at 31 December 2018 (£m)	Adjustments to conform disclosures (£m)	Combination with Charter Court (£m)	
	Note 1	Note 2	Note 3	Note 4	
<b>Assets</b>					
Cash in hand	0.4	–	–	–	0.4
Loans and advances to credit institutions	1,347.3	981.2	–	(33.5)	2,295.0
Investment securities	58.9	123.0	–	–	181.9
Loans and advances to customers	8,983.3	6,661.5	–	–	15,644.8
Derivative assets	11.7	17.1	–	–	28.8
Fair value adjustments on hedged assets	19.8	(9.9)	–	–	9.9
Deferred taxation asset	3.5	2.5	–	–	6.0
Intangible assets	7.8	2.6	–	391.1	401.5
Property, plant and equipment	21.8	2.5	–	–	24.3
Other assets	5.7	5.9	–	–	11.6
Other assets held at fair value	–	0.1	–	–	0.1
<b>Total assets</b>	<b>10,460.2</b>	<b>7,786.5</b>	<b>–</b>	<b>357.6</b>	<b>18,604.3</b>
<b>Liabilities</b>					
Amounts owed to retail depositors	8,071.9	5,094.5	–	–	13,166.4
Amounts owed to credit institutions	1,584.0	1,214.8	–	–	2,798.8
Amounts owed to other customers	32.9	–	–	–	32.9
Derivative liabilities	24.9	13.7	–	–	38.6
Fair value adjustments on hedged assets	–	(2.7)	–	–	(2.7)
Current taxation liability	19.2	18.8	–	–	38.0
Intercompany loans	–	–	–	–	0.0
Other liabilities	18.7	24.2	(0.1)	(0.1)	42.7
FSCS and other regulatory provisions	1.8	–	0.1	–	1.9
Subordinated liabilities	10.8	–	–	–	10.8
Debt securities in issue	–	972.9	–	–	972.9
Perpetual subordinated bonds	15.3	–	–	–	15.3
<b>Total liabilities</b>	<b>9,779.5</b>	<b>7,336.2</b>	<b>–</b>	<b>(0.1)</b>	<b>17,115.6</b>
<b>Net assets</b>	<b>680.7</b>	<b>450.3</b>	<b>–</b>	<b>357.7</b>	<b>1,488.7</b>

## Notes

- (1) The net assets of OSB have been extracted without adjustment from the audited financial statements of OSB as at 31 December 2018 incorporated by reference into this Prospectus as set out in Part IX (Financial information in relation to OSB and the OSB Group).
- (2) The net assets of Charter Court have been extracted without adjustment from the audited financial statements of Charter Court for the year ended 31 December 2018 incorporated by reference into this Prospectus as set out in Part IX (Financial information in relation to OSB and the OSB Group).
- (3) This column reflects a reclassification to align the presentation of Charter Court's net assets statement to that of OSB. OSB discloses its FSCS and other regulatory provisions separately on the statement of financial position whereas Charter Court discloses these within 'Other liabilities'. This resulted in a £0.1 million reclassification between the aforementioned line items.
- (4) The adjustments arising as a result of the Combination are set out below:
  - (i) Estimated transaction costs of £33.5 million in association with the Combination have been allocated to 'Loans and advances to credit institutions' to reflect the payment of outstanding balances from the total £33.6 million which has been charged to the unaudited pro forma income statement. Aggregate transaction costs totalling £0.1 million were accrued in the balance sheets of OSB and Charter Court as at 31 December 2018 within 'Other liabilities' which are now assumed to be paid in the above net asset statement. A further £0.1 million had already been paid in 2018.
  - (ii) The adjustment reflects the recognition of goodwill arising on the Combination and has been accounted for using the acquisition method of accounting. The excess of consideration over the book value acquired has been reflected as goodwill. A fair value exercise to allocate the purchase price will be completed following the completion of the Combination; therefore no account has been taken in the pro forma of any fair value adjustments that may arise on completion of the Combination.

The equity consideration payable will be through an issuance of new ordinary shares by OSB (referred to as "consideration" in these notes). The consideration payable and the calculation of the adjustment to goodwill is set out below:

	Note	£m
Equity consideration	(a)	841.4
Less net assets acquired of Charter Court	(b)	(447.7)
<b>Pro forma goodwill adjustment</b>		<b>393.7</b>
Less Charter Court existing intangible assets already recognised	(b)	(2.6)
<b>Final pro forma adjustment</b>		<b>391.1</b>

The consideration is due to be settled as follows:

- (a) The consideration of £841.4 million has been calculated as the issue of 197.5 million shares at a share price of 426.0 pence being the closing price per OSB Share as at 13 May 2019, being the Latest Practicable Date, and based on the exchange ratio for the Combination of 0.8253 of a New OSB Share in exchange for each Charter Court Share.  
 The total consideration payable at completion will be different to the total consideration included in the Unaudited Pro Forma Financial Information as this does not reflect any potential dilutions from Charter Court Share Schemes, which will be computed at the completion date.
  - (b) The net assets acquired of £447.7 million comprise the net assets of Charter Court as at 31 December 2018 as adjusted for the elimination of goodwill and other intangibles of £2.6 million included in the Charter Court balance sheet as at 31 December 2018.
- (5) In preparing the unaudited pro forma net assets statement, no account has been taken of the trading activity or other transactions of OSB or Charter Court since 31 December 2018.

## **PART B: ACCOUNTANT'S REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE COMBINED GROUP**

The Directors and Proposed Directors  
OneSavings Bank plc  
Reliance House  
Sun Pier  
Chatham  
Kent ME4 4ET

15 May 2019

Ladies and Gentlemen

### **OneSavings Bank plc**

We report on the Unaudited Pro Forma Financial Information set out in Part A of this Part XIII of the Prospectus dated 15 May 2019, which has been prepared on the basis described in Part A of this Part XIII, for illustrative purposes only, to provide information about how the issue of ordinary shares and combination of Charter Court Financial Services Group plc might have affected the financial information presented on the basis of the accounting policies adopted by OneSavings Bank plc in preparing the financial statements for the period ended 31 December 2018. This report is required by paragraph 20.2 of Annex I of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

### **Responsibilities**

It is the responsibility of the directors of OneSavings Bank plc to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 20.2 of Annex I of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Directive Regulation, as to the proper compilation of the Unaudited Pro Forma Financial Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

### **Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of OneSavings Bank plc.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of OneSavings Bank plc.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

### **Opinion**

In our opinion:

- the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of OneSavings Bank plc.

### **Declaration**

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

**KPMG LLP**

## PART XIV

### SUPERVISION AND REGULATION

#### 1. Regulation of the Combined Group

Following completion of the Combination, the Combined Group's operations will be subject to various UK and EU regulatory regimes. The following paragraphs set out a summary of the key areas of regulation applicable to those operations. Unless otherwise noted, the information presented below applies to one or more of the regulated businesses in the Combined Group.

Entities in the Combined Group which are subject to FCA regulation include Prestige Finance Limited (a regulated subsidiary of OSB) and Charter Mortgages Limited (a regulated subsidiary of Charter Court), each of which is authorised and regulated by the FCA.

OSB and CCFSL (a regulated subsidiary of Charter Court) are banks which can accept retail deposits. Both OSB and CCFSL are authorised by the PRA and regulated by the PRA and FCA (dual-regulated).

#### 2. UK REGULATION

##### 2.1 FSMA and the UK regulatory regime

The most important piece of financial services legislation in the UK is FSMA. FSMA prohibits any person from carrying on a "regulated activity" by way of business in the UK unless that person is authorised or exempt under FSMA. Regulated activities include deposit-taking, effecting and carrying out contracts of insurance as well as insurance mediation, consumer credit activities and investment activities (such as dealing in investments as principal or as agent, advising on or managing investments and entering into regulated mortgage contracts). FSMA also prohibits a person from making financial promotions in the UK unless the financial promotion is issued or approved by an authorised firm or is exempt from the prohibition.

Under FSMA, a range of structural reforms to UK financial regulatory bodies were implemented, with the Financial Services Authority being replaced from 1 April 2013 by the PRA, FCA and FPC.

##### *The Prudential Regulation Authority*

The PRA is responsible for the prudential regulation and supervision of approximately 1,500 banks (including OSB and CCFSL), building societies, credit unions, insurers and certain major investment firms.

In discharging its functions, the PRA's general objective is promoting the safety and soundness of PRA-authorised firms, and specifically for insurance firms, to contribute to ensuring that policyholders are appropriately protected. The PRA is required to advance this objective primarily by seeking to:

- ensure that the business of PRA-authorised firms is carried on in a way which avoids any adverse effect on the stability of the UK financial system; and
- minimise the adverse effect that the failure of a PRA-authorised firm could be expected to have on the stability of the UK financial system.

So far as is compatible with its general objectives, the PRA must discharge its general functions in a way which promotes effective competition in the markets for services provided by PRA-authorised firms carrying on regulated activities.

From 1 January 2019, the Financial Services (Banking Reform) Act 2013 introduced additional requirements on how the PRA is to advance its general objective in relation to certain matters related to ring-fenced bodies.

### ***The Financial Conduct Authority***

The FCA has responsibility for the conduct of business and market regulation in relation to all authorised firms and for the prudential regulation of firms not authorised by the PRA. The FCA also exercises market regulatory functions, and, for so long as the UK remains in the EU, it represents the UK's interests in markets regulation at the European Securities and Markets Authority. The FCA's supervisory approach is outcomes-based, pre-emptive and focused on delivering the following operational objectives:

- securing an appropriate degree of protection for consumers (the “consumer protection objective”);
- protecting and enhancing the integrity of the UK financial system (the “integrity objective”); and
- promoting effective competition in the interests of consumers in financial markets (the “competition objective”).

So far as is compatible with its consumer protection and integrity objectives, the FCA must discharge its general functions in a way which promotes effective competition in the interests of consumers.

The FCA's approach to regulation, and the standards it requires firms to maintain, are set out in the FCA Handbook. The FCA's standards apply to all firms which conduct regulated activities in the UK.

### ***The Financial Policy Committee***

The FPC is a part of the Bank of England and has the primary objective of identifying, monitoring and taking action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system. The FPC has a secondary objective to support the economic policy of the UK Government, including its objectives for growth and employment. The FPC's activities are relevant to OSB and CCFSL.

### ***PRA Rulebook, FCA Handbook and guidance***

The detailed rules and prudential standards set by the relevant regulators, and the standards which each requires firms to maintain, are contained in the FCA Handbook and the PRA Rulebook respectively.

Firms are obliged to comply with the FCA's Principles for Businesses and, for dual-regulated firms, the PRA's Fundamental Rules which include requirements to:

- conduct their business with due skill, care and diligence;
- treat customers fairly; and
- communicate with customers in a manner that is clear, fair and not misleading.

The FCA's 11 Principles for Businesses and the PRA's eight Fundamental Rules are set out in the FCA Handbook and PRA Rulebook respectively.

Sections of the FCA Handbook and PRA Rulebook which are particularly relevant to the OSB Group and Charter Court Group are the Senior Management Arrangements, Systems and Controls, the Banking Conduct of Business sourcebook, the Supervision sourcebook, the Dispute Resolution: Complaints sourcebook and the Mortgages and Home Finance: Conduct of Business sourcebook.

### ***Threshold conditions***

Authorised firms must at all times meet certain “threshold conditions” specified in Schedule 6 of FSMA, and further elaborated upon in the FCA Handbook and PRA Rulebook. These are different depending whether a firm is regulated solely by the FCA or is a dual-regulated firm. Dual-regulated firms, including banks such as OSB and CCFSL, must meet both the PRA and FCA threshold conditions. The FCA threshold conditions are, in summary, that:



- the firm is capable of being effectively supervised by the FCA;
- the firm maintains appropriate non-financial resources;
- the firm itself is a fit and proper person, having regard to the FCA's objectives; and
- the firm's strategy for doing business is suitable for a person carrying on regulated activities that it carries on or seeks to carry on, having regard to the FCA's operational objectives.

The PRA threshold conditions require that:

- a firm is either a body corporate or partnership;
- if the firm is incorporated in the UK, its head office is in the UK and if it has a registered office, that office is in the UK;
- the business of the firm must be conducted in a prudent manner and, in particular, have appropriate financial and non-financial resources;
- the firm itself is a fit and proper person, having regard to the PRA's objectives; and
- the firm is capable of being effectively supervised by the PRA.

### ***Change of control***

Under FSMA, any person who proposes to acquire or increase its control over a UK authorised entity (or the parent of an authorised entity), must first receive approval from the appropriate regulator. The regulator has up to 60 working days to determine whether to approve an acquisition of, or increase of control over, an authorised person (the time limit starts to run from the date the regulator acknowledges receipt of the application). If the relevant regulator wants to request further information from the person making the application, the regulator has the power to "stop the clock" and extend the 60 working days' time limit by up to 20 working days (or up to 30 working days if the person making the application is not an EEA entity or is not itself subject to regulation). These timings can have a significant influence on the timing of any corporate M&A transaction involving a target that is authorised under FSMA.

The PRA or the FCA (as the case may be) will not approve a person to acquire or increase its control of an authorised entity without being satisfied that the relevant controller is financially sound and suitable to become a controller of, or acquire increased control over, the UK authorised person.

Acquiring control over a UK bank, investment firm, an Undertakings for Collective Investments in Transferable Securities manager, insurance or reinsurance undertaking for the purposes of FSMA means a situation whereby a person first acquires 10 per cent. or more of the shares or voting power in that firm or its parent undertaking. A person will be treated as increasing their control over such a person, and will therefore require further approval from the PRA or FCA, if the level of their shareholding or entitlement to voting power increases from a holding below certain thresholds to a holding above them. The thresholds are 10 per cent., 20 per cent., 30 per cent. and 50 per cent. of outstanding shares or voting power. The tests are different for firms other than those listed above. For example, acquiring control of a consumer credit firm means a situation whereby a person first acquires 20 per cent. or more of the shares or voting power in that firm or its parent undertaking and there is no additional requirement to obtain approval when increasing control of such a firm above 20 per cent. (assuming the relevant acquirer has already received regulatory approval as a controller).

When determining a person's level of control, that person's holding of shares or entitlement to voting power will be aggregated with the holdings or entitlements of any person with whom they are "acting in concert".

An acquisition or increase of control without prior PRA or FCA approval (as applicable) is a criminal offence.

## **Enforcement**

The PRA and the FCA have the power to take a range of enforcement actions, including the ability to sanction firms and individuals carrying out functions within those firms. Sanctions may include restrictions on undertaking new business, public censure, restitution, fines and, ultimately, revocation or variation of a firm's permission to carry on regulated activities or of an individual's approval to perform particular roles within a firm. The PRA or FCA can also vary or revoke the permissions of an authorised firm that has not engaged in regulated activities for 12 months or that fails to meet the relevant threshold conditions.

If a financial services firm wishes to challenge any decision of the PRA or the FCA, it would usually make formal representations and/or bring its case before the Upper Tribunal.

## **2.2 Consumer credit regulation**

Responsibility for consumer credit transferred from the OFT to the FCA on 1 April 2014. The framework for consumer credit regulation comprises FSMA and its secondary legislation, retained provisions in the CCA and its retained secondary legislation, and rules and guidance in the FCA Handbook generally. The FCA is also likely to be proactive in pursuing possible regulatory failures and poor practices (for example, by initiating its own investigations where consumer experience suggests that such an investigation is merited). Where consumer detriment is found, the FCA will use its powers of intervention, which might include enforcement action and/or securing redress for consumers.

Serious or systematic failure to adhere to the standards set by the FCA would likely result in it taking enforcement action. The FCA has greater powers of enforcement than the OFT had, including the power to: bring criminal, civil and disciplinary proceedings; withdraw authorisations; suspend authorised firms for 12 months; suspend individuals from performing certain roles for two years; and the power to issue unlimited fines. It is also able to use its product intervention powers in the consumer credit market, which can include restrictions on product features and selling practices or product bans. OSB is currently authorised to carry out the following consumer credit activity: Exercising/having right to exercise lender's rights and duties under a regulated credit agreement (excluding high-cost short-term credit, bill of sale agreement, and home collected credit agreement).

Charter Mortgages Limited (a regulated subsidiary of Charter Court) is currently authorised to carry out the following consumer credit activities: debt administration and debt-collecting.

In 2016, the FCA carried out a review of the rules it had imposed on high-cost short-term credit in 2015, published in Feedback Statement FS17/2. A further update was published in January 2018. Thereafter, the FCA launched two consultations relevant to the high-cost credit market: CP 18/12 (consultation on rent-to-own, home collected credit, catalogue credit and store cards, and alternatives to high-cost credit) and CP 18/13 (high-cost credit review: overdrafts). Both consultations are now closed, and in December 2018 the FCA by way of update on its work relating to high-cost credit published:

- a consultation on proposals to reform the ways in which banks and building societies charge for overdrafts and final rules and guidance aimed at addressing low awareness and engagement in this market (CP18/42);
- feedback on CP18/12 with final rules and guidance, and a consultation on "buy now pay later" offers (CP18/43); and
- finalised guidance on helping tenants find alternatives to high-cost credit and what this means for social housing landlords (FG18/6).

While neither the OSB Group nor the Charter Court Group undertakes any significant high-cost credit activities, the effect of the FCA's work in this area on the Combined Group, following completion of the Combination, and the rules to which the regulated entities in the Combined Group will be subject to will be unclear until the consultations conclude and final rules are published. The final rules are expected to be published in June 2019.

Finally, the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) Order 2014, which repealed parts of the CCA, required the FCA to review the retained provisions of the CCA. In particular, whether repealing the retained provisions would adversely affect the appropriate degree of protection for consumers. The FCA published an interim report on 2 August 2018 in a discussion paper (DP18/7), and published its final report with recommendations in March 2019. This included proposed to retain certain CCA provisions and replace others with FCA rules (for example, certain provisions relating to information requirements). Having been presented to Parliament, the decision about the future of such CCA provisions now lies with the UK Government.

### ***FCA Regulation of Regulated Mortgages***

The FCA regulates the provision of “Regulated Mortgages” (defined in Art. 61(3)(a) of the FSMA (Regulated Activities) Order 2001). OSB, CCFSL and Charter Mortgages Limited are authorised for administering a regulated mortgage contract, arranging (bringing about) regulated mortgage contracts, entering into a regulated mortgage contract as lender, and making arrangements with a view to regulated mortgage contracts. Prestige Finance Limited is authorised to administer a regulated mortgage contract and enter into a regulated mortgage contract as lender.

The Mortgages and Home Finance: Conduct of Business sourcebook in the FCA Handbook, issued in October 2003, sets out rules for regulated mortgage activities which cover, among other things, post-contract notifications, contract changes, arrears and repossessions, and charges. The Mortgages and Home Finance: Conduct of Business sourcebook applies to regulated mortgage activities entered into on or after 31 October 2004. The FCA’s prudential sourcebook for Mortgage and Home Finance Firms and Insurance Intermediaries also includes requirements relating to the maintenance of capital resources by mortgage intermediaries and the allocation of responsibility for a firm’s insurance distribution and/or mortgage credit intermediation activities to a specific director or senior manager.

Recent and ongoing work by the FCA concerning the mortgage market (and consumer credit more generally, see below) may impact the OSB Group and the Charter Court Group, and following completion of the Combination, the Combined Group. In June 2016, the FCA published a Consultation Paper (CP16/16), which considered the approach to customers experiencing a payment shortfall and proposed changes to the allocation of payments. Policy Statement PS16/25 was published by the FCA on 14 December 2016 on the allocation of payments received by customers with a payment shortfall and amending the definition of “payment shortfall”. The new rules came into effect on 15 December 2016.

In May 2018, the FCA issued an interim report on the mortgages market study (MS16/2.2), with its final report due in Q1 2019.

### ***Mortgage Credit Directive***

EU Member States are subject to the Mortgage Credit Directive, which applies to various categories of secured and unsecured credit agreements which relate to immovable property for consumers. The Mortgage Credit Directive applies to:

- credit agreements secured by a mortgage or comparable security commonly used in a member state of the EU on residential immovable property, or secured by a right relating to residential immovable property;
- credit agreements the purpose of which is to purchase or retain rights in land or in an existing or proposed residential building; and
- unsecured credit agreements the purpose of which is to renovate residential immovable property involving a maximum total amount of credit of €75,000 and which are outside the Consumer Credit Directive.

The Mortgage Credit Directive does not apply to certain equity release credit agreements to be repaid from the sale proceeds of an immovable property, or to certain credit granted by an employer to its employees.

The Mortgage Credit Directive Order 2015, as amended by the Mortgage Credit Directive (Amendment) Order 2015, implements the Mortgage Credit Directive into UK law, in part by making changes to FSMA. The Mortgage Credit Directive Order 2015:

- installs a new regulatory regime for consumer buy-to-let mortgages;
- broadens the regulated mortgage contract definition to include second mortgages; and
- transfers regulation of some existing agreements to the regulated mortgage contract regime from the consumer credit regime.

The Mortgage Credit Directive (Amendment) Order 2015, published on 22 July 2015:

- provides that the availability of a transitional arrangement for new loans secured by a second or subsequent mortgage is determined at the first contact with a customer, whether that contact is made by a mortgage lender or an intermediary; and
- clarifies the regulatory status of a small number of existing buy-to-let mortgages.

### ***Repossessions policy***

A pre-action protocol relating to mortgage or home plan arrears where the relevant loan relates to residential property in England and Wales came into force on 19 November 2008 (the “**Pre-Action Protocol**”). In particular, the Pre-Action Protocol sets out the steps that judges will expect any lender to take before commencing a claim for possession. A number of mortgage lenders confirmed that they would delay the initiation of repossession action for at least three months after arrears start to accrue and where the property in question is occupied by the borrower.

The Mortgage Repossession (Protection of Tenants etc) Act 2010 came into force on 1 October 2010 and gives courts in England and Wales the same power to postpone and suspend repossession for up to two months on application by an unauthorised tenant (i.e. a tenant in possession without the lender’s consent). It also requires the lender to serve notice at the property before enforcing a possession order.

A further Pre-Action Protocol for Debt Claims came into force on 1 October 2017 and applies to any business when claiming payment of a debt from an individual. It encourages early and reasonable engagement between parties and aims to allow parties to resolve the matter without the need to institute court proceedings. Such “out of court proceedings” may include discussing a reasonable payment plan or considering the use of alternative dispute resolution.

On 30 January 2018, the FCA published its thematic review on the fair treatment of existing interest-only mortgage customers (TR 18/1). The review found that progress in this area had been made by lenders, and did not propose immediate new regulation, but instead published guidance to consumers to contact their lenders as early as possible to discuss interest-only repayment options. Both the OSB Group, the Charter Court Group and, following completion of the Combination, the Combined Group may be impacted by any future regulation in this area.

## **2.3 Financial Services Compensation Scheme**

FSMA established the FSCS which pays compensation to eligible customers of certain types of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. Broadly speaking, the aims of compensation payments are to provide redress for customers who are least able to sustain financial loss and therefore to assist in promoting consumer confidence in the financial system.

The actual level of compensation paid by the FSCS depends on the basis of claim. The FSCS only pays compensation for financial loss. Compensation limits apply on a “per person per firm” and “per claim category” basis.

Slightly different limits and rules apply if the claim is made against an insurer, a bank that became insolvent before the FSCS became operational (1 December 2001) or against an investment firm that was declared to be in default before the FSCS became operational.

The maximum levels of compensation in respect of the different types of claim which can be made are as follows:

- Deposits: £85,000 per person per firm (for claims against firms declared in default from 30 January 2017). There is also a £1 million protection limit for temporary high balances held with a bank, building society or credit union in certain situations (i.e. where this represents proceeds from the sale of a primary residence).
- Investments: £50,000 per person per firm (for claims against firms declared in default from 1 January 2010). This limit increased to £85,000 from 1 April 2019.
- Home Finance (e.g. mortgage advice and arranging): £50,000 per person per firm (for claims against firms declared in default from 1 January 2010). This limit increased to £85,000 from 1 April 2019.
- Insurance Business: Long-term insurance benefits are 100 per cent. protected. Claims under compulsory insurance, professional insurance and certain claims for injury, sickness or infirmity of the policyholder are 100 per cent. protected. Other types of claim are also 90 per cent. protected with no upper limit.
- General insurance advice and arranging: Protects 90 per cent. of claims with no upper limit. Compulsory insurance is 100 per cent. protected (for business conducted on or after 14 January 2005).

The FSCS is funded by levies raised on authorised firms.

## **2.4 Financial Ombudsman Service**

FSMA established the FOS which provides customers with a free and independent service designed to resolve disputes where the customer is not satisfied with the response received from a regulated firm. The jurisdiction of the FOS extends to banks and consumer finance firms. The FOS resolves disputes for eligible persons that cover most financial products and services provided in (or from) the UK. The FOS may also make directions (which direct the business to take such steps as the FOS considers just and appropriate).

At present, the maximum monetary award which may be awarded by the FOS is £350,000 (excluding any interest and costs) for complaints about acts or omissions by firms on or after 1 April 2019. The following increased limits were introduced in the FCA's policy statement (PS19/8):

- to £350,000 for complaints about acts or omissions by firms on or after 1 April 2019; and
- to £160,000 for complaints about acts or omissions by firms before 1 April 2019, and which are referred to the FOS after that date.

The FCA also confirmed that, from 1 April 2020 onwards, both award limits should be automatically adjusted on 1 April each year to ensure they keep pace with inflation. For any complaints referred to the FOS before 1 April 2019 the limit will remain at £150,000.

Although the FOS takes account of relevant regulation and legislation, its guiding principle is to resolve cases on the basis of what is fair and reasonable. In this regard, the FOS is not bound by law or even its own precedent. The decisions made by the FOS are binding on regulated firms.

## **2.5 Senior managers, certification regime and conduct rules**

The SM&CR, has applied to banks since 7 March 2016, and specifically applies to, and imposes requirements regarding, senior individuals employed by banks. On 10 December 2018, SM&CR was extended to insurers. The senior managers element of the regime focuses on the most senior individuals employed by firms (i.e. individuals who hold key roles or have overall responsibility for business areas of the firm in question) and requires those managers to take personal responsibility for the areas of business for which they are assigned responsibility. Firms must:



- ensure that each senior manager has a statement of responsibilities setting out the areas for which they are personally accountable;
- produce a firm “responsibilities map” that knits these together; and
- ensure that all senior managers are pre-approved by the regulators before carrying out their roles.

The certification regime applies to employees of relevant firms who, while not senior managers, could pose a risk of significant harm to the firm or its customers. Such individuals must be certified by their firm to be fit and proper to carry out their roles both when taking up that role and on a continuing basis thereafter.

The conduct rules are high-level requirements that now apply to most employees employed by firms within the scope of the SM&CR.

## **2.6 Approved persons regime**

FSMA provides that individuals performing certain “controlled functions” at an FCA-authorized firm must be approved by the FCA before performing such functions. The firm itself must take reasonable care to ensure that such approval is procured where necessary. The FCA may approve an individual to carry out a controlled function only if it is satisfied that he or she is a “fit and proper” person to perform that function. FSMA provides that, in making that determination, the FCA may have regard to an individual’s training, competence and qualifications.

If a firm fails to take reasonable care to ensure that it does not employ unapproved persons to carry out functions for which they require approval, the FCA may carry out an investigation and take enforcement action against the firm concerned. Enforcement action could result in a fine or, for serious breaches, the suspension of a firm’s permission to carry on regulated activities.

If an unapproved individual performs a function for which he or she required approval (and he or she knew that approval was required), the FCA may impose a financial penalty on that individual of such amount as it considers appropriate.

An approved person must also comply with the FCA’s Statements of Principle and Code of Practice for Approved Persons, which sets out a number of high level statements of principle for approved persons including, for example, that approved persons act with integrity, due skill, care and diligence.

If an approved person fails to comply with the FCA’s Statements of Principle and Code of Practice for Approved Persons, or is knowingly concerned in a contravention by an authorized firm of any requirement imposed on it by or under FSMA, the FCA may:

- fine the approved person;
- suspend or impose limitations or restrictions on the approval of that person for such period as the FCA considers appropriate; and/or
- issue a public statement concerning the misconduct of that person.

### ***Extension of the senior managers and certification regime***

The SM&CR will soon be extended to all FCA solo-regulated firms (including insurance intermediaries, mortgage lenders and brokers, and consumer credit firms) and will replace the approved persons regime currently applicable to those firms (set out immediately above). The extended SM&CR will come into force for these firms on 9 December 2019. Although certain features of the two regimes are similar, there are key differences, most notably in terms of the scope of individuals that will be captured by the new approval (for senior managers only) and certification regimes, and the additional ongoing compliance burden the certification aspect of the regime may place on firms.



In summary, the key features of the extended SM&CR will be:

- an approval regime focused on senior management, with requirements on firms to submit robust documentation on the scope of these individuals' responsibilities;
- a statutory requirement for senior managers to take reasonable steps to prevent regulatory breaches in their areas of responsibility;
- a requirement on firms to certify as "fit and proper" any individual who performs a function that could cause significant harm to the firm or its customers, both on appointment and annually thereafter; and
- powers for the relevant regulators to apply enforceable rules of conduct on any individual who may impact their respective statutory objectives.

## **2.7 Other relevant legislation and regulation**

### ***Payment Services Regulations***

Under the Payment Services Regulations 2017, the FCA is responsible for regulating payment services in the UK. The Payment Services Regulations 2017 establish an authorisation regime, which requires payment service providers either to be authorised or registered with the FCA. The Payment Services Regulations 2017 also contain certain rules about the provision of payment services with which payment service providers must comply, including rules concerning obtaining consent for payment transactions, unauthorised or incorrectly executed transactions, liability for unauthorised payment transactions, refunds, execution of payment transactions, execution time, information to be provided to payment service users, and liability of payment services providers where things go wrong. The Payment Services Regulations 2017 apply to OSB and CCFSL when they are providing payment services to their customers.

The Financial Services (Banking Reform) Act 2013 required the establishment of the Payment Systems Regulator. The Payment Systems Regulator was established on 1 April 2014 and became fully operational in April 2015. The general functions of the Payment Systems Regulator are:

- giving general directions;
- giving general guidance; and
- determining the general policy and principles by reference to which it performs particular functions.

In discharging its general functions, the Payment Systems Regulator must, so far as is reasonably possible, act in a way which advances one or more of its payments systems objectives.

The Payment Systems Regulator's payment system objectives are:

- to promote effective competition in the market for payment systems and the markets for services provided by payment systems;
- to promote the development of, and innovation in, payment systems in the interests of those who use, or are likely to use, services provided by payment systems, with a view to improving the quality, efficiency and economy of payment systems; and
- to ensure payment systems are operated and developed in a way that takes account of, and promotes, the interests of those who use, or are likely to use, services provided by payment systems.

### ***The UK Money Laundering Regulations***

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, which came into force on 26 June 2017, will require the Combined Group to verify the identity and address of customers during the on-boarding process and to keep records

to help prevent money laundering and fraud. Guidance in respect of firms' anti-money laundering and counter-terrorist financing obligations is produced by the Joint Money Laundering Steering Group.

### ***The Bribery Act***

The Bribery Act 2010 contains offences relating to bribing another person, accepting bribes and bribing foreign public officials. It also contains an offence concerned with failures by commercial organisations to prevent bribery. The Ministry of Justice has published guidance about procedures which commercial organisations may put into place to help prevent associated persons from engaging in such activity.

### ***Criminal Finances Act***

With effect from 30 September 2017, the Criminal Finances Act 2017 introduced a new criminal offence for businesses that fail to take adequate steps to prevent their associates (employees, agents or other persons who perform services for or on behalf of the business concerned) from facilitating tax evasion. Only where the business has put in place reasonable prevention procedures to prevent facilitation of tax evasion by their associates will it have a defence. HMRC has published guidance on the types of processes and procedures that may be put in place, as well as on the risk assessment and implementation plan that firms should have put in place before 30 September 2017.

### ***Data Protection Act***

The Data Protection Act 2018 (“**DPA**”) supplements the General Data Protection Regulation (EU 2016/679, see below) and came into force on 25 May 2018 (superseding the Data Protection Act 1998). It also implements the EU Data Protection Directive (EU 2016/680) into UK law. Those responsible for processing and controlling personal data must ensure that their data policies and processes reflect requirements contained in the DPA. The DPA appoints the Information Commissioner as the independent data protection regulator and contains requirements for data controllers to notify the Information Commissioner of breaches of the DPA.

### ***Modern Slavery Act***

The Modern Slavery Act 2015 requires companies with a total global annual turnover of £36 million or more that is carrying out a business, or part of a business, in the UK to publish a slavery and human trafficking statement each financial year.

### ***Consumer Rights***

The Consumer Rights Act 2015 (“**CRA**”) came into force in 2015. It deals with unfair contract terms and consumer notices. The main effect of this legislation is to consolidate the rules dealing with the fairness of contractual terms when dealing with a consumer as well as clarify the remedies that consumers have.

In the United Kingdom, the Unfair Terms in Consumer Contracts Regulations 1994 (“**UTCCR**”) applied to all mortgage loans that were entered into between 1 July 1995 and 30 September 1999. These regulations were revoked and replaced by the UTCCR on 1 October 1999, which applied to all mortgage loans as of that date. The UTCCR generally provide that:

- a borrower may challenge a term in an agreement on the basis that it is an “unfair” term within the regulations and therefore not binding on the borrower (although the agreement itself continues to bind the parties if it is capable of continuing in existence without the unfair term); and
- the CMA and any “qualifying body” (as defined in the regulations, such as the FCA) may seek to prevent a business from relying on unfair terms.

The CRA significantly reforms and consolidates consumer law in the UK. The CRA involves the creation of a single regime out of the Unfair Contract Terms Act 1977 (which essentially deals with attempts to limit liability for breach of contract) and the UTCCR. When the unfair contract

terms regime of the CRA came into force it revoked the UTCCR and introduced a new regime for dealing with unfair contractual terms as follows:

- Under Part 2 of the CRA an unfair term of a consumer contract (a contract between a trader and a consumer) is not binding on a consumer (an individual acting for purposes that are wholly or mainly outside that individual's trade, business, craft or profession). Additionally, an unfair notice is not binding on a consumer, although a consumer may rely on the term or notice if the consumer chooses to do so. A term will be unfair where, contrary to the requirement of good faith, it causes significant imbalance in the parties' rights and obligations under the contract to the detriment of the consumer.
- A term in a consumer contract may not be assessed for fairness to the extent that: (a) it specifies the main subject matter of the contract; or (b) the assessment is of the appropriateness of the price payable under the contract by comparison with the goods, digital content or services supplied under it, to the extent that such term is transparent and prominent.
- A trader must ensure that a written term of a consumer contract, or a consumer notice in writing, is transparent (i.e. that it is expressed in plain and intelligible language and is legible). Where a term in a consumer contract is susceptible to multiple different meanings, the meaning most favourable to the consumer will prevail.

### ***Unfair Consumer Practices***

Unfair business-to-consumer commercial practices are regulated under Unfair Practices Directive 2005/29/EC. The Unfair Practices Directive has been implemented in the UK through the Consumer Protection from Unfair Trading Regulations 2008.

The Unfair Practices Directive provides that enforcement bodies may take administrative action or legal proceedings in connection with unfair business-to-consumer commercial practices. The Unfair Practices Directive is intended to protect only collective interests of consumers, and is therefore not intended to give any claim, defence or right to set-off to an individual consumer.

Under the Consumer Protection from Unfair Trading Regulations a commercial practice is to be regarded as unfair, and is therefore prohibited, if it is:

- contrary to the standard of special skill and care which a trader may reasonably be expected to exercise towards consumers, commensurate with honest market practice and/or general principles of good faith in the trader's field of activity; and
- materially distorts or is likely to materially distort the economic behaviour of the average consumer (who is reasonably well-informed and reasonably observant and circumspect, and taking into account social, cultural and linguistic factors) who the practice reaches or to whom it is addressed (or where a practice is directed at or is of a type which may affect a particular group of consumers, the average consumer within that group).

In addition to the general prohibition on unfair commercial practices, the Consumer Protection from Unfair Trading Regulations contain provisions aimed at aggressive and misleading practices and customers now have a direct civil right of redress against businesses for such practices by virtue of the Consumer Protection from Unfair Trading (Amendment) Regulations 2014.

UK consumer rights regulations could lead to terms of agreements relating to mortgage loans and savings accounts issued by OSB, CCFSL, Prestige Finance Limited and Charter Mortgages Limited being unenforceable, which could negatively impact the OSB Group and Charter Court Group, and following completion of the Combination, the Combined Group.

### ***Financial Services (Distance Marketing) Regulations***

The Financial Services (Distance Marketing) Regulations 2004 give effect to the Consumer Credit Directive (see below) and govern the conditions on the sale of retail financial services products (such as credit cards) where the products are sold over the internet, by telephone or by SMS within the United Kingdom or elsewhere in the EEA. The Financial Services (Distance Marketing) Regulations: (i) restrict the use of "cold calling" and unsolicited commercial e-mails for

the promotion of financial services; (ii) impose an obligation to provide certain information before concluding a contract; and (iii) require a “cooling off” period of 14 calendar days during which consumers may withdraw from a contract without incurring penalties and without providing a reason. There are also additional pre-contract information requirements prescribed by the Financial Services (Distance Marketing) Regulations.

### ***Financial Reporting Council***

The Financial Reporting Council is an independent UK regulatory body responsible for promoting high quality corporate governance and reporting. Among other things, the Financial Reporting Council sets UK codes and standards for governance, accounting, auditing and actuarial work. It also monitors disclosure compliance by public companies within the applicable financial reporting framework and investigates misconduct by professional accountants and actuaries.

An independent review of the Financial Reporting Council was published on 18 December 2018 by the Department of Business, Energy and Industrial Strategy, led by Sir John Kingman, which recommended the Financial Reporting Council be replaced by a new regulator. The government has committed to implement the review’s recommendations. There is no timetable at present.

### ***International Financial Reporting Standards, previously known as International Accounting Standards***

The IAS Regulation represented a significant step taken by the EU to assist with the overall convergence of accounting standards on an international scale.

The main aim of the IAS Regulation is to ensure that publicly traded companies in the EU apply a single set of high quality international accounting standards for the preparation of their consolidated financial statements (known as “group accounts” under the Companies Act). Under the Companies Act, “international accounting standards” is used to refer to the international accounting standards within the meaning of the IAS Regulation.

In 2001, the International Accounting Standards Committee was replaced by the International Accounting Standards Board, since when all new published standards have been issued as IFRS instead of IAS.

### ***IFRS 9: (Financial Instruments)***

The new accounting standard governing the impairment of financial assets is effective for annual reporting periods beginning on or after 1 January 2018. The standard fundamentally changes the calculation and recognition of credit losses by introducing the requirement to base impairment provisions on expected credit losses over the life of the financial asset. It also requires credit losses to be recognised for all loans, in contrast with the previous standard (IAS 39) which requires recognition of losses only when there was evidence of impairment. In addition, the models used to calculate expected credit losses must now include forward looking factors including macroeconomic variables.

## **2.8 Regulatory and other changes resulting from the UK exit from the EU**

As a significant proportion of the current and anticipated regulatory regime applicable to the Combined Group in the UK is derived from EU directives and regulations, the UK exiting the EU could materially change the legal and regulatory framework applicable to the Combined Group, although no such material change is expected in the immediate short term. For more information see risk factor 1.5 in Part II (Risk factors) of this Prospectus.

## **2.9 Other**

In addition to those laws and regulations described above, the Combined Group is also subject to, and complies with, a number of legal and regulatory requirements that relate to, amongst other areas, employment, and health and safety.

### 3. EUROPEAN UNION LEGISLATION

The regulatory framework for financial services within the UK is currently shaped to a large degree by EU legislation. EU regulations apply directly in EU Member States (including the UK) while directives are required to be implemented into national law by Member States.

As a significant proportion of the Combined Group's regime is derived from EU regulations and directives, the UK exiting the EU may change the legal and regulatory framework applicable to the Combined Group's operations. For more information see risk factor 1.10 in Part II (Risk Factors) of this Prospectus.

The items of EU legislation listed below have particular relevance to the OSB Group and Charter Court Group, and following completion of the Combination, to the Combined Group.

#### 3.1 Capital Requirement Regulation and Directive

The Basel Committee on Banking Supervision introduced significant changes to its existing capital requirements framework for banks between 2011 and 2013, with the final reform package issued in December 2017. The intention of these new capital and liquidity requirements is to reinforce capital standards (with heightened requirements for global systemically important banks), and to establish minimum liquidity standards, for credit institutions. The Basel III reforms include new requirements regarding "**Liquidity Coverage Ratio**" and the "**Net Stable Funding Ratio**" respectively).

The Basel III reforms have been implemented in the EU by CRD IV which was adopted by the European Parliament and European Council on 26 June 2013.

In December 2017, the Basel Committee agreed to further Basel III reforms, including reforms relating to the standardised and internal ratings based approaches for credit risk, and a revised output floor. The Basel Committee expects member countries to implement these 2017 reforms – sometimes referred to as "Basel IV" – by 1 January 2022 (with the exception of those relating to the output floor, which will be phased in from 1 January 2022).

##### **Capital**

A bank's ability to absorb losses is determined by the amount of capital it holds. Consequently, a bank's total assets and risk-weighted assets determine the minimum capital that a bank is required to hold, with that capital calculated as a percentage of its risk-weighted assets. A bank's capital requirements need to be met with a combination of the three types of regulatory capital set out in the CRR which are:

- CET1 Capital, comprising common equity and retained earnings;
- Additional Tier 1 Capital, comprising deeply subordinated perpetual instruments issued in accordance with the requirements of the CRR; and
- Tier 2 Capital, comprising dated or perpetual subordinated instruments issued in accordance with the requirements of the CRR as well as any share premium account generated by the issuance of such instruments and certain other risk-weighted exposure amounts.

The principal metrics used to assess capital strength are the CET1 ratio (CET1 capital: risk-weighted assets), total capital ratio and the leverage ratio. The CRR sets out the minimum requirements ("**Pillar 1**") for institutions' own funds which are as follows:

- a CET1 capital ratio of 4.5 per cent.;
- a Tier 1 capital ratio of 6 per cent.; and
- a total capital ratio of 8 per cent.

In addition to the above capital requirements under Pillar 1, institutions are also subject to Pillar 2 requirements. This comprises of Pillar 2A (which is intended to take account of risks which are not adequately covered by Pillar 1 calculations) and Pillar 2B (which is intended to take account



of risks including those to which institutions may become exposed over a forward-looking planning horizon). The level of capital required to be maintained by institutions under Pillar 2 are subject to ongoing review by the relevant competent authorities.

The CRR places a requirement on EU parent institutions of in-scope firms (including EU-authorized banks) to comply with own funds and leverage requirements on the basis of their consolidated situation. The effect of this is that the Combined Group will be subject to consolidated supervision by the PRA as a result of OSB being the ultimate parent company of Charter Court. Therefore, in addition to OSB being subject to capital and liquidity requirements at a solo level, OSB will also be subject to capital requirements calculated by reference to the risk-weighted assets of all entities within the Combined Group.

### ***Liquidity***

A bank's ability to manage shocks to the financial system is assessed by the extent to which its assets are covered by funding with equal or longer maturity. The principal metrics to assess bank funding and liquidity are the Net Stable Funding Ratio and Liquidity Coverage Ratio:

- The Net Stable Funding Ratio is a key component of the Basel III reforms (discussed above). The ratio seeks to calculate the proportion of long-term assets which are funded by long term, stable funding. The Basel III regulations state that a bank's Net Stable Funding Ratio must be at least 100 per cent.
- The Liquidity Coverage Ratio is designed to ensure that financial institutions have the necessary assets available to withstand short-term liquidity disruptions. Banks are required to hold an amount of highly liquid assets equal to or greater than their net cash outflow over a 30-day period. The Liquidity Coverage Ratio was introduced in October 2015 and, following a phased implementation period, the full 100 per cent. minimum came into force on 1 January 2018.

## **3.2 Consumer Credit Directive**

The Consumer Credit Directive regulates the provision of credit at EU level and was implemented in the UK through a series of implementing regulations, including by way of amendments to the CCA and FSMA. The Consumer Credit Directive provides that, subject to exemptions, loans not exceeding €75,000 will be regulated. This directive repealed and replaced the first Consumer Credit Directive and required Member States to implement the directive by 11 June 2010.

In essence, the Consumer Credit Directive requires EU Member States to ensure that suppliers of consumer credit provide a comprehensible set of information to consumers in good time before a consumer credit agreement is entered into, with the aim of permitting consumers to compare consumer credit agreements more easily and better understand the features and obligations of such agreements. The pre-contractual information provided by creditors must follow a standardised format. In addition, EU Member States must implement two essential rights for consumers: (i) the right to withdraw from a credit agreement without giving any reason within a period of 14 days after the conclusion of the contract; and (ii) the right to repay his or her credit early at any time. In respect of the latter, the creditor is entitled to ask the customer for fair and objectively justified compensation.

## **3.3 European Market Infrastructure Regulation**

EMIR was adopted by the European Parliament and European Council on 4 July 2012. EMIR provides for certain over-the-counter derivative contracts to be submitted to central clearing and imposes, among other things, margin posting and other risk mitigation techniques, reporting and record keeping requirements. The clearing and margin requirements are being phased in and certain reporting obligations are already in force. Charter Court is a category 3 firm for the purposes of EMIR and must centrally clear OTC derivatives by the 21 June 2019.

## **3.4 Bank Recovery and Resolution Directive**

The BRRD has been implemented in the UK through a mixture of legislative provisions, new rules in the FCA Handbook and the PRA Rulebook, and amendments to HM Treasury's Special Resolution Regime Code of Practice.



The BRRD requires EU Member States to introduce legislation aimed at avoiding the problem of banks being effectively too big to fail. It is designed to provide relevant authorities with the means to intervene quickly and early in an unsound or failing institution so as to ensure the continuity of that institution's critical financial or economic functions, without material disruption to the financial system or the real economy and without imposing significant costs on taxpayers.

Under the BRRD, resolution authorities are given resolution powers to seek to ensure these results. These include the powers to transfer the shares or assets of a failing bank to a third party, a bridge institution established for the purpose or an asset management vehicle and to bail-in the bank's liabilities (either to write them down or to convert them into equity),

Additionally, the BRRD requires banking groups, and their regulators, to plan for how they might be rescued or resolved in a crisis scenario, including by making so-called 'living wills', and to take into account the competent authority's resolution powers when they issue capital and other debt instruments and enter into agreements creating liabilities.

The powers extended to regulators designed to aid early intervention in failing banks include the ability to remove and replace members of the board, implement measures identified in an institution's recovery plan, appoint special managers, and require changes to the operational and/or legal structure of the institution.

#### ***Minimum requirement for own funds and eligible liabilities***

The Bank of England has published its policy to implement in the UK the BRRD requirement for firms to meet the MREL requirements. These rules are designed to ensure firms have sufficient loss absorbing capacity and to ensure continuity of critical functions without making recourse to public funds. MREL is set annually on a case by case basis by the Bank of England and the requirement for firms to meet MREL is being phased in between 2016 and 2022.

On 13 June 2018, the Bank of England published indicative data on the MREL requirements for the UK's systemically important banks and building societies, as well as indicative data on the average MREL requirements for certain other non-systemic UK banks and building societies. The PRA requires these banks and building societies to meet an interim MREL requirement from 1 January 2020 and a final MREL requirement from 1 January 2022 (although since 1 January 2019 the UK's systemically important banks and building societies have been required to comply with the minimum requirements of the Financial Stability Board's total loss absorbing capacity standards). The MREL requirements set for each bank and building society will depend on a number of factors, including (but not limited to) changes to the bank or building society and its balance sheet, the preferred resolution strategy applicable to the relevant bank or building society and any change in PRA or international policy that changes the way risk-weighted assets or the exposure measure of the leverage ratio is assessed.

For more information see risk factor 1.11 in Part II (Risk Factors) of this Prospectus.

### **3.5 Deposit Guarantee Schemes Directive**

The recast Deposit Guarantee Schemes Directive 2014/49/EU requires each EU Member State to implement at least one deposit guarantee scheme, covering those deposits, in those situations and those amounts, set out in the Directive. The recast Deposit Guarantee Schemes Directive also imposes requirements on the operation of these deposit guarantee schemes, including in relation to mandatory part pre-funding of deposit guarantee schemes, a requirement that deposit guarantee schemes repay customers within a week, and a requirement for banks to be able to provide pertinent information at any time. The FSCS is the UK's deposit guarantee scheme.

### **3.6 Payment Services Directive**

PSD2 is a further step towards the harmonisation of the regulatory regime for payment services across the EU following on from the original Payment Services Directive adopted by the EU in 2007. The original Payment Services Directive aimed to bring cross-border payments within the EU in line with the level of security and efficiency of payments made within a member state. PSD2 builds on this by, requiring businesses which provide payment services to, amongst other things:

- open up third-party access to account information;
- improve consumer rights including in relation to complaints handling and by introducing new rules on surcharging and interchange fees; and
- enhance security through the introduction of strong customer authentication.

### **3.7 General Data Protection Regulation**

The GDPR is directly applicable in the UK and came into force on 25 May 2018. The GDPR brought about material changes to the way data processors are regulated and affects marketing processes, particularly with respect to requirements relating to the procurement of a customer's consent to the use of his or her personal data.

The GDPR expands the territorial reach of data protection legislation beyond the borders of the EU and requires data controllers to map their data processes, ensuring demonstrable compliance with the provisions of the regulation. The GDPR also imposes more onerous breach reporting obligations and tougher penalties for compliance failures, with the maximum fine for compliance failures increasing to €20 million or up to four per cent of the annual worldwide group turnover.

### **3.8 Anti Money Laundering**

4MLD came into force in June 2017 and has been transposed into UK law by virtue of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017. 4MLD made changes to the requirements around customer due diligence and the central register of beneficial ownership, introduced enhanced measures for local politically-exposed persons, removed the automatic exemption from enhanced customer due diligence, and extended to companies with majority-owned subsidiaries located in countries outside of the EU. 4MLD also introduced a risk based approach to customer due diligence.

5MLD was published in June 2018 and EU Member States must transpose 5MLD into national law by the end of 2019. Although the changes introduced by 5MLD are not as extensive as those introduced by 4MLD, 5MLD contains some notable introductions including extension to virtual currencies and pre-paid cards, improved safeguards for financial transactions to/from high risk third countries, and provisions aimed at ensuring that centralised national bank and payment account registers or central data retrieval systems are accessible in all EU Member States.

In January 2019, the UK's House of Commons Treasury Committee published the government and FCA's responses to the UK's House of Commons Treasury Committee September 2018 report on crypto-assets, in which, the government said it would consult and legislate in 2019 on expanding the UK's anti-money laundering regime beyond the 5MLD, and has asked the FCA to consider taking responsibility for supervising firms over compliance with anti-money laundering and counter-terrorist financing obligations.

## **4. US LEGISLATION**

### ***Foreign Account Tax Compliance Act***

On 12 September 2012, the United Kingdom concluded an intergovernmental agreement Model 1 with the United States in order to facilitate the implementation of the Foreign Account Tax Compliance Act for United Kingdom financial institutions and to allow the provision of certain information on accounts held by US persons to the US Internal Revenue Service. Under the intergovernmental agreement, United Kingdom financial institutions are obligated to annually report certain information of US reportable accounts with HMRC, which will then exchange the information with the US Internal Revenue Service. The intergovernmental agreement Model 1 provisions impose substantial burdens on UK businesses in identifying US taxpayers, and registering and reporting information. Further, significant aspects of how Foreign Account Tax Compliance Act will apply in the future remain unclear and, accordingly, it is also unclear if and to what extent any changes to Foreign Account Tax Compliance Act will be incorporated into the intergovernmental agreement Model 1, if at all.

## PART XV

### TAXATION

*The material set out in the paragraphs below does not constitute tax advice. Any person who is in any doubt as to their tax position or who is subject to tax in a jurisdiction other than the UK should consult an appropriate professional adviser.*

#### 1. Introduction

The following paragraphs are intended only as a general guide to current UK law and HMRC's current published practice, both of which are subject to change at any time, possibly with retroactive effect. They are not exhaustive and relate only to certain limited aspects of the UK tax consequences for OSB Shareholders of holding or disposing of OSB Shares (and, in the case of paragraph 1 of this Part XV, acquiring OSB Shares). The UK tax consequences for OSB Shareholders of the Combination and of exchanging Charter Court Shares for New OSB Shares in the Combination is discussed in the Scheme Document.

Except where expressly stated otherwise, the paragraphs below (other than paragraph 1 of this Part XV) are intended to apply only to OSB Shareholders:

- who are for UK tax purposes resident and, if individuals, domiciled or deemed domiciled in and only in the UK;
- to whom split-year treatment does not apply;
- who are the absolute beneficial owners of their OSB Shares and any dividends paid in respect of them;
- who hold their OSB Shares as investments (otherwise than through an individual savings account or a pension arrangement) and not as securities to be realised in the course of a trade; and
- who hold less than 5 per cent. of the OSB Shares.

The paragraphs below may not apply to certain OSB Shareholders, such as charities, dealers in securities, broker dealers, insurance companies and collective investment schemes, pension schemes, persons who are otherwise exempt from UK taxation, persons subject to UK tax on the remittance basis, persons who have (or could be deemed for tax purposes as having) acquired their OSB Shares by virtue of an office or employment (whether present, past or prospective), or persons who could be treated as holding their OSB Shares as carried interest. Such shareholders may be subject to special rules.

#### 2. UK taxation of dividends

OSB is not required to withhold tax at source from dividend payments that it makes.

##### ***Individual OSB Shareholders***

The general tax treatment of dividends paid by OSB to individual OSB Shareholders who are resident in the UK for UK tax purposes is as follows:

- dividends received by individual OSB Shareholders from OSB (or from other sources) will, except to the extent that they are earned through an individual savings account, self-invested pension plan or other regime which exempts the dividends from tax, form part of the OSB Shareholder's total income for UK income tax purposes and will represent the highest part of that income;
- a nil rate of income tax applies to the first £2,000 of the taxable dividend income received (from OSB or from other sources) by an individual OSB Shareholder in a tax year (the "**Nil Rate Amount**"), regardless of what tax rate would otherwise apply to that dividend income; and
- any taxable dividend income received by an individual OSB Shareholder in a tax year in excess of the Nil Rate Amount will be taxed at the special rates set out below.

Where an OSB Shareholder's taxable dividend income for a tax year (taking into account the personal allowance to the extent available) exceeds the Nil Rate Amount, the excess amount (the "**Relevant Dividend Income**") will be liable to income tax at the following rates for the 2019-20 tax year:

- 7.5 per cent., to the extent that the Relevant Dividend Income falls below the threshold for the higher rate of income tax;
- 32.5 per cent., to the extent that the Relevant Dividend Income falls above the threshold for the higher rate of income tax but below the threshold for the additional rate of income tax; and
- 38.1 per cent., to the extent that the Relevant Dividend Income falls above the threshold for the additional rate of income tax.

In determining whether and, if so, to what extent the Relevant Dividend Income falls above or below the threshold for the higher rate of income tax or, as the case may be, the additional rate of income tax, the OSB Shareholder's total taxable dividend income for the tax year in question (including the part within the Nil Rate Amount) will, as noted above, be treated as the highest part of the OSB Shareholder's total income for income tax purposes.

### ***Corporate OSB Shareholders***

OSB Shareholders within the charge to UK corporation tax that are "small companies" (for the purposes of UK taxation of dividends) will not generally be subject to tax on dividends from OSB, provided certain conditions are met, including an anti-avoidance condition.

Other OSB Shareholders within the charge to UK corporation tax will be subject to UK tax on dividends from OSB unless the dividends fall within an exempt class and certain conditions are met. Examples of dividends that generally fall within an exempt class include:

- dividends paid on non-redeemable shares that do not carry any present or future preferential rights to dividends or to the payer's assets on its winding-up, and
- dividends paid to a person holding less than 10 per cent. of the issued share capital of the payer (or any class of that share capital in respect of which the distribution is made) and who is entitled to less than 10 per cent. of the profits available for distribution and would be entitled to less than 10 per cent. of the assets available for distribution on a winding-up.

These exemptions are subject to anti-avoidance rules.

Each OSB Shareholder should obtain professional advice on its own position as it will depend on its own individual circumstances.

## **3. Chargeable gains**

### ***Individual OSB Shareholders***

A disposal or deemed disposal of OSB Shares may give rise to a chargeable gain (or an allowable loss) for the purposes of UK capital gains tax, depending on the circumstances and subject to any available exemption or relief.

An individual OSB Shareholder who is resident in the UK for UK tax purposes and whose total taxable gains and income in a given tax year, including any gains made on the disposal or deemed disposal of their OSB Shares and after all allowable deductions (including losses, the income tax personal allowance and the capital gains tax annual exempt amount), are less than or equal to the upper limit of the income tax basic rate band applicable in respect of that tax year (the "**Band Limit**") will generally be subject to capital gains tax at the flat rate of 10 per cent. (for the tax year 2019-20) in respect of any gain arising on a disposal or deemed disposal of their OSB Shares.

An individual OSB Shareholder who is resident in the UK for UK tax purposes and whose total taxable gains and income in a given tax year, including any gains made on the disposal or deemed disposal of their OSB Shares and after all allowable deductions (including losses, the income tax personal allowance and the capital gains tax annual exempt amount), are more than the Band Limit will generally be subject to capital gains tax at the flat rate of 10 per cent. (for the tax year 2019-20) in respect of any gain arising on a disposal or deemed disposal of their OSB Shares (to the extent that, when added to

that OSB Shareholder's other taxable gains and income in that tax year, the gain is less than or equal to the Band Limit) and at the flat rate of 20 per cent. (for the tax year 2019-20) in respect of the remainder.

The capital gains tax annual exempt amount (£12,000 for individuals for the tax year 2019-20) will be available to the extent it has not already been utilised by the individual OSB Shareholder, such that capital gains tax is chargeable only on gains arising from all sources during the tax year in excess of this figure.

Individuals who are temporarily not resident in the UK may, in certain circumstances, be subject to tax in respect of gains realised while they are not resident in the UK.

### **Corporate OSB Shareholders**

Where an OSB Shareholder falls within the charge to UK corporation tax, a disposal or deemed disposal of OSB Shares may give rise to a chargeable gain (or an allowable loss) for the purposes of UK corporation tax, depending on the circumstances and subject to any available exemption or relief. Corporation tax is charged on chargeable gains at the rate of corporation tax applicable to that OSB Shareholder.

## **4. Stamp duty and SDRT**

*The following statements are intended as a general and non-exhaustive guide to the current UK stamp duty and SDRT position, and apply regardless of whether or not a holder of OSB Shares is resident in the UK. It should be noted that certain categories of person, including market makers, brokers, dealers and other specified market intermediaries, may be entitled to exemption from stamp duty and SDRT in respect of purchases of securities in specified circumstances.*

### **Issue of New OSB Shares**

No stamp duty or SDRT will generally be payable by shareholders on the issue of New OSB Shares. Similarly, where New OSB Shares are credited in uncertificated form to an account in CREST, no liability to stamp duty or SDRT will generally arise.

Following the decision of the European Court of Justice in HSBC Holdings and Vidacos Nominees (Case 569/07) (and subsequent cases) HMRC has confirmed that it will no longer seek to impose SDRT when new shares are issued into a clearance service or depositary receipt service. The 2017 Autumn Budget included a statement which confirmed that the UK Government does not intend to re-introduce the charge following the UK's withdrawal from the EU.

### **Subsequent dealings in OSB Shares**

A sale of OSB Shares will generally be subject to UK stamp duty (if the shares are held in certificated form) at the rate of 0.5 per cent. of the amount or value of the consideration paid for the shares (rounded up to the nearest multiple of £5). Certain rules may apply on transfers to connected companies which impose a charge based on the market value of the shares, if this is higher than the amount or value of consideration paid. An exemption is available where the amount or value of the consideration is (and is certified on the instrument of transfer to be) £1,000 or under and the transfer does not form part of a larger transaction (or series of transactions).

If an unconditional agreement to transfer OSB Shares is not completed by a duly stamped transfer within 6 years of the date of the agreement becoming unconditional, or where the transfer is effected in CREST, SDRT will be chargeable at the rate of 0.5 per cent. of the amount or value of the consideration payable. Stamp duty or SDRT is normally paid by the purchaser.

Stamp duty or SDRT may be charged at the higher rate of 1.5 per cent. on transfers of OSB Shares into a clearance system or a depositary receipt system.

A sale of OSB Shares within a clearance service which has not made and maintained a relevant election under section 97A(1) of the Finance Act 1986 will not give rise to an SDRT liability and should not in practice require the payment of UK stamp duty.



## PART XVI

### DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

#### 1. OSB DIRECTORS AND OSB SENIOR MANAGEMENT

##### 1.1 The OSB Board

The following table lists the names and positions of the Current OSB Directors, as well as the date of their initial appointment as OSB Directors.

<b>Name</b>	<b>Position</b>	<b>Date first appointed as OSB Director</b>
David Weymouth	Chairman	September 2017
Andy Golding	Chief Executive Officer	December 2011
April Talintyre	Chief Financial Officer	June 2012
Graham Allatt	Non-executive Director	May 2014
Eric Anstee	Non-executive Director	December 2015
Rod Duke	Senior Independent Director	July 2012 <sup>(1)</sup>
Margaret Hassall	Non-executive Director	July 2016
Sarah Hedger	Non-executive Director	February 2019
Mary McNamara	Non-executive Director	May 2014

(1) Rod Duke was appointed to the Board in July 2012 and appointed Senior Independent Director in 2014.

The business address of the Current OSB Directors is Reliance House, Sun Pier, Chatham, Kent ME4 4ET.

##### 1.2 Details of the Current OSB Directors

Details of the Current OSB Directors and their roles, including the principal activities performed by such directors outside the OSB Group and its joint arrangements, are provided below.

###### **David Weymouth**

###### *Chairman*

David was previously Chief Information Officer at Barclays Bank PLC and Chief Risk Officer at RSA Insurance Group plc. He sat on the Executive Committee of both companies. He served as a Non-Executive Director of Bank of Ireland (UK) plc. His experience as an executive includes a wide range of senior roles in operations, technology, risk and leadership. David is also Chairman of Mizuho International Plc and his other current Non-Executive directorships include Fidelity International Holdings (UK) Limited and The Royal London Mutual Insurance Society.

###### **Andy Golding**

###### *Chief Executive Officer*

Andy was previously CEO of Saffron Building Society, where he had been since 2004. Prior to that he held senior positions at NatWest, John Charcol and Bradford & Bingley. Andy currently holds a number of posts with industry institutions including membership of the UK Finance Executive Committee, the Building Societies Association's Council and the FCA's Small Business Practitioners Panel. He is also a Director of the Building Societies Trust and has also served as a Non-Executive Director for Northamptonshire NHS and Kreditech.

###### **April Talintyre**

###### *Chief Financial Officer*

April was previously an Executive Director in the Rothesay Life pensions insurance business of Goldman Sachs 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 in the general audit department.



### **Graham Allatt**

*Non-executive Director*

Graham was previously Acting Group Credit Director at Lloyds TSB and Chief Credit Officer at Abbey National. Prior to this he spent 18 years in the NatWest Group culminating in the role of Managing Director, Credit Risk at NatWest Markets. A Fellow of the Institute of Chartered Accountants, Graham was involved with housing associations for nearly 30 years as Treasurer and Board member in the North of England and in London.

### **Eric Anstee**

*Non-executive Director*

Eric was Chairman of CPP Group plc from 2014 to 2015. Prior to this he was Chief Executive of the City of London Group plc, the first Chief Executive of the Institute of Chartered Accountants in England and Wales and Group Finance Director of Old Mutual plc. Eric was also Group Finance Director at The Energy Group plc and advisor to Lord Hanson on the demerger of Hanson plc. Prior to this Eric spent 17 years at Ernst & Young. Eric is also a Non-Executive Director of Sun Life Financial of Canada Limited and Insight Asset Management Limited.

### **Rod Duke**

*Senior Independent Director*

Rod was previously Group General Manager, HSBC with responsibility for UK distribution – branches, call centres and internet banking – for both personal and commercial customers. Rod was with HSBC for 33 years. Previous directorships include VISA (UK), HFC Bank plc and HSBC Life. He also served on the Board of Alliance & Leicester plc until its takeover by Santander. Rod is a Fellow of the Institute of Financial Services.

### **Margaret Hassall**

*Non-executive Director*

Margaret spent seven years working for Deloitte and Touche as a consultant and led the financial services consulting business for Charteris Plc. More latterly Margaret has been engaged as Chief Operations Officer or Chief Information Officer for divisions within some of the world's largest banks, namely Bank of America Merrill Lynch, Barclays and RBS. Margaret is a Non-Executive Director for Ascension Trust (Scotland) and since July 2018, of Nucleus Financial Group plc.

### **Sarah Hedger**

*Non-executive Director*

Sarah held leadership positions at General Electric for twelve years in its Corporate, Aviation and Capital business development teams, leaving General Electric as Leader of Business Development and M&A for its global GE Capital division. Prior to General Electric, she worked at Lazard & Co., Limited for 11 years, leaving as Director, Corporate Finance and spent five years as an auditor at PricewaterhouseCoopers. Sarah is an independent non-executive director of Balta Group NV, a Belgian company listed on Euronext.

### **Mary McNamara**

*Non-executive Director*

Mary is a Non-Executive Director of Dignity plc and Motorpoint plc. She was previously CEO of the Commercial Division and Board Director of the Banking Division at Close Brothers Group PLC. Prior to that, Mary was interim Chief Operating Officer of Skandia, the European arm of Old Mutual Group and prior to that, Mary spent 17 years at GE Capital, running a number of businesses including GE Fleet Services Europe and GE Equipment Finance.

## **1.3 Details of OSB Senior Management**

The OSB Senior Management comprises the members of the executive committee as at the Latest Practicable Date (being Andy Golding and April Talintyre, the Executive Directors whose details and roles are set out at paragraph 1.2 of this Part XVI) and Jens Bech, Clive Kornitzer,

Richard Davis, Richard Wilson, Hasan Kazmi, Lisa Odendaal and Jason Elphick, whose details and roles, including the principal activities performed by such directors outside the OSB Group and its joint arrangements, are provided below.

### **Jason Elphick**

*Group General Counsel and Company Secretary*

Jason joined OSB in June 2016. He has over 20 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 and he has been admitted to practice in Australia, New York and England and Wales. Jason's in-house financial services experience was most recently as Director and Head of Bank Legal at Santander in London. Prior to that, Jason held various roles at National Australia Bank, including General Counsel Capital & Funding, Head of Governance, Company Secretary and General Counsel Product, Regulation and Resolution.

### **Jens Bech**

*Group Commercial Director*

Jens joined OSB as Chief Risk Officer in 2012, before becoming Group Commercial Director in 2014. Jens joined OSB 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 where he advised a global portfolio of financial services firms and supervisors on strategy and risk management. Jens led Oliver Wyman's support of Iceland during the financial crisis.

### **Richard Davis**

*Chief Information Officer*

Richard joined OSB in 2013. Richard has worked for 20 years in financial services rising to Chief Information Officer at GE Money UK in 2004. He subsequently helped launch MoneyPartners (an Investec subsidiary), as IT Director, through to the eventual sale to Goldman Sachs. Prior to joining OSB, Richard worked for four years at Morgan Stanley covering IT, Projects and Transaction Management for the European Residential business as an Interim Director.

### **Hasan Kazmi**

*Chief Risk Officer*

Hasan joined OSB in September 2015 as Chief Risk Officer. Hasan has over 19 years of risk experience having worked at several financial institutions, including Barclays, Royal Bank of Canada and Standard Chartered Bank. Prior to joining OSB, Hasan was a Senior Director at Deloitte within the Risk and Regulatory practice with responsibility for leading the firm's enterprise risk; capital, liquidity, recovery and resolution practices. Hasan graduated from the London School of Economics with a MSc in Systems Design and Analysis and a BSc in Management.

### **Clive Kornitzer**

*Group Chief Operating Officer*

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 and Bradford and Bingley. Prior to joining OSB, Clive spent six years at Santander where he was the Chief Operating Officer for the intermediary mortgage business. Clive 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.

### **Richard Wilson**

*Group Chief Credit Officer*

Richard joined OSB in 2013. Prior to joining OSB, Richard was head of the credit function for Morgan Stanley's UK origination business and subsequently looked after Credit and Collections

strategy within their UK, Russian and Italian businesses. Between 1988 and 2006, Richard held various roles at Yorkshire Building Society, including the position of Mortgage Application Centre Manager.

### **Lisa Odendaal**

*Chief Internal Auditor*

Lisa joined OSB in April 2016 as Group Head of Internal Audit. Prior to joining OSB Lisa worked for Grant Thornton where she was an Associate Director within their Business Risk Services division. Lisa has over 20 years of internal audit and operational experience gained in the UK, UAE and Switzerland having worked at several financial institutions, including PwC, Morgan Stanley, HSBC and Man Investments.

## **1.4 Proposed OSB Directors**

In addition to the Current OSB Directors, as at the Effective Date, the Proposed OSB Directors will become directors of OSB.

The following table sets out information relating to each of the Proposed OSB Directors as at the date of this Prospectus.

<b>Name</b>	<b>Current position within Charter Court Group</b>
Sir Malcolm Williamson	Chairman
Tim Brooke	Non-executive Director
Noël Harwerth	Senior Independent Director
Rajan Kapoor	Non-executive Director
Ian Ward	Non-executive Director

## **1.5 Details of Proposed OSB Directors**

Details of the Proposed OSB Directors and their roles are provided below.

### **Sir Malcolm Williamson**

*Chairman of Charter Court*

Sir Malcolm was appointed to the Board of Charter Court in June 2017 and has been the Chairman since August 2017. He has gained significant leadership experience on the boards of a number of publicly listed companies, having served in a variety of roles, latterly as the Senior Independent Director at Aviva plc and as Chairman of Friends Life Group plc. These roles together with his executive experience as the former Group Chief Executive of Standard Chartered Bank and former President and CEO of Visa International ensure he is well placed to lead the Board of the Combined Group effectively. Sir Malcolm's previous roles include Chairman of Signet Jewellers, Clydesdale Bank plc, CDC, a government business and the National Australia Group Europe (2012-2014) and a Non-Executive Director of National Australia Bank until 2012. He has been a Non-Executive Director of JP Morgan Cazenove Holdings, G4S and the National Grid Group and has served as a member of the Board of Trustees for the International Business Leaders Forum.

### **Tim Brooke**

*Non-executive Director of Charter Court*

Tim was appointed to the Board of Charter Court in January 2015. He brings significant financial and professional services experience gained through executive roles with The Chase Manhattan Bank (now JPMorgan Chase & Co) and as a former partner with Pricewaterhouse Coopers LLP until 2009. Tim is particularly experienced in governance, risk management, bank operations and internal audit. He holds Non-executive Director roles with a number of other financial and non-financial institutions operating in the UK and abroad and oversees Charter Court's risk management activities as Chair of the Board's Risk Committee.

**Noël Harwerth***Senior Independent Director of Charter Court*

Noël was appointed to the Board of Charter Court in June 2017 and has been its Senior Independent Director since August 2017. Following completion of the Combination, Noël will assume the role of Senior Independent Director of the Combined Group. She 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. Noël is a former non-executive director of Standard Life Aberdeen plc and RSA Insurance Group plc prior to which she held a variety of senior roles with Citicorp for 15 years, latterly serving as the Chief Operating Officer of Citibank International. Noël's prior non-executive roles include GE Capital Bank Limited, Sumitomo Mitsui Banking Corporation Europe Avocet Mining, Alent plc, Corus, Logica, The London Metal Exchange, Standard Life Assurance Limited.

**Rajan Kapoor***Non-executive Director of Charter Court*

Rajan was appointed to the Board of Charter Court in September 2016. He was Financial Controller of the Royal Bank of Scotland Group and held a number of senior finance positions in a 28-year career with RBS. Rajan has wide-ranging experience of all aspects of banking including external reporting, financial planning and analysis, asset and liability management, taxation and stress testing. He also 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.

**Ian Ward***Non-executive Director of Charter Court*

Ian was appointed to the Board of Charter Court in January 2015. He has over 40 years of experience in financial services including 16 years as Chief Executive Officer of Leeds Building Society. He was formerly a director of Leeds, York and North Yorkshire Chamber of Commerce and Chairman of its property forum and the Senior Independent Director of Harrogate & District NHS Foundation Trust. Ian has considerable experience in non-executive roles and his understanding of the regulated financial services market brings valuable regulatory insight to the Charter Court Board.

## 1.6 Directorships and partnerships

The details of those companies and partnerships outside the OSB Group and its joint arrangements of which the Current OSB Directors and the OSB Senior Management are, or have been at any time during the previous five years prior to the date of this Prospectus, members of the administrative, management or supervisory bodies or partners are as follows:

Name	Current Position	Former Positions
<b>Current OSB Directors</b>		
David Weymouth	<ul style="list-style-type: none"> <li>• FIL Investment Advisors (UK) Limited</li> <li>• FIL Investment Services (UK) Limited</li> <li>• FIL Investments International</li> <li>• FIL Pensions Management</li> <li>• FIL Retirement Services Limited</li> <li>• Financial Administration Services Limited</li> <li>• Mizuho International plc</li> <li>• Royal London Mutual Insurance Society Limited</li> </ul>	<ul style="list-style-type: none"> <li>• Bank of Ireland (UK) plc (resigned 2017)</li> <li>• Financial Services Compensation Scheme (resigned 2016)</li> <li>• Royal &amp; Sun Alliance Reinsurance Limited (resigned 2015)</li> <li>• The Marine Insurance Company Limited (resigned 2015)</li> </ul>
Andy Golding	<ul style="list-style-type: none"> <li>• Building Societies Trust Limited</li> <li>• Kent Reliance Provident Society Limited</li> </ul>	<ul style="list-style-type: none"> <li>• Kreditech Holding SSL GmbH (resigned 2017)</li> </ul>
Rod Duke	<ul style="list-style-type: none"> <li>• M &amp; R Duke Investments Ltd</li> </ul>	n/a
Eric Anstee	<ul style="list-style-type: none"> <li>• Anstee Development LLP</li> <li>• Cicuma Properties Ltd</li> <li>• Future Screen Partners No.1 LLP</li> <li>• Insight Investment Funds Management Limited</li> <li>• Insight Investment Management (Global) Limited</li> <li>• Insight Investment Management Limited</li> <li>• Pareto Investment Management Ltd</li> <li>• Sunlife Assurance Company of Canada (U.K.) Limited</li> <li>• The Third Scotts Atlantic Distributors LLP</li> <li>• West Bar BPRA LLP</li> </ul>	<ul style="list-style-type: none"> <li>• The Royal School Haslemere (resigned 2015)</li> </ul>
Margaret Hassall	<ul style="list-style-type: none"> <li>• Nucleus Financial Group plc</li> <li>• Pearl Red Ltd</li> <li>• The Ascension Trust (Scotland)</li> </ul>	<ul style="list-style-type: none"> <li>• Edinburgh Street Pastors (resigned 2018)</li> </ul>
Sarah Hedger	<ul style="list-style-type: none"> <li>• Lincolns Island Limited</li> <li>• Balta Group NV (listed on Euronext)</li> </ul>	<ul style="list-style-type: none"> <li>• GE Capital EMEA Services Limited (resigned 2016)</li> </ul>
Mary McNamara	<ul style="list-style-type: none"> <li>• Dignity Plc</li> <li>• Motorpoint Group Plc</li> </ul>	<ul style="list-style-type: none"> <li>• The Leasing Industry Philanthropic and Research Foundation Limited (resigned 2016)</li> </ul>

<b>Name</b>	<b>Current Position</b>	<b>Former Positions</b>
<b>OSB Senior Management</b>		
Richard Davis	n/a	<ul style="list-style-type: none"> <li>Aston Dynamics (UK) Limited (dissolved 2014)</li> </ul>
Clive Kornitzer	Kent Reliance Provident Society Limited	<ul style="list-style-type: none"> <li>Impetus4 Limited (dissolved 2016)</li> </ul>

The details of those companies and partnerships outside the Charter Court Group and its joint arrangements of which the Proposed OSB Directors are, or have been at any time during the previous five years prior to the date of this Prospectus, members of the administrative, management or supervisory bodies or partners are as follows:

<b>Name</b>	<b>Current Position</b>	<b>Former Positions</b>
<b>Proposed OSB Directors</b>		
Sir Malcolm Williamson	<ul style="list-style-type: none"> <li>Youth Business International</li> <li>Centre for the Study of Financial Innovation</li> <li>NewDay Group UK Limited</li> <li>NewDay Limited</li> </ul>	<ul style="list-style-type: none"> <li>Aviva plc (resigned 2017)</li> <li>NewDay Group Limited (resigned 2017)</li> <li>Friends Life Group plc (resigned 2016)</li> <li>Friends Life Holdings plc (resigned 2016)</li> <li>Friends Life Group Limited (resigned 2016)</li> <li>Friends Life FPG Limited (resigned 2011)</li> </ul>
Tim Brooke	<ul style="list-style-type: none"> <li>Butterfield Mortgages Limited</li> <li>Monzo Bank Limited</li> <li>TFP Schemes Limited</li> <li>PIB Risk Services Limited</li> <li>Thistle Insurance Services Limited</li> <li>Q Underwriting Services Limited</li> <li>Valiamo Limited</li> </ul>	<ul style="list-style-type: none"> <li>Capita Employee Benefits Limited (resigned 2018)</li> <li>Capita Insurance Services Limited (resigned 2018)</li> <li>Simplyhealth Access (resigned 2016)</li> <li>Simplyhealth Group Limited (resigned 2016)</li> <li>Marsden Building Society (resigned 2016)</li> </ul>
Noël Harwerth	<ul style="list-style-type: none"> <li>UK Export Finance Board</li> <li>Sirius Minerals plc</li> <li>British Horseracing Authority Limited</li> </ul>	<ul style="list-style-type: none"> <li>Standard Life Aberdeen plc (resigned 2017)</li> <li>GE Capital Bank Limited (resigned 2017)</li> <li>Sumitomo Mitsui Banking Corporation Europe Limited (resigned 2015)</li> <li>Alent Limited (resigned 2015)</li> <li>The London Metal Exchange (resigned 2018)</li> <li>Standard Life Assurance Limited (resigned 2018)</li> <li>International Tax and Investment Center (resigned 2014)</li> <li>Harwerth Consulting Limited (resigned 2015)</li> <li>CHAPS Clearing Company Limited (resigned 2017)</li> <li>London First (resigned 2015)</li> <li>Harry Winston Diamond Corporation (resigned 2014)</li> </ul>



<b>Name</b>	<b>Current Position</b>	<b>Former Positions</b>
Rajan Kapoor	<ul style="list-style-type: none"> <li>Allica Limited</li> </ul>	<ul style="list-style-type: none"> <li>National Westminster International Holdings B.V. (resigned 2015)</li> <li>National Westminster Finance BV (resigned 2015)</li> <li>RBS AA Holdings (Netherlands) B.V. (resigned 2015)</li> <li>RBS Netherlands Holdings B.V. (resigned 2015)</li> </ul>
Ian Ward	<ul style="list-style-type: none"> <li>Newcastle Building Society</li> <li>Newcastle Systems Management Limited</li> <li>Newcastle Financial Advisors Limited</li> </ul>	<ul style="list-style-type: none"> <li>Harrogate &amp; District NHS Foundation Trust (resigned 2018)</li> <li>I W Ward Limited (resigned 2014)</li> </ul>

## 1.7 Confirmations

There are no family relationships between any of the OSB Directors, the Proposed OSB Directors or the OSB Senior Management.

None of the Current OSB Directors or the OSB Senior Management in the five years prior to the date of this Prospectus:

- has had any convictions in relation to fraudulent offences;
- in their capacity as members of administrative, management and supervisory bodies or as senior managers, has been associated with any bankruptcies, receiverships or liquidations;
- has been subject to any official public incrimination and/or sanctions by statutory or regulatory authorities (including, where relevant, designated professional bodies); or
- has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of, or from acting in the management or conduct of the affairs of, an issuer (as defined in the Prospectus Rules).

## 2. INTERESTS OF THE CURRENT OSB DIRECTORS, THE PROPOSED OSB DIRECTORS AND THE OSB SENIOR MANAGEMENT IN OSB SHARES

### 2.1 Total interests in OSB Shares

Total interests of the Current OSB Directors, the OSB Senior Management and the Proposed OSB Directors in OSB Shares (as at the Latest Practicable Date) are set out in the following table:

	<b>Interests in OSB Shares as at the Latest Practicable Date</b>	<b>Per cent. of issued ordinary share capital as at the Latest Practicable Date</b>	<b>Expected per cent. of issued ordinary share capital immediately following Admission</b>
<b>Current OSB Directors</b>			
David Weymouth	13,178	0.005%	0.003%
Andy Golding	762,941	0.31%	0.17%
April Talintyre	320,346	0.13%	0.07%
Graham Allatt	–	–	–
Eric Anstee	4,960	0.002%	0.001%
Rod Duke	80,000	0.03%	0.02%
Margaret Hassall	–	–	–
Sarah Hedger	–	–	–
Mary McNamara	22,350	0.01%	0.005%

	Interests in OSB Shares as at the Latest Practicable Date	Per cent. of issued ordinary share capital as at the Latest Practicable Date	Expected per cent. of issued ordinary share capital immediately following Admission
<b>OSB Senior Management</b>			
Jens Bech	114,604	0.05%	0.03%
Richard Davis	66,191	0.03%	0.01%
Jason Elphick	–	–	–
Hasan Kazmi	7,051	0.003%	0.002%
Clive Kornitzer	133,414	0.05%	0.03%
Lisa Odendaal	–	–	–
Richard Wilson	65,717	0.03%	0.01%
<b>Proposed OSB Directors</b>			
Sir Malcolm Williamson	–	–	0.02%
Tim Brooke	–	–	–
Noël Harwerth	–	–	–
Rajan Kapoor	–	–	0.002%
Ian Ward	–	–	0.01%

## 2.2 Awards granted to the Current OSB Directors and the OSB Senior Management

As at the Latest Practicable Date, the Current OSB Directors and the members of the OSB Senior Management had the outstanding awards over OSB Shares set out in the following table:

	OSB Share Plan <sup>(1)</sup>	Number of OSB Shares over which awards are outstanding
<b>OSB Directors</b>		
Andy Golding	DSBP	188,137
	PSP	523,942
April Talintyre	DSBP	125,775
	PSP	331,774
<b>OSB Senior Management</b>		
Jens Bech	DSBP	70,838
	PSP	203,144
	Sharesave	5,551
Richard Davis	DSBP	42,017
	PSP	113,770
	Sharesave	9,468
Jason Elphick	DSBP	63,884
	PSP	118,109
	Sharesave	2,220
Hasan Kazmi	DSBP	58,812
	PSP	153,339
Clive Kornitzer	DSBP	72,381
	PSP	177,171
Lisa Odendaal	DSBP	57,514
	PSP	104,204
	Sharesave	7,500
Richard Wilson	DSBP	44,505
	PSP	121,734
	Sharesave	6,789

(1) The vesting of a certain number of OSB Shares under these OSB Share Plans is subject to performance conditions.

### 3. REMUNERATION AND PENSIONS

#### 3.1 Remuneration policy

The remuneration policy of OSB is set out on pages 92 to 98 of the OSB 2018 Annual Report and Accounts, which are incorporated by reference into this Prospectus as set out in Part XVII (Additional information) and available for inspection as set out in Part XVII (Additional information). The Current OSB Directors have been compensated in accordance with this remuneration policy and the policy will remain effective until the annual general meeting in 2021, unless a further policy is proposed by OSB and approved by the OSB Shareholders in the meantime.

#### 3.2 Total remuneration for the Current OSB Directors

The remuneration for the Current OSB Directors for the financial year ended 31 December 2018 is set out in the table below.

<b>Executive Director</b>	<b>Basic salary (£000)</b>	<b>Taxable benefits (£000)<sup>(1)</sup></b>	<b>Pension (£000)</b>	<b>Amount bonus paid (£000)<sup>(2)</sup></b>	<b>Amount bonus deferred (£000)</b>	<b>LTIP (£000)</b>	<b>Total (£000)</b>
Andy Golding	501	21	65	347	347	293	1,574
April Talintyre	336	16	44	232	232	207	1,067

(1) Taxable benefits received include car allowance (CEO £20,000; CFO £15,000) and private medical cover.

(2) 50% of bonus is payable in cash and 50% in shares deferred for three years.

<b>Director</b>	<b>Total fees (£000)</b>
<b>Chairman</b>	
David Weymouth	250
<b>Non-executive Directors</b>	
Graham Allatt	89
Eric Anstee	83
Andrew Doman <sup>(1)</sup>	22
Rod Duke	78
Margaret Hassall	63
Mary McNamara	78
<b>Total</b>	<b>663</b>

(1) Ceased to be a Director on 10 May 2018.

Non-executive Directors cannot participate in any of OSB's share schemes and are not eligible to join the OSB pension scheme.

#### 3.3 Total remuneration for the Current OSB Directors and OSB Senior Management

The aggregate remuneration paid (including salary, other benefits and share-based payments) to the Current OSB Directors and the OSB Senior Management by the OSB Group for services in all capacities to it in respect of the year ended 31 December 2018 was approximately £8.9 million (inclusive of pensions and benefits).

#### 3.4 Pension entitlements

The aggregate amounts set aside or accrued by the OSB Group to provide pension, retirement or similar benefits for the OSB Directors and the OSB Senior Management team for the year ended 31 December 2018 was £328,584.

#### 3.5 OSB Directors' emoluments

It is intended that the remuneration arrangements for the OSB Executive Directors will be reviewed and, as appropriate, adjusted by the OSB Remuneration Committee of the Combined Group following the Effective Date, in order to ensure that they reflect the increased scale and complexity of the combined business and the resultant impact on the role and responsibilities of the executive directors. Full details will be set out in the Combined Group's remuneration report.

**4. SERVICE CONTRACTS AND LETTERS OF APPOINTMENT**

**4.1 Details of OSB Executive Directors’ service contracts**

***Expiration of current term of office***

The OSB Executive Directors’ employment contracts (the “**Service Contracts**”) have an indefinite term. In line with the OSB Articles of Association and the UK Corporate Governance Code, each of the OSB Executive Directors retired at the last annual general meeting of OSB and were reappointed by the OSB Shareholders.

***Notice periods and termination***

The Service Contracts can be ended by either the relevant OSB Executive Director or the employer giving the relevant OSB Director at least 12 months’ written notice of termination. Notice of termination can be served any time after the relevant OSB Executive Director has been appointed.

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 the relevant Service Contract.

A payment in lieu of notice may be made on termination to the value of the basic salary at the time of termination. Any such payment may be made in instalments and in such circumstances can be reduced to the extent the relevant Executive Director mitigate their loss.

***Post-termination***

Each of the Service Contracts include the following provisions which apply following termination of the relevant Service Contract:

- six-month post-termination restrictions against competing with OSB; and
- nine-month restrictive covenants against dealing with client or suppliers of OSB and against soliciting clients, suppliers and key employees.

**4.2 Details of OSB Non-executive Directors’ letters of appointment and fees**

The OSB Non-executive Directors are appointed by letters of appointment that set out their duties and responsibilities. The key terms are:

<b>Provision</b>	<b>Policy</b>
<b>Period of appointment</b>	Initial three-year term.
<b>Notice periods</b>	Three months on either side.  The appointments are also terminable with immediate effect and without compensation or payment in lieu of notice if the Chairman or Non-executive Director is not re-elected to their position as an OSB Director by shareholders.
<b>Payment in lieu of notice</b>	OSB is entitled to make a payment in lieu of notice on termination.

**4.3 Details of Proposed OSB Directors’ service contracts and letters of appointment**

Each of the Proposed OSB Directors will be engaged pursuant to a letter of appointment with OSB, the particulars of which will be the same as those of the current OSB Directors.

**5. CONFLICTS OF INTEREST**

No Current OSB Director or OSB Senior Management has any actual or potential conflicts of interest between any duties owed by the Current OSB Directors or the OSB Senior Management respectively to OSB and any private interests or other duties he or she may also have. None of the Current OSB Directors or OSB Senior Management was selected to be a member of the administrative, management or supervisory bodies of OSB or a member of the OSB Senior Management pursuant to any arrangement or understanding with any major shareholder, customer, supplier or other person.

None of the Current OSB Directors has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business which was effected by any member of the OSB Group during the current or immediately preceding financial year, or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

## **6. CORPORATE GOVERNANCE**

The OSB Board is committed to high standards of corporate governance. Throughout the year ended 31 December 2018, OSB applied the main principles and complied with the relevant provisions set out in the UK Corporate Governance Code.

## **7. KEY COMMITTEES**

There are four key committees in OSB comprising the OSB Audit Committee, the OSB Remuneration Committee, the OSB Nomination and Governance Committee and the OSB Risk Committee. In addition, a Board Integration Committee for the Combined Group will be created to oversee the integration plan and its delivery.

### **7.1 OSB Audit Committee**

#### ***Composition***

The OSB Audit Committee currently comprises three members, all of whom are independent Non-executive Directors: Eric Anstee (Chair), Graham Allatt and Margaret Hassall. Following completion of the Combination, Rajan Kapoor will assume the role of Chair of the OSB Audit Committee.

#### ***Objectives and responsibilities***

The primary objective of the committee is to assist the OSB Board in overseeing the systems of internal control and external financial reporting across the OSB Group. The OSB Audit Committee performs this role by reviewing and monitoring:

- the effectiveness of the external and internal audit arrangements;
- the effectiveness of compliance assurance arrangements;
- the effectiveness of fraud prevention and whistleblowing procedures are established which minimise potential for fraud and financial impropriety; and
- the integrity of the financial statements, annual report and accounts, interim report and accounts, related internal control disclosures and any other publicly available financial information (including Pillar 3 disclosures).

The responsibilities of the OSB Audit Committee also include the following: external audit, financial reporting and internal controls.

The OSB Audit Committee normally meets at least four times a year at the appropriate times in the reporting and audit cycle.

### **7.2 OSB Remuneration Committee**

#### ***Composition***

The OSB Remuneration Committee comprises three members, all of whom are independent Non-executive Directors: Mary McNamara (Chair), Rod Duke and David Weymouth. Following completion of the Combination, the OSB Remuneration Committee will comprise an equal number of members of the current OSB Board and the current Charter Court Board and will continue to be chaired by Mary McNamara.

#### ***Objectives and responsibilities***

The primary objective of the committee is to advise the OSB Board on developing an overall remuneration policy that is aligned with the business strategy and objectives, risk appetite, values and long term interests in the OSB Group, recognising the interests of all stakeholders.

The responsibilities of the OSB Remuneration Committee include the following: determining and monitoring policy on and setting levels of remuneration, termination, performance-related pay, pension arrangements, reporting and disclosure, share incentive plans and remuneration consultants.

The OSB Remuneration Committee normally meets at least three times per year.

### **7.3 OSB Nomination and Governance Committee**

#### ***Composition***

The OSB Nomination and Governance Committee comprises three members, all of whom are independent Non-executive Directors: Rod Duke (Chair), Mary McNamara and David Weymouth. Following completion of the Combination, Sir Malcolm Williamson will assume the role of Chair of the OSB Nomination and Governance Committee.

#### ***Objectives and responsibilities***

The primary objective of the committee is to lead the process for the appointment of new members of the Board and provide oversight and guidance to the OSB Board on all matters of corporate governance relating to the OSB Group not covered by other committees. This includes, but is not limited to:

- Ensuring that the OSB Board sets the tone from the top in relation to the values, ethics and culture of the business leading to a sustainable business.
- Ensuring that the Board operates effectively, including ensuring that the OSB Board and its committees, and the boards of the subsidiaries, have an appropriate balance of diversity, skills, experience, availability, independence and knowledge of the OSB Group to enable them to discharge their respective responsibilities effectively.
- Ensuring that the OSB Group adheres to best practice in relation to Corporate Governance in a manner that is proportionate to the size and complexity of the OSB Group, and is in line with the UK Corporate Governance Code, the requirements of the PRA and the FCA.

The OSB Nomination and Governance Committee normally meets at least three times per year.

### **7.4 OSB Risk Committee**

#### ***Composition***

The OSB Risk Committee currently comprises five members, four of whom are independent Non-executive Directors: Graham Allatt (Chair), Eric Anstee, Margaret Hassall, Mary McNamara and April Talintyre. Following completion of the Combination, Graham Allatt will continue to chair the OSB Risk Committee.

#### ***Objectives and responsibilities***

The primary objective of the committee is to provide oversight and advice to the OSB Board on current risk exposures and future risk strategy, and to assist the OSB Board to promote a culture within the OSB Group that emphasises and demonstrates the benefits of a risk-based approach to internal control and management of the OSB Group. The committee performs this role by considering whether:

- The OSB Group has appropriate methods for measuring risk appetite and positions.
- The OSB Group's key risks are identified, monitored and appropriate steps are being taken by management to mitigate them.
- Due consideration is given to all significant matters relating to governance, control, regulation and compliance.
- The OSB Group's risk framework is fit for purpose and continuously refined to meet the evolving needs of the OSB Group and the regulatory environment within which it operates.



- Adequate capital is maintained for the OSB Group's key risk exposures, both to ensure regulatory compliance and the achievement of its strategic objectives.
- Adequate systems, processes and personnel are in place to manage liquidity risk within the OSB Board's risk appetite and within regulatory limits.
- The OSB Group's current and proposed activities are reviewed against its risk appetite and capital budgets.
- Appropriate sub-committees and associated governance structures are established and monitored.
- The OSB Group treats customers fairly and openly, and considers risks relating to conduct and culture.

The responsibilities of the OSB Risk Committee include the following: risk appetite, risk management framework, approval of lending up to 20 per cent. of CET1 on a connected basis and capital and liquidity management oversight.

The OSB Risk Committee normally meets at least six times per year.

## **7.5 Board Integration Committee for the Combined Group**

### ***Composition***

The Board Integration Committee will comprise existing non-executive directors and senior management of OSB and Charter Court. David Weymouth, the Deputy Chairman of the Combined Group, will chair the Board Integration Committee.

### ***Objectives and responsibilities***

The primary objective of the committee is to oversee the integration plan and its delivery. The committee performs this role through overseeing:

- Synergies and costs to achieve these.
- Ratification of current Charter Court policies on risk appetite and management.
- People engagement.
- Communication of decisions with staff.
- Longer lead time projects – process for financial reporting, alignment of IT processes and use of offshore service centres.
- Customer impacts.
- Regulatory interaction.

The Board Integration Committee intend to meet on a monthly basis.

## **8. OSB SHARE PLANS**

OSB operates the PSP, DSBP, LTIP and Sharesave (together, the "**OSB Share Plans**"). In addition to the OSB Share Plans, OSB has established the EBT, which may be used to provide OSB Shares to employees in connection with the OSB Share Plans and the Replacement Plans as defined below (together, the "**Plans**"). Further details of the EBT are set out below.

The principal features of the OSB Share Plans are summarised below. See also Section 2.2 of this Part XVI for details in relation to options/awards held by the Current OSB Directors under the OSB Share Plans. Further to paragraph 13.1 of Part VI above, OSB will be offering to participants in the Charter Court Financial Services Group plc Sharesave Scheme the opportunity to exchange their options for options over shares in the capital of OSB (the "**Roll-Over Sharesave**"). OSB will also grant to certain participants in the Charter Court Financial Services Group plc Performance Share Plan 2017 whose awards lapse due to time pro rating as a result of the Combination replacement awards over the value of such lapsed award under either the PSP (under terms as to vesting as described in the

description of the Mirror PSP below) or under terms which are (save as to amendments required to implement the arrangements agreed with Charter Court and the manner of delivery of OSB shares and minor differences consequential thereon) the same as the rules of the PSP (the “**Mirror PSP**” and together with the Roll-Over Sharesave, the “**Replacement Plans**”). The principal features of the Roll-Over Sharesave and the Mirror PSP are summarised below.

## 8.1 The PSP

### **General**

The PSP was adopted by OSB on 2 May 2014. The PSP is a discretionary share plan that is administered by the OSB Remuneration Committee. Awards may be satisfied from newly issued shares, transfer of treasury shares or shares purchased in the market.

### **Eligibility**

All employees (including Executive Directors) of OSB and any subsidiary which is a participating company in the PSP are eligible to be granted awards under the PSP, other than employees who have given or received notice to terminate their employment on the relevant date of grant (unless the committee determines otherwise). Awards are usually granted to the executive committee and members of the Senior Leadership Team.

### **Grant of Awards**

Awards may take the form of options (**Options**) or contingent rights to acquire shares (**Conditional Awards** and, together with options, **PSP Awards**). The OSB Remuneration Committee may also decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash.

Awards may be granted: (i) within 42 days after: (a) the announcement of OSB’s results for any period; (b) the day on which changes to legislation or regulation affecting employee share schemes are announced, effected or made which may impact on any PSP Awards to be made; or (c) the lifting of any dealing restrictions which has prevented the grant of awards during the periods set out above; or (ii) at any other time when the OSB Remuneration Committee considers that circumstances are sufficiently exceptional to justify its grant.

The exercise price of an Option is set at grant and will be nil unless the OSB Remuneration Committee determines otherwise.

No consideration is payable by a participant for the grant of a PSP Award. A PSP Award may not be transferred or otherwise disposed of (except on the death of that person to their personal representatives). PSP Awards are not pensionable.

No awards may be granted later than 10 years after 2 May 2014.

### **Limits**

#### *Company*

If OSB Shares are newly issued or transferred from treasury to satisfy PSP Awards, the number of OSB Shares which may be so issued or transferred by OSB to satisfy awards:

- (A) under the PSP and any other employees’ share plan adopted by OSB is limited to 10 per cent. of OSB’s issued ordinary share capital over any 10 year period; and
- (B) under the PSP and any other executive employees’ share plan adopted by OSB is limited to 5 per cent. of OSB’s issued ordinary share capital over any 10 year period.

The above limits do not include: shares which may be issued/transferred or committed to be issued/transferred under the PSP to satisfy dividend equivalent payments; or shares which have been the subject of awards granted prior to OSB’s admission to the Official List maintained by the FCA.

### *Individual*

PSP Awards may not be granted to a participant if such grant would cause the aggregate market value of OSB Shares (other than those that may be issued/transferred or committed to be issued/transferred under the PSP to satisfy dividend equivalent payments) subject to all of that participant's PSP Awards granted in that financial year, to exceed 200 per cent. of that participant's base salary at the date of grant.

### **Performance conditions**

Vesting of PSP Awards granted under the PSP will normally be granted subject to performance conditions. The OSB Remuneration Committee may, if circumstances occur which cause the OSB Remuneration Committee to determine that the performance condition has ceased to be appropriate, amend or waive a performance condition, provided that the altered or new performance condition will, in the opinion of the OSB Remuneration Committee, be fair, reasonable and not materially less difficult to satisfy than the previous performance condition would have been but for the event in question. Other conditions may be changed or waived at any time.

The performance conditions for 2019 are:

<b>Performance level</b>	<b>EPS element (40% of total award)</b>	<b>Total shareholder return element (40% of total award)</b>	<b>Return on equity (20% of total award)</b>	<b>Percentage of that part of the award vesting</b>
Below 'threshold'	Less than 6% compound annual growth rate	Below median	Below 20%	0%
'Threshold'	6% compound annual growth rate	Median	20%	25%
'Stretch'	12% compound annual growth rate	Upper quartile	25%	100%

Pro rata vesting in between the  
above points

Vesting will always be subject to an underpin whereby the OSB Remuneration Committee must be satisfied: (i) that the vesting reflects the underlying performance of OSB; (ii) that the business has operated within the OSB Board's risk appetite framework; and (iii) that individual conduct has been satisfactory.

### **Vesting**

A PSP Award will normally vest on the later of: (i) the date on which the OSB Remuneration Committee determines that any performance condition or other condition attaching to the PSP Award has been wholly or partly satisfied or waived; and (ii) the third anniversary of grant or such later date as the OSB Remuneration Committee may determine at grant.

PSP Awards may only vest earlier than the above dates in limited circumstances: (i) if the OSB Remuneration Committee so determines, on cessation of employment for certain good leaver reasons (see below); or (ii) on change of control or winding-up of OSB, or certain other corporate events (see below).

Options will (unless they lapse earlier) normally remain exercisable until the day preceding the tenth anniversary of grant (or such earlier date as the OSB Remuneration Committee may specify on or before the date of grant).

### ***Settlement of Awards***

PSP Awards will normally be settled in OSB Shares. However, the OSB Remuneration Committee may decide that a vested Conditional Award or exercised Option will be settled in cash rather than OSB Shares.

OSB may arrange for any OSB Shares to be transferred or issued to a nominee appointed by OSB, rather than to the participant directly, to be held on behalf of the participant.

### ***Shareholder rights***

All OSB Shares allotted or transferred under the PSP shall rank equally with all OSB Shares then in issue except for any rights attaching to such Shares by reference to a record date before the date of exercise/vesting of the relevant PSP Award.

### ***Dividend equivalents***

The OSB Remuneration Committee may (though has not done so as at the date of this Prospectus) decide that on vesting/exercise of a PSP Award, participants will receive a payment (in cash and/or OSB Shares) of an amount equivalent to the dividends (other than special dividends or dividends of an exceptional nature unless the OSB Remuneration Committee determines otherwise) that would have been paid on the OSB Shares that vest under their PSP Award by reference to the dividend record dates occurring during the period starting on the date of grant of the PSP Award and the date when the PSP Award vests or, in the case of an Option, the date on which the Option is exercised. This amount may assume the reinvestment of dividends. Alternatively, participants may have their PSP Awards increased as if dividends were paid on the OSB Shares subject to the award and then reinvested in further OSB Shares.

### ***Cessation of employment***

A PSP Award that has not already vested will normally lapse upon the participant ceasing employment.

If, however, a participant's employment ceases due to: (i) death; (ii) redundancy; (iii) retirement; (iv) injury, ill-health or disability; (v) his or her office or employment being with either a company which ceases to be an OSB Group member or relating to or part of a business which is transferred to a person who is not an OSB Group member; or (vi) any other reason as the OSB Remuneration Committee may determine, his or her PSP Award shall normally vest on its normal timetable. However, the OSB Remuneration Committee may, however, determine that the performance period for that PSP Award will end earlier and the PSP Award will vest on the date on which the performance conditions are measured. In either case, vesting is subject to: (i) the extent to which any applicable performance conditions are satisfied or waived; and (ii) application of a pro rata reduction to the number of OSB Shares subject to the PSP Award to reflect the time such PSP Award has been held until cessation of employment, although the OSB Remuneration Committee can decide not to pro-rate a PSP Award if it regards it as inappropriate to do so in the particular circumstances.

### ***Takeovers and other corporate events***

Other than in the case of an internal re-organisation, in the event of a change of control pursuant to a general offer, a court sanctioning a scheme of arrangement pursuant to or in connection with a change of control or the acquisition of substantially the whole of OSB's undertaking/property, any person becoming bound or entitled to acquire OSB Shares, or the passing of a resolution for the voluntary winding-up of OSB, PSP Awards will vest immediately after the relevant event (unless the OSB Remuneration Committee determines that they should vest earlier) subject to: (i) the extent to which performance conditions have been satisfied or waived at that time; and (ii) pro-rating of the PSP Awards to reflect the reduced period of time between grant and vesting (unless the OSB Remuneration Committee determines otherwise). Alternatively, PSP Awards may be exchanged for awards over shares in the acquiring company (or another company determined by the acquiring company).

In the event of an internal reorganisation, PSP Awards will be replaced by equivalent new awards over ordinary shares in a new company unless the OSB Remuneration Committee decides that awards should vest on the basis which would apply in the case of a takeover (see above).

If a demerger, special dividend, delisting or other similar event is proposed which, in the opinion of the OSB Remuneration Committee, might affect the current or future value of a PSP Award, then the OSB Remuneration Committee may allow PSP Awards to vest on the basis which would apply in the case of a takeover as described above. Alternatively, PSP Awards may be exchanged for awards over shares in the acquiring company (or another company determined by the acquiring company).

Options are exercisable until the earlier of one month from the date of the relevant event and, in the case of any person becoming bound or entitled to acquire OSB Shares as described above, the expiry of such period of being so bound or entitled.

#### ***Holding period***

PSP Awards granted after 1 January 2018 to participants at executive committee level or above include a holding period whereby any OSB Shares earned at the end of the performance period (net of tax) may not be sold for a further two years.

#### ***Variation of capital***

In the event of any variation of OSB's share capital or in the event of a demerger, payment of a dividend in specie or super dividend, or any other corporate event which in the reasonable opinion of the OSB Remuneration Committee justifies such an adjustment, the OSB Remuneration Committee may make such adjustments as it considers appropriate to the number, nominal value or description of OSB Shares subject to a PSP Award and/or the exercise price payable (if any) (provided that the exercise price does not decrease below nominal value unless the OSB Remuneration Committee is authorised to capitalise the difference from OSB's reserves).

#### ***Malus and clawback***

Where exceptional circumstances exist, the OSB Remuneration Committee may decide at any time prior to the vesting of a PSP Award that all or part of such PSP Award will lapse. The OSB Remuneration Committee may also decide at any time following the vesting of a PSP Award that a participant's award will be subject to clawback. Exceptional circumstances include but are not limited to: (i) there having been a material misstatement in OSB's financial results; (ii) an error resulting either in the PSP Award being granted over a larger number of OSB Shares than should have been granted, or an overpayment following vesting; (iii) a significant failure of risk management of OSB; (iv) OSB being subject to regulatory censure; or (iv) the participant engaging in misconduct between grant and vesting that would enable or would have enabled his or her employment to be terminated. Awards from 2019 onwards will also make clear that exceptional circumstances include where serious reputational damage has occurred and corporate failure.

In addition, the OSB Remuneration Committee may, acting reasonably and in good faith, delay the vesting of a PSP Award if, at the date of vesting there is an ongoing investigation or other procedure being carried on to determine whether exceptional circumstances exist and the OSB Remuneration Committee decides that further investigation is warranted.

#### ***Amendment***

Save as set out below, the OSB Remuneration Committee may amend the provisions of the PSP.

The rules of the PSP which relate to: (i) eligibility for PSP Awards; (ii) limits on the number or amount of OSB Shares, cash or other benefits subject to the PSP; (iii) the individual limits on participation; (iv) the basis for determining a participant's entitlement to, and the terms of, shares, cash or other benefits provided under the PSP; (v) variation of capital; and (vi) amendment to the provisions of the PSP, cannot be amended without the prior approval of OSB in general meeting, except for minor amendments to benefit the administration of the PSP, to comply with or take account of existing legislation, take account of a change in legislation or to obtain or maintain

favourable tax, exchange control or regulatory treatment for present or future participants, or any member of the OSB Group. No amendment may be made to the disadvantage of participants unless the majority of affected participants approve such alteration. Performance conditions/other conditions may be amended in accordance with the rules, without shareholder or participant consent/approval, as described above.

## 8.2 The Mirror PSP

### **General**

The Mirror PSP is expected to be adopted by OSB in advance of the Effective Date, although will only be used if the Effective Date occurs. The Mirror PSP is a discretionary share plan that will be administered by the Committee. Awards may be satisfied from shares purchased in the market only. The terms of the Mirror PSP are currently expected to be the same as for the PSP save as noted below, though OSB reserves the right to change the terms further as may be necessary or desirable after the date of this prospectus and prior to adoption of the Mirror PSP.

### **Eligibility**

Only employees of Charter Court or a subsidiary of Charter Court who as of the Court Sanction Date hold options granted in 2018 and/or 2019 under the Charter Court Performance Share Plan and who remain in employment immediately following the Scheme becoming effective, will be eligible to be granted an award. No executive directors of OSB will be eligible to receive a grant.

### **Grant of awards**

Awards may take the form of options (**Options**) or contingent rights to acquire shares (**Conditional Awards** and, together with Options, **Mirror PSP Awards**).

Mirror PSP Awards will only be granted once, with Mirror PSP Awards being granted with effect from completion of the Combination to eligible employees as described above.

### **Limits**

The plan and individual limits set out in the PSP will not apply to the Mirror PSP. However, no participant will be eligible for an Award over OSB Shares with a market value higher than the value of the Charter Court shares that were subject to the part of the corresponding option under the Charter Court Performance Share Plan that did not become capable of exercise due to time pro-rating (being one-third of such awards granted in 2018 and the relevant proportion being dependent on the date of the Court Sanction Hearing for awards granted in 2019) (the "**Partially Lapsed PSP Options**").

### **Performance conditions**

A Mirror PSP Award granted in respect of a Partially Lapsed PSP Option that had been granted in 2018 (a "**2018 Mirror PSP Award**") will be subject to the same performance conditions that were subject to the ordinary course PSP Awards granted under the PSP in 2018. A Mirror PSP Award granted in respect of a Partially Lapsed PSP Option that had been granted in 2019 (a "**2019 Mirror PSP Award**") will be subject to the same performance conditions that were subject to the ordinary course PSP Awards granted under the PSP in 2019. All provisions about performance conditions as otherwise described in paragraph 1.1 above are expected to apply to the Mirror PSP.

### **Vesting**

The Mirror PSP Awards will normally vest at the same time as:

1. in respect of a 2018 Mirror PSP Award, at the time that a PSP Award granted in 2018 would normally vest; and
2. in respect of a 2019 Mirror PSP Award, at the time that a PSP Award granted in 2019 would normally vest.

Mirror PSP Awards may only vest earlier than the above dates in limited circumstances: (i) if the Committee so determines, on cessation of employment for certain good leaver reasons (see



below); or (ii) on change of control or winding-up of OSB, or certain other corporate events (see below).

Options will (unless they lapse earlier) normally remain exercisable until the day preceding the tenth anniversary of: (i) in the case of a 2018 Mirror PSP Award, the date on which PSP Awards were granted in 2018; and (ii) in the case of a 2019 Mirror PSP Award, the date on which PSP Awards were granted in 2019 (or such later date as the Committee may specify on or before the date of grant).

#### ***Cessation of employment***

The provisions of the PSP relating to cessation of employment apply to the Mirror PSP save that, the extent to which any pro rata reduction applies will be assessed by reference to the period of one year from the date the Scheme becomes effective in the case of a 2018 Mirror PSP Award, and by reference to the remainder of the applicable performance period in the case of a 2019 Mirror PSP Award.

#### ***Takeovers and other corporate events***

The provisions of the PSP relating to takeovers and other corporate events apply to the Mirror PSP save that the extent to which any pro rata reduction applies will be assessed by reference to the period of one year from the date the Scheme becomes effective in the case of a 2018 Mirror PSP Award, and by reference to the remainder of the applicable performance period in the case of a 2019 Mirror PSP Award.

#### ***Malus and Clawback***

It is expected that all awards will be granted subject to the malus and clawback provisions described for the PSP, but will also make clear for all awards that exceptional circumstances include where serious reputational damage has occurred and corporate failure.

#### ***Amendment***

Save as set out below, the Committee may amend the provisions of the Mirror PSP.

It is expected (but not yet confirmed) that the rules of the Mirror PSP which relate to: (i) eligibility for Mirror PSP Awards if such amendment would permit an executive director of OSB to participate; and (ii) the source of shares for satisfying awards, will not be amended without the prior approval of OSB in general meeting. No amendment will be able to be made to the disadvantage of participants unless the majority of affected participants approve such alteration. Performance conditions/other conditions will be able to be amended in accordance with the rules, without shareholder or participant consent/approval, as described above.

### **8.3 The DSBP and the LTIP**

#### ***General***

The DSBP was adopted by OSB on 2 May 2014. The purpose of the DSBP is to facilitate the deferral of all or part of the senior leadership team's annual bonus into OSB Shares. The decision to apply bonus deferral in any year, and the portion of any bonus which will be deferred, will be determined by the OSB Remuneration Committee. Executive Directors are currently required to defer 50 per cent. of their bonus. The DSBP is administered by the OSB Remuneration Committee. Awards may be satisfied from newly issued shares, transfer of treasury shares or shares purchased in the market.

The LTIP is a sub-plan of the DSBP operated in India, approved on 27 September 2016 by OSB India Private Limited (“**OIPL**”) and by the OSB Remuneration Committee on 5 December 2016. Under the LTIP, certain eligible employees can be granted an award equal to 15 per cent. of annual salary. Unless specified otherwise, the terms of the DSBP described below also apply to the LTIP.

### ***Eligibility***

All employees (including Executive Directors) of the OSB Group are eligible to be granted awards under the DSBP. In order to participate in the DSBP, an employee must receive a discretionary bonus relating to all or part of the immediately preceding financial year.

However, an employee can only participate in the LTIP if he or she is at manager level or above but is not an executive director, and works for OIPL. Such employee does not need to have received a discretionary bonus as the LTIP is considered an additional benefit.

### ***Grant of DSBP Awards***

Awards may take the form of options (**Options**) or contingent rights to acquire shares (**Conditional Awards** and, together with Options, **DSBP Awards**), though to date only Conditional Awards have been granted. The OSB Remuneration Committee may also decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash. Awards are usually granted to the executive committee and members of the senior leadership team.

Awards may be granted: (i) during the period of 42 days after: (a) the announcement of OSB's results for any period; (b) the day on which changes to legislation or regulation affecting employee share schemes are announced, effected or made which may impact on any DSBP Awards to be made; or (c) the lifting of any dealing restrictions which has prevented the grant of awards during the periods set out above; or (ii) at any other time when the OSB Remuneration Committee considers that circumstances are sufficiently exceptional to justify its grant.

The exercise price of an Option is set at grant and will be nil unless the OSB Remuneration Committee determines otherwise.

No consideration is payable by a participant for the grant of a DSBP Award. A DSBP Award may not be transferred or otherwise disposed of (except on the death of that person to their personal representatives). DSBP Awards are not pensionable.

No awards may be granted on or after the tenth anniversary of the date on which the DSBP was adopted by OSB.

### ***Limits***

#### *Company*

If OSB Shares are issued or transferred from treasury to satisfy DSBP Awards, the number of OSB Shares which may be issued or so transferred by OSB to satisfy DSBP Awards:

- (A) under the DSBP and any other employees' share plan adopted by OSB is limited to 10 per cent. of OSB's issued ordinary share capital over any 10 year period; and
- (B) under the DSBP and any other executive employees' share plan adopted by OSB is limited to 5 per cent. of OSB's issued ordinary share capital over any 10 year period.

The above limits do not include: shares which may be issued/transferred or committed to be issued/transferred under the DSBP to satisfy dividend equivalent payments; or shares which have been the subject of awards granted prior to OSB's admission to the Official List maintained by the FCA.

#### *Individual*

Awards may not be granted to a participant under the DSBP if such grant would cause the aggregate market value of all of that participant's DSBP Awards granted in that financial year, to exceed 100 per cent. of his or her salary (unless the OSB Remuneration Committee determines that exceptional circumstances exist which make it desirable to exceed this limit).

### ***Performance conditions***

DSBP Awards that are not under the LTIP are not granted subject to performance conditions. However, DSBP Awards granted under the LTIP will be granted subject to performance conditions. The performance conditions for 2019 are:

#### *Earnings per Share*

No OSB Shares under this part of an award will be available for release unless Earnings Per Share (EPS) compound annual growth rate is equal to at least 5 per cent. (at which point, 25 per cent. of this part of the award may vest). If EPS compound annual growth rate is equal to at least 10 per cent., 100 per cent. of the OSB Shares under this part of the Award may be released. Performance between these points is assessed on a straight line basis.

#### *Total Shareholder Return*

No OSB Shares under this part of an award will be available for release unless OSB's Total Shareholder Return against a FTSE 250 comparator group is equal to the median (at which point, 25 per cent. of this part of the award may vest). If OSB's Total Shareholder Return is equal to at least the upper quartile, 100 per cent. of the Ordinary Shares under this part of the Award may be released. Performance between these points is assessed on a straight line basis.

Vesting will always be subject to an underpin whereby the OSB Remuneration Committee must be satisfied: (i) that the vesting reflects the underlying performance of OSB; (ii) that the business has operated within the OSB Board's risk appetite framework; and (iii) that individual conduct has been satisfactory.

### ***Vesting***

DSBP Awards will normally vest three years after grant, provided the participant is still employed in the OSB Group. Where DSBP Awards have been granted subject to a condition (for example, if granted under the LTIP), they will vest subject to satisfaction of such condition.

Options will (unless they lapse earlier) normally remain exercisable until the day preceding the tenth anniversary of grant (or such earlier date as the OSB Remuneration Committee may specify on or before the date of grant).

### ***Settlement of DSBP Awards***

DSBP Awards will normally be settled in OSB Shares. However, the OSB Remuneration Committee may decide that a vested Conditional Award or exercised Option will be settled in cash rather than OSB Shares.

OSB may arrange for any OSB Shares to be transferred or issued to a nominee appointed by OSB, rather than to the participant directly, to be held on behalf of the participant.

### ***Shareholder rights***

All OSB Shares allotted or transferred under the DSBP shall rank equally with all OSB Shares then in issue except for any rights attaching to such OSB Shares by reference to a record date before the date of exercise/vesting of the relevant DSBP Award.

### ***Dividend equivalents***

The OSB Remuneration Committee may (though it has not on the date of this Prospectus done so) decide that on vesting/exercise of a DSBP Award, participants will receive a payment (in cash and/or OSB Shares) of an amount equivalent to the dividends (other than special dividends or dividends of an exceptional nature unless the OSB Remuneration Committee determines otherwise) that would have been paid on the OSB Shares that vest under their Award by reference to the dividend record dates occurring during the period starting on the date of grant of the Award and the date when the Award vests or, in the case of an Option, the date on which the Option is exercised. This amount may assume the reinvestment of dividends. Alternatively, participants may have their Awards increased as if dividends were paid on the OSB Shares subject to the award and then reinvested in further OSB Shares.

### ***Cessation of Employment***

A DSBP Award that has not already vested will normally lapse upon the participant ceasing employment. If, however, a participant's employment ceases due to: (i) death; (ii) redundancy; (iii) retirement; (iv) injury, ill-health or disability; (v) his or her office or employment being with either a company which ceases to be an OSB Group member or relating to or part of a business which is transferred to a person who is not an OSB Group member; or (vi) any other reason as the OSB Remuneration Committee may determine, then if his or her DSBP Award were granted prior to 8 February 2018, it will vest (subject to performance conditions and time pro rating if granted under the LTIP) on the date of cessation of employment and any Options will be exercisable for six months from the date of cessation of employment, save in the event of death where the exercise period is 12 months from the date of death. If granted on or after 8 February 2018:

- (i) if his or her DSBP Award was granted in the form of a Conditional Award, it will vest (subject to performance conditions and time pro rating, if granted under the LTIP) on its normal timetable, save that in exceptional circumstances, the OSB Remuneration Committee may determine that a DSBP Award will vest earlier; and
- (ii) if his or her DSBP Award was granted in the form of an Option, the rules state that it will vest (subject to performance conditions and time pro rating, if granted under the LTIP) on its normal timetable and be exercisable for six months from the date of cessation of employment, save in the event of death where the exercise period is 12 months from the date of death.

### ***Takeovers and other corporate events***

Other than in the case of an internal re-organisation, in the event of a change of control pursuant to a general offer, a court sanctioning a scheme of arrangement pursuant to or in connection with a change of control or the acquisition of substantially the whole of OSB's undertaking/property, any person becoming bound or entitled to acquire OSB Shares, or the passing of a resolution for the voluntary winding-up of OSB, DSBP Awards will vest immediately after the relevant event (unless the OSB Remuneration Committee determines that they should vest earlier) subject to the satisfaction of any conditions (such as performance conditions in the case of DSBP Awards granted under the LTIP). Alternatively, DSBP Awards may be exchanged for awards over shares in the acquiring company (or another company determined by the acquiring company).

In the event of an internal reorganisation, DSBP Awards will be replaced by equivalent new awards over ordinary shares in a new company unless the OSB Remuneration Committee decides that awards should vest on the basis which would apply in the case of a takeover.

If a demerger, special dividend, delisting or other similar event is proposed which, in the opinion of the OSB Remuneration Committee, might affect the current or future value of a DSBP Award, then the OSB Remuneration Committee may allow DSBP Awards to vest on the basis which would apply in the case of a takeover as described above. Alternatively, DSBP Awards may be exchanged for awards over shares in the acquiring company (or another company determined by the acquiring company).

### ***Variation of capital***

In the event of any variation of OSB's share capital or in the event of a demerger, payment of a special dividend or dividend in specie or any other corporate event which in the reasonable opinion of the OSB Remuneration Committee justifies such an adjustment, the OSB Remuneration Committee may make such adjustments as it considers appropriate to the number, nominal value or description of OSB Shares subject to a DSBP Award and/or the exercise price payable.

### ***Malus and clawback***

Where exceptional circumstances exist, the OSB Remuneration Committee may decide at any time prior to the vesting of a DSBP Award that all or part of such Award will lapse. The OSB Remuneration Committee may also decide at any time following the vesting of a DSBP Award that a participant's award will be subject to clawback. Exceptional circumstances include but are

not limited to: (i) there having been a material misstatement in OSB's financial results; (ii) an error resulting either in the Award being granted over a larger number of OSB Shares than should have been granted, or an overpayment following vesting; (iii) a significant failure of risk management of OSB; (iv) OSB being subject to regulatory censure; or (v) the participant engaging in misconduct between grant and vesting that would enable or would have enabled his or her employment to be terminated. Awards from 2019 onwards will also make clear that exceptional circumstances include where serious reputational damage has occurred and corporate failure.

In addition, the OSB Remuneration Committee may, acting reasonably and in good faith, delay the vesting of a DSBP Award if, at the date of vesting there is an ongoing investigation or other procedure being carried on to determine whether exceptional circumstances exist and the OSB Remuneration Committee decides that further investigation is warranted.

### ***Amendment***

Save as set out below, the OSB Remuneration Committee may amend the provisions of the DSBP.

The rules of the DSBP which relate to: (i) eligibility for DSBP Awards; (ii) limits on the number or amount of OSB shares, cash or other benefits subject to the DSBP; (iii) the individual limits on participation; (iv) the basis for determining a participant's entitlement to, and the terms of, shares, cash or other benefits provided under the DSBP; (v) variation of capital; and (vi) amendment to the provisions of the DSBP, cannot be amended without the prior approval of OSB in general meeting, except for minor amendments to benefit the administration of the DSBP, to comply with or take account of existing legislation, take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for current or future DSBP Award holders, or any member of the OSB Group. No amendment may be made to the disadvantage of participants unless the majority of affected participants approve such alteration.

## **8.4 Sharesave**

### ***General***

The Sharesave was adopted on 2 May 2014 and an annual filing is submitted to HMRC in relation to its status as a tax-advantaged plan. The Sharesave is administered by the OSB Board in accordance with its rules. Options may be satisfied from newly issued shares, transfer of treasury shares or shares purchased in the market.

### ***Eligibility***

All United Kingdom resident employees of participating OSB Group companies who have been continuously employed for such minimum period as the OSB Board may specify provided such minimum period does not exceed 5 years, at the date of grant, are eligible to participate in the Sharesave.

### ***Grant of options***

The OSB Board may: (i) within the period of 42 days after: (a) the date on which the results of OSB for any period are announced; (b) the date on which a change to the legislation affecting Sharesave options is proposed or takes effect; or (ii) at any time at which the OSB Board resolves that exceptional circumstances exist which justify the grant of options, invite eligible employees to apply for an option over OSB Shares under the Sharesave.

Invitations must be accepted within the period OSB specifies which must not be less than 14 days nor more than 21 days from the date on which invitations are issued. Options must be granted within 30 days (or 42 days if applications are scaled down) following the first dealing day by reference to which the exercise price was determined (or, if not determined by reference to one or more dealing days, the date on which invitations were issued). No options may be granted after 2 May 2024.

Options granted under the Sharesave are personal to participants and may not be transferred. No consideration is payable for the grant of an option. Benefits under the Sharesave are not pensionable.



### ***Savings contract***

Anyone who applies for an option under the Sharesave must also enter into a 3 or 5 year savings contract – the OSB Board will determine which contract is offered at any one time. Under this contract, they agree to make monthly savings over a period of 3 or 5 years which must not be less than such minimum amount as the Board may specify (which must not be less than £5 nor more than £10). OSB currently allows participants to save up to a maximum of £500 per month (or such lower limit as may be imposed by the OSB Board or under the savings contract) (under all savings contracts aggregated together). OSB Shares may be acquired under the Sharesave on exercise of an option only by using an amount equal to the proceeds of this contract.

### ***Exercise price***

The price payable per OSB Share on exercise of an option is determined by the OSB Board and must not be less than the higher of: (i) the nominal value of an OSB Share (if OSB Shares are to be subscribed); and (ii) 80 per cent. of the market value of an OSB Share (as determined under the rules of the Sharesave).

### ***Limit***

No options may be granted under the Sharesave if as a result the total number of OSB Shares issued and issuable pursuant to options granted under the Sharesave and issued and issuable under any other employees' share plan adopted by OSB would, in any 10 year period preceding the date of grant, exceed 10 per cent. of OSB's issued ordinary share capital.

### ***Exercise of options***

An option granted under the Sharesave may normally be exercised within the period of six months following completion of a participant's savings contract (or 12 months, if the participant dies within this six month period), after which the option will lapse. An option may become exercisable earlier for a period of six months (or 12 months if a participant dies) if the participant ceases to be employed by a participating Group company by reason of death; injury; disability; redundancy; retirement; where the business in or the company by which the participant is employed is transferred out of the OSB Group; or the participant leaving employment after the date falling 3 years from the date of grant, provided he or she was not dismissed for misconduct. If a participant leaves for any other reason his or her option will lapse.

Special provisions apply on a takeover or liquidation of OSB. If an option becomes exercisable before the savings contract matures, it can be exercised only over such number of OSB Shares as may be purchased with an amount equal to the proceeds of the savings contract at that time.

OSB may arrange for any OSB Shares to be transferred or issued to a nominee appointed by OSB, rather than to the participant directly, to be held on behalf of the participant.

### ***Change of control / liquidation***

If a person acquires control of OSB as a result of a general offer, options may normally be exercised within six months of the offer becoming wholly unconditional and the change of control occurring. Where OSB is the subject of a compromise or scheme in connection with or for the purposes of reconstruction or amalgamation, options may normally be exercised within six months of the court sanction date unconditional. If OSB becomes bound by a non-UK reorganisation, options may normally be exercised within six months of the date on which shareholders became bound. If not exercised in these periods, the option will lapse unconditional.

If an acquirer of shares of OSB were to become bound or entitled to acquire shares in OSB under the Companies Act (or any equivalent local legislation), options would normally be exercisable for as long as that person remains so bound or entitled unconditional, after which they would lapse.

The OSB Board may also, if any of the above events are expected to occur, permit exercise to take place within the 20 days preceding the relevant event, following which they shall lapse. In addition, where such event will cause the OSB Shares to no longer meet the requirements of the legislation applicable to Sharesaves, options may be exercisable for 20 days from the date of the relevant event.



In any of the above circumstances and where a person obtains control of the company either via a court-sanction scheme of arrangement or where there is an internal re-organisation, an option may instead be exchanged for an option over shares in the acquiring company or its parent if the participant so agrees with the acquirer. The new option must be exercisable in the same manner as the old option.

In the event of a resolution for a voluntary winding-up of OSB being passed, an option may be exercised within six months of the passing of the resolution.

No event listed above will curtail any exercise period relating to the death of an option holder.

### ***Shareholder rights***

OSB Shares allotted and issued on the exercise of an option will rank equally with existing OSB Shares on the date of exercise except for any rights to dividend or distribution attached to these Ordinary Shares by reference to a record date before the date of issue. Any OSB Shares transferred from treasury will be entitled to all rights attaching to the OSB Shares by reference to a record date after the date of transfer.

### ***Variation of capital***

On any variation of the share capital of OSB by reason of capitalisation of profits or reserves or by way of rights issue or any consolidation, sub-division or reduction or otherwise, the exercise price of the option and the number, nominal value and description of Ordinary Shares under the option shall be adjusted by the OSB Board, in such manner as the OSB Board may determine to be appropriate, provided: (i) the exercise price is not reduced below the nominal value of an Ordinary Share (save where the OSB Board has authority to pay up any part of that value from distributable reserves); (ii) the total market value of the OSB Shares that may be acquired subject to the option remains substantially the same; and (iii) the exercise price at which the aggregate of the OSB Shares subject to option may be acquired remains substantially the same. The adjustment must not result in the option ceasing to comply with the relevant tax legislation.

### ***Amendments***

The OSB Board may amend the Sharesave at any time in any respect, save that the rules of the Sharesave which relate to: (i) eligibility for options; (ii) limits on the number or amount of OSB Shares, cash or other benefits subject to the Sharesave; (iii) the individual limits on participation; (iv) the basis for determining a participant's entitlement to, and the terms of, shares, cash or other benefits provided under the Sharesave; (v) variation of capital; and (vi) amendment to the provisions of the Sharesave, cannot be amended without the prior approval of OSB in general meeting, except for minor amendments to benefit the administration of the Sharesave, to take account of existing legislation, ensure the Sharesave continues to meet the requirements of the relevant legislation, or to obtain or maintain favourable tax, exchange control or regulatory treatment for Award holders, or any member of the OSB Group. No amendment may be made to the disadvantage of participants unless the majority of affected participants approve such alteration. In addition, no amendment can be made to a key feature if such amendment would cause the Sharesave not to meet the requirements of the relevant tax legislation.

## **8.5 Roll-Over Sharesave**

### ***General***

The Roll-Over Sharesave was adopted by the Charter Court Board on 15 September 2017. The Roll-Over Sharesave is currently administered by the Charter Court Board (or a duly authorised committee thereof) but, following exchange of any options thereunder (as described in paragraph 13.1 of Part VI), will be administered by the OSB Board in accordance with its rules. Options may be satisfied from newly issued shares, transfer of treasury shares or shares purchased in the market. No new options will be granted.

### ***Terms of exchange of options***

Under the terms of the exchange, the new options shall be exercisable in the same manner as the old options, the total amount payable to exercise the new options will be substantially the same as for the old options (see below in respect of the exercise price), and the total market

value of the Charter Court Shares subject to such option immediately prior to the exchange shall be substantially the same as the total market value of the OSB Shares subject to such option following exchange.

Options granted under the Roll-Over Sharesave are personal to participants and may not be transferred. Benefits under the Roll-Over Sharesave are not pensionable.

### ***Savings contract***

Anyone who applied for an option under the Roll-Over Sharesave was also required to enter into a 3 year savings contract. Under this contract, participants agreed to make monthly savings over a period of 3 years, the amount of which must not be less than such minimum amount as the Charter Court Board specified (which must not be less than £5 nor more than £10) and such maximum amount as the Charter Court Board specified (being no more than £500). Following any exchange of options under the Roll-Over Sharesave, OSB Shares may be acquired under the Roll-Over Sharesave on exercise of an option only by using an amount equal to the proceeds of this contract.

### ***Exercise price***

The price payable per Charter Court Share on exercise of an option is £1.87 per Charter Court Share (for options granted in 2017) and £2.80 per Charter Court Share (for options granted in 2018).

Following the exchange of options, the total amount payable by a participant to acquire OSB Shares will be substantially the same as the total amount that would have been payable to acquire Charter Court Shares prior to the exchange.

### ***Exercise of options***

An exchanged option granted under the Roll-Over Sharesave may normally be exercised within the period of six months following completion of a participant's savings contract (or 12 months, if the participant dies within this six month period), after which the option will lapse. An option may become exercisable earlier for a period of six months (or 12 months if a participant dies) if the participant ceases to be employed by reason of death; injury; disability; redundancy; retirement; where the business in or the company by which the participant is employed is transferred out of the Group. If a participant leaves for any other reason his or her option will lapse.

Special provisions apply on a takeover or liquidation of OSB, in respect of which, see below.

OSB may arrange for any OSB Shares to be transferred or issued to a nominee appointed by OSB, rather than to the participant directly, to be held on behalf of the participant.

### ***Change of control / liquidation***

Following the exchange of options, if a person acquires control of OSB as a result of a general offer, options may normally be exercised within six months of the offer becoming wholly unconditional or the change of control occurring (whichever occurs later). Where OSB is the subject of a compromise or scheme applicable to or affecting either the ordinary share capital of OSB or all of the shares of the same class as the shares subject to the options, or all of the shares (or all of the shares of that same class) which are held by a class of shareholders identified otherwise than by reference to their employment or directorships or participation in a Sharesave scheme, options may normally be exercised within six months of the date on which the Court sanctions the scheme. If not exercised in these periods, the option will lapse. If OSB becomes bound by a non-UK reorganisation, options may normally be exercised within six months of the date on which shareholders became bound. If not exercised in these periods, the option will lapse.

If an acquirer of shares of OSB were to become bound or entitled to acquire shares in OSB under the Companies Act, options would normally be exercisable for as long as that person remains so bound or entitled, after which they would lapse.

If any of the above events are expected to occur, and such event will cause the OSB Shares to no longer meet the requirements of the legislation applicable to Sharesaves, options may be exercisable for 20 days following the date of the relevant event.

In any of the above circumstances and where a person obtains control of the company either via a court-sanction scheme of arrangement or where there is an internal re-organisation, an option may instead be exchanged for an option over shares in the acquiring company or its parent if the participant so agrees with the acquirer. The new option must be exercisable in the same manner as the old option.

No event listed above will curtail any exercise period relating to the death of an option holder.

In the event of a resolution for a voluntary winding-up of OSB being passed, an option may be exercised within six months of the passing of the resolution.

### ***Shareholder rights***

OSB Shares allotted and issued on the exercise of an option will rank equally with existing OSB Shares on the date of exercise except for any rights to dividend or distribution attached to these Ordinary Shares by reference to a record date before the date of issue. Any OSB Shares transferred from treasury will be entitled to all rights attaching to the OSB Shares by reference to a record date on or after the date of transfer.

### ***Variation of capital***

On any capitalisation issue or rights issue (other than an issue of shares pursuant to the exercise of an option given to the shareholders of OSB to receive shares in lieu of dividend) or open offer or any other variation in the share capital of OSB (including consolidations, sub-divisions or reductions of capital of OSB), the exercise price of the option and the number and/or description of OSB Shares under the option shall be adjusted by the OSB Board, in such manner as the OSB Board may deem appropriate, provided: (i) the exercise price is not reduced below the nominal value of an Ordinary Share (save where the OSB Board has authority to pay up any part of that value from distributable reserves); (ii) the total market value of the OSB Shares that may be acquired subject to option remains substantially the same; and (iii) the exercise price at which the aggregate of the OSB Shares subject to the option may be acquired remains substantially the same. The adjustment must not result in the option ceasing to comply with the relevant tax legislation.

### ***Amendments***

The OSB Board may amend the Roll-Over Sharesave at any time in any respect, save that the rules of the Roll-Over Sharesave which relate to: (i) eligibility for options; (ii) limits on the number or amount of OSB Shares, cash or other benefits subject to the Roll-Over Sharesave; (iii) the individual limits on participation; (iv) the basis for determining a participant's entitlement to, and the terms of, shares, cash or other benefits provided under the Roll-Over Sharesave; and (v) variation of capital cannot be amended to the advantage of participants without the prior approval of OSB in general meeting, except for minor amendments to benefit the administration of the Roll-Over Sharesave, to take account of existing legislation, ensure the Roll-Over Sharesave continues to meet the requirements of the relevant legislation, or to obtain or maintain favourable tax, exchange control or regulatory treatment for Award holders, or any member of the OSB Group. No amendment may be made in respect of subsisting rights which adversely affects those rights unless the approval of the majority of affected participants has been obtained. In addition, no amendment can be made to a key feature if such amendment would cause the Sharesave not to meet the requirements of the relevant tax legislation.

## **8.6 The EBT**

The EBT may be used to provide OSB Shares to some or all employees in connection with share schemes operated by OSB (including the Replacement Plans).

## PART XVII

### ADDITIONAL INFORMATION

#### 1. RESPONSIBILITY STATEMENT

The Current OSB Directors and the Proposed OSB Directors, whose names appear in Part IV (Directors, Company Secretary, registered and head offices and advisers), and OSB accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Current OSB Directors, the Proposed OSB Directors and OSB (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and this Prospectus does not omit anything likely to affect the import of such information.

#### 2. COMPANY INFORMATION

OSB was incorporated and registered in England and Wales under the Companies Act as a private company limited by shares on 13 July 2010 under the name Sevco 5067 Limited, with registered number 07312896. OSB changed its name to OneSavings Limited on 3 August 2010. OSB re-registered as a public company limited by shares with the name OneSavings Plc on 8 October 2010. OSB changed its name to OneSavings Bank Plc on 1 February 2011.

OSB is domiciled in the UK. Its registered office is at Reliance House, Sun Pier, Chatham, Kent ME4 4ET and head office is at OSB House, Quayside, Chatham Maritime, Kent ME4 4QZ. Its telephone number is 01634 848944.

The principal legislation under which OSB operates and under which the New OSB Shares will be created is the Companies Act.

OSB became the holding company of the OSB Group on 1 February 2011 and, if the Combination completes, OSB will be the ultimate holding company of the Combined Group. The OSB Board intends to put in place a new holding company for the Combined Group after the completion of the Combination to facilitate the issuance of MREL-qualifying debt instruments and compliance with the Combined Group's expected MREL requirement.

#### 3. SHARE CAPITAL

##### 3.1 Issued share capital

The issued and fully paid share capital of OSB as at the Latest Practicable Date was as set out in the following table.

	Number issued	Fully paid	Aggregate nominal value
<b>Total issued share capital</b>	245,155,033	245,155,033	2,451,550.33

As at the Latest Practicable Date, OSB did not hold any OSB Shares in treasury.

Details of the total number of options (at the consideration specified) and awards under the OSB Share Plans outstanding as at the Latest Practicable Date are set out in the following table.

OSB Share Plan	Date of grant	Number of OSB Shares under option	Exercise price (£)	Exercisable from/until/ vesting date
Sharesave	18 July 2014	65,684	1.34	1 September 2019/ 1 March 2020
Sharesave	15 May 2015	49,209	2.27	1 July 2020/ 1 January 2021
Sharesave	13 May 2016	88,425	2.4	1 July 2019/ 1 January 2020
Sharesave	13 May 2016	16,375	2.4	1 July 2021/ 1 January 2022

OSB Share Plan	Date of grant	Number of OSB Shares under option	Exercise price (£)	Exercisable from/until/ vesting date
Sharesave	22 September 2017	251,439	3.1454	1 November 2020/ 1 May 2021
Sharesave	22 September 2017	37,763	3.1454	1 November 2022/ 1 May 2023
Sharesave	28 September 2018	257,258	3.3451	1 November 2021/ 1 May 2022
Sharesave	28 September 2018	26,988	3.3451	1 November 2023/ 1 May 2024
DSBP	16 March 2017	314,528	4.0754	16 March 2020
DSBP	16 March 2017	66,865	4.0754	16 March 2022
LTIP	16 March 2017	25,540	4.0754	16 March 2020
DSBP	15 March 2018	344,566	4.1560	15 March 2021
LTIP	15 March 2018	10,339	4.1560	15 March 2021
DSBP	14 March 2019	456,820	3.9008	14 March 2022
LTIP	14 March 2019	20,113	3.9008	14 March 2022
PSP	16 March 2017	463,473	4.0754	16 March 2020
PSP	24 May 2018	654,209	4.1956	24 May 2021
PSP	14 March 2019	1,079,392	3.9008	14 March 2022

### 3.2 History of share capital

Details of changes in OSB's share capital for the years ending 31 December 2016, 31 December 2017 and 31 December 2018 are set out in the following table. No OSB Shares were held in treasury during these periods.

	2018	2017	2016
Total opening issued share capital	243,464,688	243,082,091	243,079,965
Movements in issued share capital	1,022,849	382,597	2,126
Closing number of shares	244,487,537	243,464,688	243,082,091
Total issued ordinary share capital	244,487,537	243,464,688	243,082,091

### 4. MAJOR SHAREHOLDERS (AS AT THE LATEST PRACTICABLE DATE)

As at the Latest Practicable Date, OSB had been notified in accordance with DTR 5 and Rule 8 of the City Code of the direct and/or indirect interests of the following underlying investors in 3 per cent. or more of the issued ordinary share capital of OSB (being the threshold of notification under the Disclosure Guidance and Transparency Rules).

Shareholder	Shares with voting rights	% of OSB Shares	% of OSB Shares following Admission
Merian Global Investors (UK) Limited	37,394,854	15.3%	16.5%
JP Morgan Asset Management	19,441,302	7.9%	8.4%
Aberdeen Standard Life	16,463,373	6.7%	4.3%
Janus Henderson Investors	11,475,525	4.7%	2.6%
BlackRock Group	9,647,394	3.9%	3.0%
The Vanguard Group	8,732,703	3.6%	3.0%
Legal & General Investment Management	8,341,903	3.4%	2.5%
Norges Bank	7,853,294	3.2%	2.3%

The major shareholders in OSB do not have different voting rights to other shareholders or as between themselves.

OSB and the OSB Directors are not aware of any persons who, as at the Latest Practicable Date, directly or indirectly, jointly or severally, exercise or could exercise control over OSB nor are they aware of any arrangements the operation of which may at a subsequent date result in a change of control of OSB.



## 5. RESOLUTIONS AND AUTHORITIES

### 5.1 Existing resolutions and authorities

Pursuant to the Companies Act, with effect from 1 October 2009 the concept of authorised share capital was abolished and, accordingly, there is no limit on the maximum amount of shares that may be allotted by OSB.

By an ordinary resolution passed on 9 May 2019, at the annual general meeting of OSB, the OSB Shareholders resolved (amongst other things) that:

- the OSB Directors were generally and unconditionally authorised pursuant to and in accordance with section 551 of the Companies Act to exercise all the powers of OSB to allot shares in OSB and to grant rights to subscribe for, or to convert any security into, shares in OSB (**'Rights'**):
  - up to a maximum aggregate nominal amount of £817,184; and
  - comprising equity securities (within the meaning of section 560 of the Companies Act) up to a further maximum aggregate nominal amount of £817,184 in connection with an offer by way of a rights issue:
    - to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
    - to the holders of other equity securities, as required by the rights of those securities or as the OSB Directors otherwise consider necessary,

and subject to such exclusions or other arrangements as the OSB Directors may deem necessary or expedient to deal with treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems arising under the laws or the requirements of any regulatory body or stock exchange in any territory or by virtue of shares being represented by depositary receipts or any other matter (**"Resolution 7"**).

This authority shall expire at the conclusion of the next Annual General Meeting of OSB, or, if earlier, at the close of business on 30 June 2020, save that OSB shall be entitled to make offers or agreements before the expiry of such authority which would or might require shares to be allotted or Rights to be granted after such expiry and the OSB Directors shall be entitled to allot shares and grant Rights pursuant to any such offer or agreement as if this authority had not expired; and all authorities vested in the OSB Directors on the date of the notice of this meeting to allot shares and grant Rights that remain unexercised at the commencement of this meeting are hereby revoked.

- in addition to the authority contained in Resolution 7 in the notice of this meeting, the OSB Directors were generally and unconditionally authorised pursuant to and in accordance with section 551 of the Companies Act to exercise all the powers of OSB to allot shares in OSB and to grant rights to subscribe for, or to convert any security into, shares in OSB:
  - up to a maximum aggregate nominal amount of £294,186 in relation to the issue of Regulatory Capital Convertible Instruments; and
  - subject to applicable law and regulation, at such conversion prices (or such maximum or minimum conversion prices or conversion price methodologies) as may be determined by the OSB Directors of OSB from time to time,

(**"Resolution 8"**).

This authority shall expire at the conclusion of the next Annual General Meeting of OSB or, if earlier, at the close of business on 30 June 2020, save that OSB shall be entitled to make offers or agreements before the expiry of such authority which would or might require shares to be allotted or rights to be granted after such expiry and the OSB Directors may allot shares and grant rights to subscribe for or to convert any security into shares, in pursuance of any such offer or agreement as if the authority had not expired.



- subject to the passing of Resolution 7 in the notice of this meeting, the OSB Directors are empowered pursuant to sections 570 and 573 of the Companies Act to allot equity securities (within the meaning of section 560 of the Companies Act) for cash either pursuant to the authority conferred by Resolution 7 in the notice of this meeting or by way of a sale of treasury shares as if section 561(1) of the Companies Act did not apply to any such allotment or sale provided that this power shall be limited to:
  - the allotment of equity securities and the sale of treasury shares in connection with an offer of or invitation to acquire equity securities (but in the case of the authority granted under sub-paragraph (b) of Resolution 7 in the notice of this meeting by way of a rights issue only):
    - to the holders of ordinary shares in proportion (as nearly as may be practicable) to their existing holdings; and
    - to the holders of other equity securities, as required by the rights of those securities or as the OSB Directors otherwise consider necessary, and subject to such exclusions or other arrangements as the OSB Directors may deem necessary or expedient to deal with treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems arising under the laws of or the requirements of any regulatory body or stock exchange in any territory or by virtue of shares being represented by depositary receipts or any other matter; and
  - the allotment (otherwise than pursuant to sub-paragraph (a) of this Resolution 10) to any person or persons of equity securities or sale of treasury shares up to a maximum aggregate nominal amount of £122,578,

**(“Resolution 10”).**

Such power shall expire on the revocation or expiry (unless renewed) of the general authority conferred on the OSB Directors by Resolution 7 in the notice of this meeting, save that OSB shall be entitled to make offers or agreements before the expiry of such power which would or might require equity securities to be allotted after such expiry and the OSB Directors shall be entitled to allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.

- subject to the passing of Resolution 7 in the notice of this meeting and in addition to the power contained in Resolution 10 in the notice of this meeting, the OSB Directors are empowered pursuant to sections 570 and 573 of the Companies Act to allot equity securities (within the meaning of section 560 of the Companies Act) for cash pursuant to the authority conferred by Resolution 7 in the notice of this meeting or by way of a sale of treasury shares as if section 561(1) of the Companies Act did not apply, provided that this power is:
  - limited to the allotment of equity securities or sale of treasury shares up to an aggregate nominal value of £122,578; and
  - used only for the purposes of financing (or refinancing, if the power is to be exercised within six months after the date of the original transaction) a transaction which the OSB Directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of the notice of this meeting,

**(“Resolution 11”).**

Such power shall expire on the revocation or expiry (unless renewed) of the authority conferred on the OSB Directors by Resolution 7 in the notice of this meeting, save that OSB shall be entitled to make offers or agreements before the expiry of such power which would or might require equity securities to be allotted after such expiry and the OSB Directors shall be entitled to allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.

- subject to the passing of Resolution 8 in the notice of this meeting and in addition to the powers contained in Resolutions 10 and 11 in the notice of this meeting, the OSB Directors are empowered pursuant to sections 570 and 573 of the Companies Act to allot equity securities (within the meaning of section 560 of the Companies Act) for cash either pursuant to the authority conferred by Resolution 8 in the notice of this meeting or by way of a sale of treasury shares as if section 561 of the Companies Act did not apply to any such allotment or sale.

Such power shall expire on the revocation or expiry (unless renewed) of the authority conferred on the OSB Directors by Resolution 8 in the notice of this meeting, save that OSB shall be entitled to make offers or agreements before the expiry of such power which would or might require equity securities to be allotted after such expiry and the OSB Directors shall be entitled to allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.

- OSB is generally and unconditionally authorised for the purpose of section 701 of the Companies Act to make market purchases (within the meaning of section 693(4) of the Companies Act) of ordinary shares in the capital of OSB on such terms and in such manner as the OSB Directors may from time to time determine, provided that:
  - the maximum aggregate number of ordinary shares hereby authorised to be acquired is 24,515,503;
  - the minimum price (excluding expenses) which may be paid for any such share is its nominal value;
  - the maximum price (excluding expenses) which may be paid for any such share is the higher of: (i) an amount equal to 5% above the average of the middle market quotations for an ordinary share in OSB as derived from the Official List for the five business days immediately preceding the day on which such share is contracted to be purchased; and (ii) the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share in OSB on the trading venues where the market purchases by OSB is carried out;
  - the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting or, if earlier, at the close of business on 30 June 2020 unless previously renewed, varied or revoked by OSB in general meeting; and
  - OSB may, before this authority expires, make a contract to purchase its ordinary shares which would or might be executed wholly or partly after the expiry of this authority, and may purchase its ordinary shares pursuant to it as if this authority had not expired.

## 5.2 Shareholder authorities to be proposed at the OSB General Meeting

The Combination is being effected, and the New OSB Shares will be issued, under the OSB Resolution to be proposed at the OSB General Meeting.

### **“RESOLUTION 1 (Ordinary Resolution) – Approval of Combination and authority to allot the New OSB Shares**

#### **THAT:**

- (A) the proposed acquisition (which is a “Class 1 transaction” under the listing rules and regulations made by the Financial Conduct Authority under the Financial Services and Markets Act 2000 and contained in the Financial Conduct Authority’s publication of the same name, as amended from time to time) by the Company of the entire issued and to be issued ordinary share capital of Charter Court Financial Services Group plc (“**Charter Court**”), to be effected pursuant to a scheme of arrangement of Charter Court under Part 26 of the Companies Act 2006 (the “**Scheme**”) (or by way of a takeover offer as defined in Chapter 3 of Part 28 of the Companies Act 2006 in the circumstances set out in the Co-operation Agreement entered into between the Company and Charter Court dated

14 March 2019 (a “**Takeover Offer**”)) (**together, the “Combination”**), substantially on the terms and subject to the conditions as set out in:

- (i) the circular to shareholders of the Company dated 15 May 2019 (the “Circular”) outlining the Combination, of which this notice convening this General Meeting (the “Notice”) forms part; and
- (ii) the prospectus prepared by the Company in connection with Admission (as defined below) dated 15 May 2019,

be and is hereby approved and the directors of the Company (the “**Directors**”) (or a duly authorised committee thereof) be and are hereby authorised to do or procure to be done all such acts and things as they consider necessary, expedient or appropriate in connection with the Combination and this resolution (including for the purpose of obtaining any approval, consent, clearance or permission that is a condition to the Combination or that the Directors otherwise consider necessary or expedient) and to agree such modifications, variations, revisions, waivers or amendments to the terms and conditions of the Combination (provided that such modifications, variations, revisions, waivers or amendments do not materially change the terms of the Combination under Listing Rule 10.5.2R) and to any documents and arrangements relating thereto, as the Directors (or a duly authorised committee thereof) may in their absolute discretion think fit; and

(B) subject to and conditional upon:

- (i) the conditions for the Scheme to become effective being satisfied (or, where applicable, waived), except for the conditions relating to:
  - (a) the delivery of the order of the High Court of Justice in England and Wales sanctioning the Scheme to the Registrar of Companies in England and Wales; and
  - (b) the Financial Conduct Authority having acknowledged to the Company or its agent (and such acknowledgement not having been withdrawn) that the application for the admission of the new ordinary shares of £0.01 each in the capital of the Company to be issued pursuant to the Scheme (or, as the case may be, the Takeover Offer) (the “**New OSB Shares**”) to listing on the premium listing segment of the Official List maintained by the FCA has been approved and (after satisfaction of any conditions to which such approval is expressed to be subject (the “**listing conditions**”)) will become effective as soon as a dealing notice has been issued by the FCA and any listing conditions having been satisfied; and the London Stock Exchange plc having acknowledged to the Company or its agent (and such acknowledgement not having been withdrawn) that the New OSB Shares will be admitted to trading on the main market of the London Stock Exchange plc (“**Admission**”); or, as the case may be; or
- (ii) a Takeover Offer becoming or being declared wholly unconditional (except for Admission),

the Directors be and hereby are generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (in addition, to the extent unutilised, to the authority granted to the Directors at the Company’s annual general meeting held on 9 May 2019 which remains in full force and effect and without prejudice to the continuing authority of the Directors to allot equity securities pursuant to an offer or agreement made by the Company before the expiry of the authority pursuant to which any such offer or agreement was made) to exercise all the powers of the Company to allot the New OSB Shares and to grant rights to subscribe for or to convert any security into shares in the Company, up to an aggregate nominal amount of £2,021,655.02, in each case, credited as fully paid, with authority to deal with fractional entitlements arising out of such allotment as they think fit and to take all such other steps as they may in their absolute discretion deem necessary, expedient or appropriate to implement such allotments in connection with the Combination,

and which authority shall expire at the conclusion of the annual general meeting of the Company to be held in 2021 (unless previously revoked, renewed or varied by the Company in a general meeting), save that the Company may before such expiry make an offer or enter into an agreement that would or might require shares to be allotted, or rights to subscribe for or to convert securities into shares to be granted, after such expiry and the Directors may allot shares or grant such rights in pursuance of such an offer or agreement as if the authority conferred by this resolution had not expired.

15 May 2019

**By order of the Board**  
**Jason Elphick**  
**Company Secretary**

**Registered office:**

Reliance House  
Sun Pier  
Chatham  
Kent ME4 4ET

**Registered in England No. 07312896**

**Explanatory note to Resolution 1**

Resolution 1, which will be proposed as an ordinary resolution, proposes that:

- (a) the Combination be approved and the Directors be authorised to implement the Combination; and
- (b) the Directors be authorised to allot the New OSB Shares in connection with the Combination up to an aggregate nominal amount of £2,021,655.02 (representing 202,165,502 ordinary shares of 1 pence each).

If the resolution is passed, this authority will expire at the conclusion of the annual general meeting of the Company to be held in 2021. This authority is in addition to the Company's authority to allot shares granted at the Company's annual general meeting on 9 May 2019."

**6. SUMMARY OF THE OSB ARTICLES OF ASSOCIATION**

The OSB Articles were adopted on 4 June 2014 and contain provisions (among others) to the following effect:

**6.1 Unrestricted objects**

The objects of OSB are unrestricted. For so long as KRPS is an OSB Shareholder, OSB shall work with KRPS in order to offer membership of KRPS to those customers of OSB and/or subsidiaries of OSB who hold qualifying savings accounts or qualifying mortgage accounts.

**6.2 Limited liability**

The liability of OSB's members is limited to any unpaid amount on the shares in OSB held by them.

**6.3 Voting rights**

***Votes on a show of hands***

Subject to any special terms as to voting upon which any shares may be issued or may for the time being be held, on a show of hands every OSB Shareholder present in person or by proxy at a general meeting of OSB and every duly authorised corporate representative shall have one vote. If a proxy has been duly appointed by more than one OSB Shareholder entitled to vote on the resolution and the proxy has been instructed by one or more of those Shareholders to vote for the resolution and by one or more other of those Shareholders to vote against it then the proxy shall have one vote for and one vote against the resolution. If a proxy has been duly appointed

by more than one OSB Shareholder entitled to vote on the resolution and has been granted both discretionary authority to vote on behalf of one or more of those OSB Shareholders and firm voting instructions on behalf of one or more other OSB Shareholders, the proxy shall not be restricted by the firm voting instructions in casting a second vote in any manner he or she so chooses under the discretionary authority conferred upon him.

#### ***Votes on a poll***

On a poll, votes may be given in person or by proxy. An OSB Shareholder, who is entitled to more than one vote, need not use all his or her votes or cast all the votes in the same way.

### **6.4 Dividends and return of capital**

Subject to the provisions of the Companies Act, OSB may by ordinary resolution from time to time declare dividends in accordance with the respective rights of OSB Shareholders, but no dividend shall exceed the amount recommended by the OSB Board.

If OSB shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the authority of a special resolution passed at a general meeting of OSB and any other sanction required by the Companies Act, divide among the OSB Shareholders in specie or kind the whole or any part of the assets of OSB (whether or not the assets shall consist of property of one kind or not), and may for such purposes set such value as he or she deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the OSB Shareholders or different classes of OSB Shareholders. The liquidator may, with the like authority, vest the whole or any part of the assets in trustees upon such trusts for the benefit of OSB Shareholders as the liquidator with the like authority shall think fit, but so that no OSB Shareholder shall be compelled to accept any shares or other property in respect of which there is a liability.

### **6.5 Unclaimed dividends**

Any dividend unclaimed after a period of 12 years from the date when it was declared or became due for payment shall be forfeited and shall revert to OSB.

### **6.6 Transfer of shares**

Any OSB Shareholder may transfer all or any of his or her uncertificated shares by means of a relevant system in such manner provided for, and subject as provided, in the CREST Regulations and the rules of any relevant system.

Any OSB Shareholder may transfer all or any of his or her certificated shares by an instrument of transfer in any usual form or in any other form which the OSB Board may approve. The instrument of transfer shall be executed by or on behalf of the transferor and (in the case of a partly paid share) the transferee. The transferor shall be deemed to remain the holder of the share concerned until the name of the transferee is entered in the register in respect of it. All instruments of transfer, when registered, may be retained by OSB.

Subject to the provisions of the Companies Act, the OSB Board may, in its absolute discretion, decline to register any transfer of any share which is not a fully paid share, provided that where such a share is a member of a class of share admitted to the Official List, such discretion may not be exercised in such a way as to prevent dealings in shares of that class from taking place on an open and proper basis.

The OSB Board may only decline to register a transfer of an uncertificated share in the circumstances set out in the CREST Regulations, and the facilities and requirements of the relevant system. The OSB Board may decline to register a transfer, whether fully paid or not, if in favour of more than four persons jointly.

The OSB Board may decline to register any transfer of a certificated share, unless:

- the instrument of transfer is left at the registered office of OSB or such other place as the OSB Board may from time to time determine accompanied (save in the case of a transfer by a person to whom OSB is not required by law to issue a certificate and to whom a certificate has not been issued) by the certificate for the share to which it relates and such



other evidence as the OSB Board may reasonably require to show the right of the person executing the instrument of transfer to make the transfer; and

- the instrument of transfer is in respect of only one class of share.

#### **6.7 Restrictions on shares**

Where the holder of any shares in OSB, or any other person appearing to be interested in those shares, fails to comply within the relevant period (as defined below) with any notice under section 793 of the Companies Act in respect of those shares (in this sub-section, a “statutory notice”), OSB may give the holder of those shares a further notice (in this sub-section, a “restriction notice”) that the OSB Shareholder shall not, nor shall any transferee otherwise than permitted by the OSB Articles, be entitled to be present or vote or count as part of the quorum at any general meeting of OSB or separate general meeting of the holders of any class of shares of OSB.

If the OSB Board is satisfied that the default in respect of which the restriction notice was issued no longer continues, any restriction notice shall cease to have effect on or within seven days of that decision. OSB may (at the absolute discretion of the Board) at any time give notice to the Member cancelling, or suspending for a stated period the operation of, a restriction notice in whole or in part.

The relevant period referred to above is the period of 14 days following service of a statutory notice.

Where the restricted shares represent at least 0.25 per cent. (in nominal value) of the issued shares of the same class, the restriction notice may also direct that:

- any dividend or other monies payable in respect of the restricted shares shall be withheld, bear no interest and shall be payable only when the restriction notice ceases to have effect; and/or
- where an offer of the right to elect to receive shares of OSB instead of cash in respect of any dividend has been made, any election made thereunder in respect of such restricted shares shall not be effective; and/or
- no transfer of any of the shares held by such member shall be recognised or registered by the OSB Directors unless the transfer is a permitted transfer or:
- the member is not in default as regards supplying the information required; and
- the transfer is of part only of the member’s holding and, when presented for registration, is accompanied by a certificate by the member in a form satisfactory to the OSB Directors to the effect that after due and careful enquiry the member is satisfied that none of the shares the subject of the transfer are restricted shares.

#### **6.8 Variation of rights attaching to shares**

Subject to the provisions of the Companies Act, all or any of the rights for the time being attached to any class of shares for the time being issued may from time to time (whether or not OSB is being wound up) be varied either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares) or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares.

#### **6.9 Conditions governing the manner in which annual general meetings and general meetings are called**

The OSB Board shall convene and OSB shall hold general meetings and annual general meetings in accordance with the requirements of the Companies Act and at such time and place as the OSB Board shall appoint.

An annual general meeting shall be convened by not less than 21 clear days’ notice in writing. Subject to the Companies Act, all other general meetings shall be convened by not less than 14 clear days’ notice in writing. However, a meeting can be properly convened on a shorter notice



period if it is so agreed by: (a) in the case of an annual general meeting, by all the OSB Shareholders entitled to attend and vote at the meeting; and (b) in the case of any other meeting, by a majority in number of the OSB Shareholders having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving the right.

Notice of every general meeting shall be given to all OSB Shareholders other than any who, under the provisions of the OSB Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from OSB.

Before a general meeting carries out business, there must be a quorum present. Unless the OSB Articles state otherwise in relation to a particular situation, a quorum for all purposes is two OSB Shareholders present in person or by proxy and entitled to vote.

#### **6.10 Notices to OSB Shareholders**

Any notice or document (including a share certificate) may be served on or delivered to any OSB Shareholder by OSB either personally or by sending it through the post addressed to the OSB Shareholder at his or her registered address or by leaving it at that address addressed to the OSB Shareholder or by means of a relevant system or, where appropriate, by sending it in electronic form to an address for the time being notified by the OSB Shareholder concerned to OSB for that purpose, or by publication on a website in accordance with the Companies Act or by any other means authorised in writing by the OSB Shareholder concerned. In the case of joint holders of a share, service or delivery of any notice or document on or to the joint holder first named in the register in respect of the share shall for all purposes be deemed a sufficient service on or delivery to all the joint holders.

#### **6.11 Directors**

Unless otherwise determined by ordinary resolution of OSB, the number of OSB Directors (disregarding alternate directors) shall not be less than two nor more than 15.

Each OSB Director shall retire from office at the third annual general meeting after the annual general meeting at which he or she was elected or re-elected (as the case may be) unless he or she was appointed or reappointed by OSB in the general meeting at, or since, either such meeting.

OSB may by ordinary resolution appoint any person who is willing to act to be an OSB Director, either to fill a vacancy or as an addition to the existing OSB Board. Without prejudice to this power, the OSB Board may appoint any person who is willing to act to be a Director, either to fill a vacancy or as an addition to the existing OSB Board.

Only the following people can be elected as OSB Directors at a general meeting:

- an OSB Director who is retiring at the annual general meeting; or
- a person who has been proposed for election or re-election by way of notice signed by an OSB Shareholder qualified to vote at the meeting (not being the person to be proposed) and also signed by the person to be proposed indicating his or her willingness to be appointed or reappointed.

In addition to any powers of removal conferred by the Companies Act, OSB may by ordinary resolution of which special notice has been given in accordance with the Companies Act remove any OSB Director before the expiration of his or her period of office and may (subject to the OSB Articles) by ordinary resolution appoint another person who is willing to act in his or her place.

The OSB Directors shall be paid out of the funds of OSB by way of fees for their services as directors, such sums (if any) and such benefits in kind as the Board may from time to time determine and such remuneration shall be divided between the Directors as the OSB Board shall agree or, failing agreement, equally. Such remuneration shall be deemed to accrue from day to day.

Any OSB Director who is appointed to any executive office or who performs services which in the opinion of the OSB Board or any committee authorised by the OSB Board go beyond the ordinary

duties of an OSB Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the OSB Board or any committee authorised by the OSB Board may in its discretion decide.

The OSB Board or any committee authorised by the OSB Board may exercise all the powers of OSB to award pensions, annuities, gratuities or other retirement, superannuation, death or disability allowances or benefits whether similar to the foregoing or not, to any OSB Director or former director or the relations, connections or dependants of any OSB Director or former director provided that no benefits (except such as may be provided for by any other article) may be granted to or in respect of a Director or former director who has not been employed by, or held an executive office or place of profit under, OSB or any body corporate which is or has been its subsidiary undertaking or any predecessor in business of OSB or any such body corporate without the approval of an ordinary resolution of OSB.

Save as otherwise provided in the OSB Articles, an OSB Director shall not vote on, or be counted in the quorum in relation to, any resolution of the OSB Board in respect of any actual or proposed transaction or arrangement with OSB in which he or she has an interest which (taken together with any interest of any person connected with him) is to his or her knowledge an interest of which he or she is aware, or ought reasonably to be aware, does conflict, or can reasonably be regarded as likely to give rise to a conflict, with the interests of OSB and, if he or she shall do so, his or her vote shall not be counted.

An OSB Director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters:

- the giving to him of any guarantee, indemnity or security in respect of money lent or obligations undertaken by him or by any other person at the request of or for the benefit of OSB or any of its subsidiary undertakings;
- the giving to a Third Party of any guarantee, indemnity or security in respect of a debt or obligation of OSB or any of its subsidiary undertakings for which he or she has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- where OSB or any of its subsidiary undertakings is offering securities in which offer the OSB Director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the OSB Director is or may be entitled to participate;
- any contract in which he or she is interested by virtue of his or her interest in shares or debentures or other securities of OSB or by reason of any other interest in or through OSB;
- any contract concerning any other company (not being a company in which the OSB Director owns 1 per cent. or more) in which he or she is interested directly or indirectly whether as an officer, shareholder, creditor or otherwise howsoever;
- any contract concerning the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to OSB Directors and employees of OSB or of any of its subsidiary undertakings and does not provide in respect of any OSB Director as such any privilege or advantage not accorded to the employees to which the fund or scheme relates;
- any contract for the benefit of the employees of OSB or of any of its subsidiary undertakings under which he or she benefits in a similar manner to the employees and which does not accord to any OSB Director as such any privilege or advantage not accorded to the employees to whom the contract relates;
- any contract for the purchase or maintenance of insurance against any liability for, or for the benefit of, any OSB Director or OSB Directors or for, or for the benefit of, persons who include OSB Directors; and
- the provision of funds to any OSB Director, or the doing of anything to enable an OSB Director to avoid incurring expenditure of the nature described in section 205(1) of the Companies Act.

If any question arises at any meeting of the OSB Board as to whether the interest of an OSB Director gives rise to a conflict, or could reasonably be regarded as likely to give rise to a conflict, with the interests of OSB or as to the entitlement of any OSB Director to vote or be counted in the quorum and the question is not resolved by him voluntarily agreeing to abstain from voting or not to be counted in the quorum, the question shall be decided by the chairman of the meeting.

The OSB Board may, subject to the provisions of the OSB Articles, authorise any matter which would otherwise involve an OSB Director breaching his or her duty under the Companies Act to avoid conflicts of interest.

An OSB Director who is in any way, whether directly or indirectly, interested in an actual or proposed transaction or arrangement with OSB shall declare the nature and extent of his or her interest.

#### **6.12 Indemnity of directors**

To the extent permitted by the Companies Act, OSB may indemnify any director or former director of OSB or of any associated company against any liability and may purchase and maintain for any director or former director of OSB or of any associated company insurance against any liability.

#### **6.13 Borrowing powers**

Subject to the provisions of the Companies Act, the OSB Board may exercise all the powers of OSB to borrow money, and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of OSB or of any Third Party.

### **7. MANDATORY BIDS, SQUEEZE-OUT AND SELL-OUT RULES**

Other than as provided by the City Code and Chapter 28 of the Companies Act, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules relating to OSB.

#### **7.1 Mandatory bid**

The City Code applies to OSB. Under Rule 9 of the City Code, if an acquisition of interests in shares were to increase the aggregate holding of the acquirer and its concert parties to interests in shares carrying 30 per cent. or more of the voting rights in OSB, the acquirer and, depending on circumstances, its concert parties would be required (except with the consent of the Panel) to make a cash offer for the outstanding shares in OSB at a price not less than the highest price paid for interests in shares by the acquirer or its concert parties during the previous 12 months. This requirement would also be triggered by any acquisition of interests in shares by a person holding (together with its concert parties) shares carrying between 30 per cent. and 50 per cent. of the voting rights in OSB if the effect of such acquisition were to increase that person's percentage of the total voting rights in OSB.

#### **7.2 Squeeze-out**

Under the Companies Act, if a "takeover offer" (as defined in section 974 of the Companies Act) is made for the shares and the offeror were to acquire, or unconditionally contract to acquire, not less than 90 per cent. in value of the shares to which the offer relates and not less than 90 per cent. of the voting rights carried by the shares to which the offer relates, it could, within three months of the last day on which its takeover offer can be accepted, compulsorily acquire the remaining 10 per cent. The offeror would do so by sending a notice to outstanding shareholders telling them that it will compulsorily acquire their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration for the outstanding shares to OSB, which would hold the consideration on trust for outstanding shareholders. The consideration offered to the shareholders whose shares are compulsorily acquired under this procedure must, in general, be the same as the consideration that was available under the takeover offer.

### 7.3 Sell-out

The Companies Act also gives minority shareholders a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer relates to all the shares and, at any time before the end of the period within which the offer can be accepted, the offeror holds or has agreed to acquire not less than 90 per cent. in value of the shares and not less than 90 per cent. of the voting rights carried by the shares, any holder of shares to which the offer relates who has not accepted the offer could, by a written communication to the offeror, require it to acquire those shares. The offeror is required to give any shareholder notice of his or her right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period or, if later, three months from the date on which notice is served on shareholders notifying them of their sell-out rights. If a shareholder exercises his or her sell-out rights, the offeror is entitled and bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

## 8. RELATED PARTY TRANSACTIONS

Save as disclosed below, there were no material related party transactions entered into by OSB or any member of the OSB Group during the period from 1 January 2015 up to the date of this Prospectus.

OSB has transactions with KRPS, one of its founding shareholders. KRPS runs member engagement forums for OSB. In exchange, OSB provides KRPS with various services including IT, finance and other support functions. OSB was charged for services provided by KRPS amounting to: (i) £0.2m for the year ended 31 December 2018; (ii) £0.3m for the year ended 31 December 2017; and (iii) £0.3m for the year ended 31 December 2016.

The OSB Directors (and their connected persons) held deposits with the OSB Group of: (i) £1.7m for the year ended 31 December 2018; (ii) £1.5m for the year ended 31 December 2017; and (iii) £1.4m for the year ended 31 December 2016.

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

## 9. MATERIAL CONTRACTS

### 9.1 The OSB Group

Save as disclosed below, no contracts have been entered into by the OSB Group (other than contracts entered into in the ordinary course of business): (i) within the two years immediately preceding the date of this Prospectus which are, or may be, material to the OSB Group; or (ii) which contain provisions under which any member of the OSB Group has an obligation or entitlement which is, or may be, material to the OSB Group as at the Latest Practicable Date.

#### ***Co-operation Agreement***

OSB and Charter Court have entered into a Co-operation Agreement dated 14 March 2019, pursuant to which OSB has agreed to diligently pursue the clearances required to satisfy the regulatory Conditions, with a view to satisfying such conditions as soon as is reasonably practicable. OSB and Charter Court have agreed to co-operate with each other in good faith to provide each other, in a timely manner, with such information, assistance and access as may reasonably be required in order to obtain the regulatory clearances and authorisations. OSB and Charter Court have also agreed to co-operate with each other in good faith to provide each other, in a timely manner, with such information, assistance and access as may reasonably be required for the preparation of the key shareholder documentation.

OSB has the right to terminate the Co-operation Agreement where:

- the Charter Court Directors have withdrawn, qualified, adversely modified or failed to provide, or they have failed to reaffirm (when reasonably requested by OSB to do so), their unanimous and unconditional recommendation that the Charter Court Shareholders vote

in favour of the Scheme (including prior to the publication of the Scheme Document, their intention to do so);

- the Charter Court General Meeting and/or the Court Meeting is not held on or before the later of: (a) the 22nd day after the expected date of such meetings as set out in the Scheme Document; and (b) 30 June 2019 (or such later date as may be agreed in writing between OSB and Charter Court with the consent of the Panel and the approval of the Court (if such approval is required));
- the Court Sanction Hearing is not held on or before the later of: (a) the 22nd day after the expected date of such hearing; and (b) 30 days after all the Conditions (other than the Scheme Condition) have been satisfied or waived;
- OSB has notified Charter Court of a Condition which is incapable of satisfaction or waiver by the Longstop Date (where its invocation is permitted by the Panel);
- if a Condition is incapable of satisfaction, in circumstances where invocation of the relevant Condition is permitted by the Panel; or
- a competing transaction becomes effective or is recommended by the Charter Court Directors.

Charter Court has the right to terminate the Co-operation Agreement where:

- the OSB Directors have withdrawn, qualified or modified in any adverse manner, or they have failed to reaffirm (when reasonably requested by Charter Court to do so) their unanimous and unconditional recommendation that the OSB Shareholders vote in favour of the OSB Resolution at the OSB General Meeting (including, prior to the publication of the OSB Circular, their intention to do so);
- OSB fails to convene the OSB General Meeting prior to the date falling one month prior to the Longstop Date, or causes or permits any announcement to be made intimating that the OSB Directors will not convene the OSB General Meeting or despatch the OSB Circular;
- the OSB Resolutions are not passed by the requisite majority at the OSB General Meeting; or
- if a competing transaction becomes effective.

OSB and Charter Court may also terminate the Co-operation Agreement by mutual consent.

OSB and Charter Court may also terminate the Co-operation Agreement by service of written notice on the other if the Combination is being implemented by way of the Scheme and:

- the Scheme is not approved by the requisite majority of Charter Court Shareholders at the Court Meeting or the Special Resolution is not passed by the requisite majority at the Charter Court General Meeting; or
- the Court refuses to sanction the Scheme or grant the Scheme Court Order at the Sanction Hearing.

The Co-operation Agreement will also terminate if:

- the Combination is withdrawn or lapses before the Longstop Date, other than where OSB has exercised its right to implement the Combination as an Offer with the consent of the Panel and subject to the approval of Charter Court (or otherwise in accordance with the Co-operation Agreement); or
- the Scheme (or Offer, as the case may be) has not become Effective by the Longstop Date.

The Co-operation Agreement also contains provisions that will apply in respect of the Charter Court Share Plans and certain other employee incentive arrangements, including the terms agreed in respect of Ian Lonergan and Sebastien Maloney which are summarised at paragraph 7 of Part VI (Information about the Combination) of this Prospectus.



### ***Perpetual Subordinated Bonds***

As a result of the transfer by KRPS to OSB of its business, assets and liabilities on 1 February 2011, OSB assumed a liability to each holder of Kent Reliance Building Society's permanent interest bearing shares ("**PIBS**") for a subordinated deposit equal to the principal amount of their PIBS. That deposit was automatically applied in subscription of perpetual subordinated bonds of OSB having an interest rate of either 7.875 per cent. (the "**First PSBs**") or 6.591 per cent. (the "**Second PSBs**", and together with the First PSBs, the "**PSBs**") (corresponding to the relevant interest rate on such PIBS) for an amount corresponding to the principal amount of that holder's PIBS. OSB issued £15,000,000 of First PSBs and £22,000,000 of Second PSBs.

The PSBs were admitted to the Official List of the FCA and to the London Stock Exchange in accordance with a prospectus dated 25 February 2011 and constitute unsecured, subordinated obligations of OSB. The First PSBs and Second PSBs rank *pari passu* with each other in point of subordination.

The First PSBs and the Second PSBs were constituted pursuant to two separate trust deeds, each between OSB and The Law Debenture Trust Corporation plc.

The terms of the First PSBs include the following provisions:

- The First PSBs bear interest from and including 1 February 2011 to but excluding 27 August 2014 at a rate of 7.875 per cent. per annum payable in arrears by half yearly instalments on 27 February and 27 August in each year, commencing on 27 February 2011. On and from 27 August 2014, the interest will be calculated with reference to a five year reset period commencing on 27 August 2014 and every fifth excessive year thereafter (the "**Reset Period**") with interest rate in respect of that Reset Period being a floating rate based on the aggregate of 4.00 per cent. per annum and the gross redemption yield of a benchmark UK government gilt having a maturity date on or about the last day of the Reset Period, payable in arrears by half yearly instalments on 27 February and 27 August in each year.
- The OSB Directors can, subject to certain notice requirements, resolve not to pay interest or reduce interest on a given interest payment date if OSB ceases (or would cease as a result of the payment of interest) to comply with applicable regulatory capital requirements. However, a holder's right to interest under the First PSBs is cumulative; the holder does not lose the right to any interest which is not paid. For so long as arrears of interest remain outstanding, OSB will undertake not to declare or pay any dividend or other distribution on the Second PSBs or other *pari passu* or junior ranking securities (unless OSB is not able to defer, pass or eliminate such dividend or other distribution in accordance with the terms of such securities).
- OSB may pay such arrears of interest at any time upon 7 days' notice and such amounts shall be due on the date of redemption of the First PSBs, the commencement of a winding-up of OSB (other than a solvent winding up) or the date any administrator of the issuer gives notice that it intends to deliver or distribute a dividend.
- Subject to certain conditions, OSB is entitled to redeem all of the First PSBs at their principal amount on the occurrence of certain changes of law or regulation that would require OSB to pay additional amounts of tax. In addition, OSB will be entitled, having first obtained FCA consent and complied with certain notice requirements, to redeem all (but not only some) of the First PSBs on 27 August 2014 and every fifth year thereafter.
- The First PSBs were issued in registered form in amounts of £1,000 and integral multiples of £1,000 thereafter.
- The First PSBs have no final maturity date and are not redeemable at the option of the holder.
- If OSB does not make payment in respect of the First PSBs for the period of 14 days or more after the due date (other than in the consistency described above), or OSB otherwise fails to perform its other obligations or comply with the provisions of the First PSBs, the trustee may commence proceedings for the winding up of OSB and/or claim in the liquidation of OSB.



The terms of the Second PSBs include the following provisions:

- The Second PSBs bear interest from and including 1 February 2011 to but excluding 7 March 2016 at a rate of 6.591 per cent. per annum payable in arrears by half yearly instalments on 7 September and 7 March in each year, commencing on 7 March 2011. On and from 7 March 2016, the interest will be calculated with reference to a five year reset period commencing on 7 March 2016 and every fifth successive year thereafter (the “**Reset Period**”) with an interest rate in respect of that Reset Period being a floating rate based on the aggregate of 3.40 per cent. and the gross redemption yield of a benchmark UK government gilt having a maturity date on or about the last day of the Reset Period, payable in arrears by half yearly instalments on 7 March and 7 September in each year.
- The OSB Directors can, subject to certain notice requirements, exercise their discretion to resolve not to pay interest or reduce interest on a given interest payment date. However, a holder’s right to interest under the second PSBs is cumulative; the holder does not lose the right to any interest which is not paid. For so long as arrears of interest remain outstanding, OSB will undertake not to declare or pay any dividend or other distribution on the First PSBs or other pari passu or junior ranking securities (unless OSB is not able to defer, pass or eliminate such dividend or other distribution in accordance with the terms of such securities).
- OSB may pay such arrears of interest at any time upon 7 days’ notice and such amounts shall be due on the date of redemption of the First PSBs, the commencement of a winding-up of OSB (other than a solvent winding up) or the date any administrator of the Issuer gives notice that it intends to deliver or distribute a dividend.
- Subject to certain conditions, OSB is entitled to redeem all of the Second PSBs at their principal amount on the occurrence of certain changes of law or regulation that would require OSB to pay additional amounts of tax. In addition, OSB will be entitled, having first obtained FCA consent and complied with certain notice requirements, to redeem all (but not only some) of the Second PSBs on 7 March 2016 or on any interest payment date thereafter.
- The Second PSBs were issued in registered form in amounts of £1,000 and integral multiples of £1,000 thereafter.
- The Second PSBs have no final maturity date and are not redeemable at the option of the holder.

### **Securitisation**

Rochester Mortgages Limited (a member in the OSB Group) (the “**Seller**”) entered into a mortgage sale agreement with Rochester Financing No.2 Plc (the “**Issuer**”) on 26 February 2016 (the “**Mortgage Sale Agreement**”). Pursuant to this agreement, the OSB Group agreed to sell a portfolio of mortgage loans to the Issuer.

Pursuant to the Mortgage Sale Agreement:

- the Issuer gave certain customary undertakings to the Seller, including undertaking to use its commercially reasonable endeavours to enforce the loans comprising the portfolio;
- the Seller gave certain customary representations and warranties to the Issuer in relation to its capacity and authority, and in respect of the underlying loans which comprised the portfolio; and
- the Seller gave undertakings to the Issuer in respect of the underlying loans which comprised the portfolio.

OSB, the Seller, the Issuer, Target Servicing Limited (the “**Servicer**”), DB UK Bank Limited (“**DBUK**”) and U.S. Bank Trustees Limited (the “**Security Trustee**”) entered into a master servicing agreement on 26 February 2016 (the “**Master Servicing Agreement**”).

Pursuant to the Master Servicing Agreement:

- the Servicer agreed to service the loans and related security sold pursuant to the Mortgage Sale Agreement, following an interim period where DBUK would service the loans and related security (which ended on 28 March 2016); and
- OSB agreed to provide certain services in relation to the loans and related security sold pursuant to the Mortgage Sale Agreement to the Issuer, DBUK and the Seller.

#### ***Subordinated debt obligations***

The OSB Group has a range of unsecured, subordinated debts totalling £562,722.40 pursuant to bilateral loan agreements maturing in September 2022 (the "Bilateral Loan Agreements"). Interest under the Bilateral Loan Agreements is set at a variable rate linked to the 1-year LIBOR rate.

The OSB Group also owes £10,000,000 under an unsecured, subordinated loan agreement originally entered into by Kent Reliance Building Society. The agreement matures in September 2024, with an option to pre-pay £5,000,000 in September 2019.

#### ***Additional Tier 1 Securities***

The OSB Group issued Fixed Rate Resetting Additional Tier 1 securities of £60,000,000 on the Irish Stock Exchange on 25 May 2017. The principal terms of the securities are described below:

- the securities are perpetual securities with no fixed redemption date;
- the security holders have no right to require OSB to redeem or purchase the securities at any time;
- the securities will be subject to full conversion into ordinary shares of OSB in the event that its CET1 capital ratio falls below 7 per cent.;
- the securities bear interest at a rate of 9.125 per cent. per annum until the first reset date of 25 May 2022, with the reset interest rate equal to 835.9 basis points plus the five-year semi-annual mid-swap rate for such a period; interest is paid semi-annually on 25 May and 25 November;
- OSB 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; and
- OSB may, in its discretion and subject to satisfying certain conditions, redeem all (but not some) of the securities at the principal amount outstanding plus any accrued but unpaid interest on 25 May 2022 and on any interest payment date thereafter.
- OSB may, in its discretion and subject to satisfying certain conditions, redeem all (but not some) of the securities at their principal amount outstanding plus any named but unpaid interest in the event of a change in the regulatory classification of the securities or a change in tax law or regulation that is material and would cause additional amounts to be paid, deductions to be reviewed or change the tax treatment of the securities.

## **9.2 The Charter Court Group**

Save as disclosed below, no contracts have been entered into by the Charter Court Group (other than contracts entered into in the ordinary course of business): (i) within the two years immediately preceding the date of this Prospectus which are, or may be, material to the Charter Court Group; or (ii) which contain provisions under which any member of the Charter Court Group has an obligation or entitlement which is, or may be, material to the Charter Court Group as at the Latest Practicable Date.

#### ***Co-operation Agreement***

For a description of the principal terms of the Co-operation Agreement, please refer to paragraph 9.1 of this Part XVII.

### ***Relationship agreement with the Elliott Major Shareholders***

Charter Court entered into a relationship agreement with the Elliott Major Shareholders, on 29 September 2017. This agreement will terminate upon completion of the Combination, as further described below.

The principal purpose of the relationship agreement is to ensure that Charter Court is capable of carrying on its business independently of the Elliott Major Shareholders since its listing on the London Stock Exchange in 2017. The Relationship agreement took effect on 4 October 2017 and will continue for so long as the Elliott Major Shareholders, together with any person with whom they are acting in concert, continue to be interested, in aggregate, in at least 30 per cent. of the voting rights of Charter Court. Pursuant to the Relationship agreement, the Elliott Major Shareholders will:

- for so long as they, together with any person with whom they are acting in concert, continue to be interested, in aggregate, in at least 50 per cent. of the voting rights of Charter Court, have the right to nominate two people to be their Representative Directors on the Charter Court Board; and
- for so long as they, together with any person with whom they are acting in concert, continue to be interested, in aggregate, in less than 50 per cent. but more than 30 per cent. of the voting rights of Charter Court, have the right to nominate one person to be their Representative Director on the Charter Court Board.

As at the Latest Practicable Date, the director nomination rights noted above have not been exercised.

Under the Relationship agreement, Elliott Major Shareholders have agreed to ensure that:

- all transactions and arrangements between: (i) Elliott Major Shareholders or any of their respective associates; and (ii) Charter Court or any member of the Charter Court Group, are conducted at arm's length and on normal commercial terms, provided that no member of the Charter Court Group shall enter into such a transaction or arrangement without the consent of a majority of the directors of the Charter Court Board (excluding any director(s) nominated by the Elliott Major Shareholders);
- none of the Elliott Major Shareholders or any of their respective associates shall take any action that would have the effect of preventing Charter Court from complying with its obligations under the Listing Rules;
- none of the Elliott Major Shareholders or any of their respective associates shall propose or procure the proposal of a shareholder resolution of the shareholders of Charter Court which is intended or appears to be intended to circumvent the proper application of the Listing Rules;
- each of the Elliott Major Shareholders and their respective associates shall abstain from voting on any resolution to which Rule 11.1.7R(4) of the Listing Rules applies relating to a transaction or arrangement (in each case, other than in the ordinary course of business) with either of the Elliott Major Shareholders or its respective associates as the related party and shall (so far as is within its power to do so and subject to the fiduciary duties of any director(s) nominated by the Elliott Major Shareholders) procure that any director(s) nominated by the Elliott Major Shareholders abstain(s) from voting at any related meeting of the Charter Court Board in respect of such transaction or arrangement;
- none of the Elliott Major Shareholders or any of their respective associates will exercise their voting rights or other rights to procure any amendment to Charter Court's Articles which would be contrary to the maintenance of Charter Court's ability to carry on its business independently from the Elliott Major Shareholders or otherwise result in a breach of the provisions of the Relationship agreement; and
- in respect of any matters that might give rise to a conflict of interest between Charter Court and any of the Elliott Major Shareholders or any of their respective associates, the Elliott Major Shareholders shall procure (to the extent that they are able to do so and subject to

the fiduciary duties of any director(s) nominated by the Elliott Major Shareholders) that any director(s) nominated by the Elliott Major Shareholders abstain(s) from voting at a meeting of the Charter Court Board in respect of such a matter.

The Relationship agreement will terminate if Charter Court's ordinary shares cease to be listed on the premium listing segment of the Official List and traded on the London Stock Exchange (i.e. on completion of the Combination) or when the Elliott Major Shareholders, together with any person with whom they are acting in concert, cease to retain, in aggregate, an interest which carries 30 per cent. or more of the votes able to be cast on all or substantially all matters at general meetings of Charter Court.

#### ***Savings Administration Agreement with Newcastle Strategic Solutions Limited***

On 19 February 2015, Charter Court entered into an agreement for the supply of services by Newcastle Building Society in relation to its savings account operations. Under the terms of the agreement, Newcastle Building Society was appointed for a five-year term to provide internet, telephone and postal based savings account operating services on behalf of Charter Court in relation to deposit taking.

The agreement was subsequently renewed and varied in September 2017, with the term re-set to run for five years from the date of entry into the agreement varying the original terms. Under the terms of this variation agreement, Newcastle Strategic Solutions Limited, a wholly-owned subsidiary of Newcastle Building Society, was substituted as the principal service provider, subject to and on the condition of the entry by Newcastle Building Society into a full parent company guarantee of its subsidiary's obligations under the contract.

Either party may terminate the agreement in the event of a material breach by the other party which remains unremedied for more than 20 business days or in the event that the other party suffers an insolvency event (save where the other party is subject to an intervention under the Banking Act 2009). Additionally, Charter Court may terminate the agreement upon 12 months' notice at any time falling more than two years and six months after the date the services were first delivered under the agreement and may also terminate the agreement immediately in the event of certain regulatory failures by Newcastle Strategic Solutions Limited or in the event of force majeure preventing Newcastle Strategic Solutions Limited from delivering services for a period of one month or more.

Newcastle Strategic Solutions Limited's liability for the provision of its services is limited in each period of 12 months from the commencement date of the agreement as varied and renewed (a "**contract year**"), is limited to a sum equal to 50 per cent. of the charges paid by Charter Court under the agreement in the previous contract year. Newcastle Strategic Solutions Limited's liability in relation to the expenses of a customer redress programme imposed by a regulatory authority is capped at £700,000 under the agreement (without prejudice to other liability caps agreed with Charter Court) and Newcastle Strategic Solutions Limited also agreed to indemnify Charter Court in an amount of up to £2 million per contract year against any fines or financial penalties imposed by a regulatory authority upon Charter Court that are solely and directly attributable to the act, omission or neglect of the supplier. There is a £500,000 aggregate cap on Charter Court's liability to Newcastle Strategic Solutions Limited under the agreement. The parties further agreed to reciprocally indemnify each other in respect of an amount of up to £500,000 in any contract year against fines or sanctions imposed by a regulatory authority in respect of breaches of data protection legislation.

Under the agreement, Newcastle Strategic Solutions Limited is paid a fixed charge per new savings account opened and a monthly floating account administration charge that reduces by increments depending on the total number of accounts under administration during the month. Newcastle Strategic Solutions Limited is required to comply with certain agreed service performance metrics under the agreement.

The agreement contains mutual non-solicitation covenants in relation to each party's employees which extend until six months after termination of the agreement.

The agreement is governed by English law.

### ***Commercial Warehouse Facility Agreements***

On 1 December 2017, CML Warehouse No. 1 Ltd (as borrower), Charter Mortgages Limited (as seller and subordinated lender) and CCFSL (as originator and servicer) entered into a senior facility agreement with, among others, Bank of America Merrill Lynch International Limited (as arranger and original senior lender), Elavon Financial Services Limited (as agent) and U.S. Bank Trustees Limited (as security trustee) (the “**CML 1 Warehouse Facility**”).

On 28 November 2018, CML Warehouse No. 2 Ltd (as borrower), Charter Mortgages Limited (as seller and subordinated lender) and CCFSL (as originator and servicer) entered into a senior facility agreement with, among others, Gresham Receivables (No 31) UK Limited (as original senior lender), Lloyds Bank PLC (as facility agent and Gresham Receivables (No 31) UK Limited’s agent), HSBC Corporate Trustee Company (UK) Limited (as agent) and HSBC Corporate Trustee Company (UK) Limited (as security trustee) (the “**CML 2 Warehouse Facility**”).

Under the terms of the CML 1 Warehouse Facility, Bank of America Merrill Lynch International Limited agreed to make available to CML Warehouse No. 1 Ltd a committed loan facility for a maximum principal amount of £350,000,000, and under the terms of the CML 2 Warehouse Facility, Gresham Receivables (No. 31) UK Limited agreed to make available to CML Warehouse No. 2 Ltd a loan facility for a maximum principal amount of £250,000,000 (at Gresham Receivables (No. 31) UK Limited’s absolute discretion), in each case for the purpose of funding, in part, the acquisition of certain mortgage loans and their related security from Charter Mortgages Limited from time to time. Interest is payable on amounts drawn under the facilities at a floating rate based on LIBOR plus a margin. Lending drawn under the facilities is secured on the loans purchased by CML Warehouse No. 1 Ltd and CML Warehouse No. 2 Ltd (as applicable) and on the rights and obligations under certain transaction documents entered into in connection with the facilities. As of 31 December 2018, £233.4 million remained outstanding of funds drawn under the CML 1 Warehouse Facility and no funds had been drawn under the CML 2 Warehouse Facility.

Mortgage loans and related security acquired by CML Warehouse No. 1 Ltd and CML Warehouse No. 2 Ltd in connection with these facilities are administered by CCFSL in accordance with the terms of a servicing agreement. The balance of the purchase price for the acquisition of the mortgage loans and related security is to be funded under facilities provided by Charter Mortgages Limited.

The senior facility agreements and related transaction documents are governed by English law.

### ***Mortgage Portfolio Sale Agreement***

On 12 January 2017, CCFSL (as beneficial title purchaser) and Charter Mortgages Limited (as legal title owner) entered into a mortgage portfolio sale agreement with Bridestone Financing PLC (as seller) and Elliott International L.P. and Elliott Associates L.P. (as controllers of the seller). Under this agreement, CCFSL acquired beneficial title to a pool of mortgage loans, the legal title to which was already owned by Charter Mortgages Limited (held on trust for Bridestone Financing PLC).

Subject to the subsisting rights of redemption of the underlying borrowers under the mortgage loans, Bridestone Financing PLC agreed to sell, and CCFSL agreed to purchase, the beneficial interest in a portfolio of mortgage loans and the related security, including the seller’s rights against Charter Mortgages Limited as legal title owner in relation to the portfolio, all rights, title, interest and benefits under certain insurance policies relating to the properties subject to the mortgage loans comprising the portfolio, the benefit of all securities for sums payable under the mortgage loans comprising the portfolio and all causes and rights of action arising against any person in connection with reports, valuations, opinions, certificates, undertakings or other statements of fact, advice or opinion given in connection with the mortgage loans comprising the portfolio. The purchase price payable under the mortgage portfolio sale agreement was £26,060,656.89.

Each of the parties to the mortgage portfolio sale agreement gave certain warranties, with Elliott International L.P. and Elliott Associates L.P. giving certain warranties in respect of the mortgage



loan portfolio and other customary warranties and Bridestone Financing PLC giving certain customary warranties relating to its legal capacity and authority to enter into the agreement. The liability of Elliott International L.P. under the warranties given by it is capped at £3.11 million and the liability of Elliott Associates L.P. under the warranties given by it is capped at £1.46 million.

The mortgage portfolio sale agreement is governed by English law.

### **Securitisation**

On 28 April 2017, CCFSL (as seller and servicer) entered into a mortgage sale agreement with Precise Mortgage Funding 2017-1B PLC (as issuer) and Charter Mortgages Limited. Pursuant to this mortgage sale agreement, CCFSL agreed to sell a portfolio of buy-to-let mortgage loans to the issuer, the issuer undertook to use commercially reasonable endeavours to enforce the loans comprising the portfolio and CCFSL gave representations and warranties in relation to its capacity and authority and in respect of the underlying loans comprising the portfolio. Charter Mortgages Limited also gave undertakings to the issuer and US Bank Trustees Limited (as security trustee) in relation to certain loan modifications.

On 27 July 2017, CCFSL (as seller and servicer) entered into a mortgage sale agreement with Charter Mortgage Funding 2017-1 PLC (as issuer). Pursuant to this mortgage sale agreement, CCFSL agreed to sell a portfolio of residential mortgage loans to the issuer, the issuer gave certain customary undertakings to CCFSL (including undertaking to use its commercially reasonable endeavours to enforce the loans comprising the portfolio) and CCFSL gave certain customary representations and warranties to the issuer and to US Bank Trustees Limited (as security trustee) in relation to its capacity and authority and in respect of the underlying loans comprising the portfolio.

On 1 December 2017, Charter Mortgages Limited entered into a mortgage sale agreement with CML Warehouse Number 1 Limited (as borrower). Pursuant to this mortgage sale agreement, Charter Mortgages Limited agreed to sell a portfolio of residential and/or buy-to-let mortgage loans to CML Warehouse Number 1 Limited.

On 16 January 2018, Charter Court Financial Services Limited agreed to sell its residual economic interest in the Charter Mortgage Funding 2017-1 PLC securitisation (issued on 27 July 2017, as detailed above) to Merrill Lynch International for cash consideration of £26.5 million. The transaction involved the sale of a portfolio of class Z and subordinated notes and the residual certificates to the securitisations.

On 24 January 2018, Charter Mortgages Limited (as seller and servicer) and CCFSL (the legal title holder) entered into a mortgage sale agreement with Precise Mortgage Funding 2018-1B PLC (as issuer). Pursuant to this mortgage sale agreement, the issuer agreed to sell a portfolio of buy-to-let mortgage loans to the issuer and the issuer undertook to use commercially reasonable endeavours to enforce the loans comprising the portfolio and CCFSL gave representations and warranties in relation to its capacity and authority and in respect of the underlying loans comprising the portfolio. Charter Mortgages Limited also gave undertakings to the issuer and US Bank Trustees Limited (as security trustee) in relation to certain loan modifications.

On 20 March 2018, Charter Mortgages Limited (as seller and servicer) and CCFSL (as legal title holder) entered into a mortgage sale agreement with Precise Mortgage Funding 2018-2B PLC (as issuer). Pursuant to this mortgage sale agreement, the issuer agreed to sell a portfolio of buy-to-let mortgage loans to the issuer and the issuer undertook to use commercially reasonable endeavours to enforce the loans comprising the portfolio and CCFSL gave representations and warranties in relation to its capacity and authority and in respect of the underlying loans comprising the portfolio. Charter Mortgages Limited also gave undertakings to the issuer and US Bank Trustees Limited (as security trustee) in relation to certain loan modifications.

On 8 June 2018, Charter Mortgages Limited (as seller and servicer) and CCFSL (the legal title holder) entered into a mortgage sale agreement with Charter Mortgage Funding 2018-1 PLC (as issuer). Pursuant to this mortgage sale agreement, CCFSL agreed to sell a portfolio of residential mortgage loans to the issuer and the issuer undertook to use commercially reasonable endeavours to enforce the loans comprising the portfolio and CCFSL gave representations and



warranties in relation to its capacity and authority and in respect of the underlying loans comprising the portfolio. Charter Mortgages Limited also gave undertakings to the issuer and US Bank Trustees Limited (as security trustee) in relation to certain loan modifications. On 8 June 2018, Charter Mortgages Limited also agreed to sell its residual economic interest in the Charter Mortgage Funding 2018-1 PLC securitisation for cash consideration of £13.8 million. The transaction involved the sale of the RC1 and RC2 residual certificates to the securitisation.

On 28 November 2018, Charter Mortgages Limited entered into a mortgage sale agreement with CML Warehouse Number 2 Limited (as borrower). Pursuant to this mortgage sale agreement, Charter Mortgages Limited agreed to sell a portfolio of residential and/or buy-to-let mortgage loans to CML Warehouse Number 2 Limited.

On 18 January 2019, Charter Mortgages Limited agreed to sell its residual economic interest in the Precise Mortgage Funding 2018-1B PLC and Precise Mortgage Funding 2018-2B PLC securitisations (issued on 24 January 2018 and 20 March 2018 respectively, as detailed above) to Merrill Lynch International for cash consideration of £6.0 million. The transaction involved the sale of the RC2 residual certificates to the securitisations.

## 10. LITIGATION

### 10.1 The OSB Group

There are no, nor have there been any, governmental, legal or arbitration proceedings (nor is OSB aware of any such proceedings being pending or threatened) which may have, or have had during the last 12 months prior to the date of this Prospectus, a significant effect on the OSB Group's financial position or profitability.

### 10.2 The Charter Court Group

There are no, nor have there been any, governmental, legal or arbitration proceedings (nor is OSB aware of any such proceedings being pending or threatened) which may have, or have had during the last 12 months prior to the date of this Prospectus, a significant effect on the Charter Court Group's financial position or profitability.

## 11. SIGNIFICANT SUBSIDIARIES AND OTHER SIGNIFICANT HOLDINGS

OSB is the parent company of the OSB Group. The following table shows, as of the Latest Practicable Date, the significant direct and indirect subsidiaries of the OSB Group and the associated undertakings of the OSB Group which OSB considers are likely to have a significant effect on the assessment of the OSB Group's assets and liabilities, financial position or profit and losses.

Company name	% interest held	Country of incorporation
Guernsey Home Loans Limited	100%	England and Wales
Guernsey Home Loans Limited	100%	Guernsey
Jersey Home Loans Limited	100%	England and Wales
Jersey Home Loans Limited	100%	Jersey
Reliance Property Loans Limited	100%	England and Wales
Easioption Limited	100%	England and Wales
OSB India Private Limited	70.27%	India
Interbay Group Holdings Limited	100%	England and Wales
Interbay Holdings Ltd	100%	England and Wales
Inter Bay Financial I Limited	100%	England and Wales
5D Finance Limited	100%	England and Wales
InterBay Asset Finance Limited	100%	England and Wales
Inter Bay Financial II Limited	100%	England and Wales
Interbay Funding, Ltd	100%	England and Wales
Interbay ML, Ltd	100%	England and Wales
Prestige Finance Limited	100%	England and Wales
Heritable Development Finance Limited	100%	England and Wales
Rochester Mortgages Limited	100%	England and Wales

## 12. WORKING CAPITAL

In the opinion of OSB, the working capital available to the OSB Group is sufficient for its present requirements, that is, for at least the next 12 months following the date of this Prospectus.

In the opinion of OSB, the working capital available to the Combined Group is sufficient for its present requirements, that is, for at least the next 12 months following the date of this Prospectus.

## 13. NO SIGNIFICANT CHANGE

There has been no significant change in the financial or trading position of the OSB Group since 31 December 2018, being the date to which the OSB Group's last audited consolidated financial statements were prepared.

There has been no significant change in the financial or trading position of the Charter Court Group since 31 December 2018, being the date to which the Charter Court Group's last audited consolidated financial statements were prepared.

## 14. SYNERGY INFORMATION

Paragraph 4 of Part VI (Information about the Combination) contains statements of estimated cost savings and synergies arising from the Combination (the "**Quantified Financial Benefits Statement**").

### 14.1 Bases of belief for the Quantified Financial Benefits Statement

In preparing the Quantified Financial Benefits Statement, Charter Court has provided OSB with certain operating and financial information to facilitate a detailed analysis in support of evaluating the potential synergies available from the Combination. In circumstances where data has been limited for commercial, regulatory or other reasons, OSB management has made estimates and assumptions to aid its development of individual synergy initiatives. The assessment and quantification of the potential synergies have, in turn, been informed by the OSB management's industry experience and knowledge of the existing businesses, together with close consultation with Charter Court.

The cost base used as the basis for the quantified exercise is the combined 2018 cost bases for OSB and Charter Court, consistent with the OSB Preliminary Results Announcement and the Charter Court Preliminary Results Announcement.

The assessment and quantification of the potential synergies have in turn been informed by OSB management's industry experience as well as their experience of executing and integrating past acquisitions.

In general, the synergy assumptions have in turn been risk adjusted, exercising a degree of prudence in the calculation of the estimated synergy benefit set out above.

The OSB Board has, in addition, made the following assumptions, all of which are outside the influence of OSB:

- there will be no material impact on the underlying operations of either OSB or Charter Court or their ability to continue to conduct their businesses;
- there will be no material change to macroeconomic, political, regulatory or legal conditions in the markets or regions in which OSB and Charter Court operate that will materially impact on the implementation or costs to achieve the proposed cost savings;
- there will be no material change in current foreign exchange rates; and
- there will be no change in tax legislation or tax rates or other legislation in the United Kingdom that could materially impact the ability to achieve any benefits.

In addition, the OSB Board has assumed that the cost synergies are substantively within OSB's control, albeit that certain elements are dependent in part on negotiations with third parties.

## 14.2 Notes

The statements of estimated synergies relate to future actions and circumstances which, by their nature, involve risks, uncertainties and contingencies. As a result, the synergies referred to may not be achieved, or may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated.

No statement in the Quantified Financial Benefits Statement, or this Prospectus generally, should be construed as a profit forecast or interpreted to mean that OSB's earnings in the full first full year following the Combination, or in any subsequent period, would necessarily match or be greater than or be less than those of OSB and/or Charter Court for the relevant preceding financial period or any other period.

Due to the scale of the Combined Group, there may be additional changes to the Combined Group's operations. As a result, and given the fact that the changes relate to the future, the resulting synergies may be materially greater or less than those estimated.

## 15. IRREVOCABLE UNDERTAKINGS

Under the terms of its irrevocable undertaking, Elliott has unconditionally undertaken to take (and to procure that all persons that are required to give notice under section 178 of FSMA in connection with the Combination by virtue of, or as a result of, any decision by Elliott to acquire or increase its interest in the New OSB Shares take) all reasonable steps to satisfy the Change in Control Condition in respect of its and any member of its group's proposed interest in the New OSB Shares as contemplated by the Combination. OSB has agreed not to waive the Change in Control Condition in respect of Elliott (if such Condition is applicable to Elliott) until the Change in Control Condition has been satisfied in respect of Elliott.

The obligations of Elliott under its irrevocable undertaking shall lapse and cease to have effect on and from the earlier of the following occurrences:

- if the Scheme Document or Offer Document has not been dispatched within 28 days of the issue of the Announcement or such later date as, with the consent of the Panel, OSB and Charter Court may agree, provided that if OSB elects to implement the Combination by way of an Offer, the time period shall be extended;
- if OSB announces that it does not intend to proceed with the Combination and no new, revised or replacement Scheme or Offer is announced by OSB at the same time;
- on 31 August 2019;
- on the date on which the Scheme (or Offer, as applicable) lapses or is withdrawn in accordance with its terms, provided that this shall not apply if the Scheme or Offer lapses or is withdrawn as a result of OSB's right to switch in accordance with the terms of the Co-operation Agreement or as a result of OSB exercising its right to implement the Combination by way of an Offer;
- if a third party announces a firm intention to make an offer for Charter Court which represents a premium of 5 per cent. or more to the value of the Combination based on the closing price per ordinary share in the capital of OSB;
- if any appropriate regulator refuses to approve any Change of Control Application submitted by Elliott in connection with the Combination; or
- if OSB announces that it is no longer intended that Andy Golding will remain as Chief Executive Officer of OSB.

The obligations of the Charter Court Directors under their irrevocable undertakings shall lapse and cease to have effect on and from the earlier of the following occurrences:

- if OSB announces that it does not intend to proceed with the Combination and no new, revised or replacement Scheme or Offer is announced by OSB at the same time, which has been recommended by Charter Court;

- if any competing offer for Charter Court is made which is declared wholly unconditional (if implemented by way of a takeover offer) or otherwise becomes effective (if implemented by way of a scheme of arrangement);
- if the Co-operation Agreement is terminated in accordance with its terms; or
- on the earlier of: (a) the Longstop Date and (b) the date on which the Scheme (or Offer, as applicable) is withdrawn or lapses in accordance with its terms, provided this shall not apply where the Scheme (or Offer, as applicable) is withdrawn or lapses as a result of the exercise of OSB's right to effect a Switch in accordance with the terms of the Co-operation Agreement.

The obligations of the OSB Directors under their irrevocable undertakings shall lapse and cease to have effect on and from the earlier of the following occurrences:

- if OSB announces that it does not intend to proceed with the Combination and no new, revised or replacement Scheme or Offer is announced by OSB at the same time, which has been recommended by Charter Court;
- if any competing offer for Charter Court is made which is declared wholly unconditional (if implemented by way of a takeover offer) or otherwise becomes effective (if implemented by way of a scheme of arrangement);
- if the Co-operation Agreement is terminated in accordance with its terms; or
- on the earlier of (a) the Longstop Date and (b) the date on which the Scheme (or Offer, as applicable) is withdrawn or lapses in accordance with its terms, provided this shall not apply where the Scheme (or Offer, as applicable) is withdrawn or lapses as a result of the exercise of OSB's right to effect a Switch in accordance with the terms of the Co-operation Agreement.

## **16. EXPENSES**

There are no net proceeds receivable by OSB for the issue of the New OSB Shares.

The total costs and expenses relating to the issue of this Prospectus, the Circular and to the negotiation, preparation and implementation of the Combination payable by OSB are estimated to be approximately £15.9 million (including regulatory fees, the listing fees, professional fees and expenses and the costs of printing and distribution of documents, but excluding VAT and stamp duty). Stamp duty of approximately £4.2 million will be paid on the Combination. The amount has been calculated based on the number of Charter Court Shares and the share price of the OSB Shares, each as at the close of business on the Latest Practicable Date.

## **17. CONSENTS**

Rothschild & Co, which has acted as sponsor and financial adviser to OSB and whose registered office is at N. M. Rothschild & Sons Limited, New Court, St Swithin's Lane, London EC4N 8AL, has given and not withdrawn its consent to the publication of this Prospectus with the inclusion herein of the references to its name in the form and context in which it appears.

Barclays, which has acted as corporate broker and financial adviser to OSB and whose registered office is at Barclays Bank PLC, 1 Churchill Place, Canary Wharf, London E14 5HP, has given and not withdrawn its consent to the publication of this Prospectus with the inclusion herein of the references to its name in the form and context in which it appears.

KPMG, a member firm of the Institute of Chartered Accountants in England and Wales, which has acted as reporting accountant to OSB and whose address is at 15 Canada Square, London E14 5GL, has given and not withdrawn its consent to the publication of this Prospectus with the incorporation of its report on the Unaudited Pro Forma Financial Information set out in Part XIII (Unaudited pro forma financial information) and has given and not withdrawn its consent to the publication of this Prospectus with the inclusion herein of the references to its name in the form and context in which it appears.

## **18. SOURCES AND BASES**

Unless otherwise stated, in this Prospectus:

- all references to Charter Court Shares are to Charter Court ordinary shares of 1 pence each, and all references to OSB Shares are to OSB ordinary shares of 1 pence each;

- unless otherwise stated:
  - financial information relating to the OSB Group has been extracted or derived (without any adjustment) from the audited annual report and accounts for OSB for the years ended 31 December 2018, 2017 and 2016; and
  - financial information relating to the Charter Court Group has been extracted or derived (without any adjustment) from the audited annual report and accounts for Charter Court for the years ended 31 December 2018, 2017 and 2016;
- as at the close of business on the Latest Practicable Date, Charter Court had in issue 239,320,419 Charter Court Shares and OSB had in issue 245,155,033 OSB Shares. The ISIN for Charter Court Shares is GB00BD822578 and for OSB Shares is GB00BM7S7K96;
- the percentage of the share capital of the Combined Group that will be owned by Charter Court Shareholders of 45 per cent. is calculated by dividing the maximum number of New OSB Shares to be issued under the terms of the Combination by the issued share capital of the Combined Group and multiplying the resulting sum by 100 to produce a percentage;
- the share capital of the Combined Group (being 447,320,535) has been calculated as the sum of:
  - a total number of 245,155,033 OSB Shares, being the number of OSB Shares in issue as at the Latest Practicable Date; and
  - 202,165,502 New OSB Shares which would be issued under the terms of the Combination (being 0.8253 New OSB Shares to be issued per Charter Court Share multiplied by the fully diluted share capital of Charter Court (being 239,320,419 Charter Court Shares currently in issue (as at the Latest Practicable Date) and a maximum of 5,639,597 Charter Court Shares which may be issued on or after the Latest Practicable Date on the exercise of options or vesting of awards under the Charter Court Share Plans (based on outstanding options and awards as at the Latest Practicable Date). The actual number of Charter Court Shares issued under the Charter Court Share Plans will be affected by the application of performance conditions and time pro rating);
- as at the Latest Practicable Date OSB holds no ordinary shares in treasury;
- the synergy numbers are unaudited and are based on analysis by OSB's management and on OSB's internal records. Further information underlying the Quantified Financial Benefits Statement contained in this Prospectus is provided in paragraph 14 of this Part XVII;
- for the purposes of the financial comparisons in this Prospectus, no account has been taken of any liability to taxation or the treatment of fractions under the Combination;
- earnings per share figures are stated exclusive of exceptional and extraordinary items where these have been disclosed;
- the timing expectations set out in this Prospectus assume that the Combination would become effective in Q3 2019; and
- certain figures included in this Prospectus have been subject to rounding adjustments.

## **19. DOCUMENTS ON DISPLAY**

Copies of the following documents will be available for inspection during normal business hours on any Business Day for a period beginning on the date of this Prospectus and ending on the Effective Date at OSB's registered office, being Reliance House, Sun Pier, Chatham, Kent ME4 4ET, United Kingdom:

- OSB's memorandum of association and the OSB articles of association;
- this Prospectus;
- the Circular;
- the Scheme Document;

- the Announcement;
- the OSB 2018 Annual Report and Accounts, the OSB 2017 Annual Report and Accounts and the OSB 2016 Annual Report and Accounts;
- the Charter Court 2018 Annual Report and Accounts, the Charter Court 2017 Annual Report and Accounts and the Charter Court 2016 Annual Report and Accounts;
- the report by KPMG set out in Part B of Part XIII (Unaudited pro forma financial information); and
- the consent letters referred to in paragraph 17 of this Part XVII (Additional Information).

## 20. INCORPORATION BY REFERENCE

The table below sets out the documents of which certain parts are incorporated by reference into, and form part of, this Prospectus, and only the parts of the documents identified in the table below are incorporated into, and form part of, this Prospectus. The parts of these documents which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this Prospectus. To the extent that any information incorporated by reference itself incorporates any information by reference, either expressly or by implication, such information will not form part of this Prospectus for the purposes of the Prospectus Rules, except where such information is stated within this Prospectus as specifically being incorporated by reference or where the document is specifically defined as including such information.

Any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein (or in a later document which is incorporated by reference herein) modifies or supersedes such earlier statement (whether expressly, by implication or otherwise).

Except as set forth above, no other portion of these documents is incorporated by reference into this Prospectus.

These documents incorporated by reference are available for inspection in accordance with paragraph 19 of this Part XVII.

### ***Information incorporated by reference from the OSB 2018 Annual Report and Accounts***

The following pages are incorporated by reference from the OSB 2018 Annual Report and Accounts:

<b>Information</b>	<b>Pages</b>
Strategic report	2-65
Risk Committee report	87-89
Remuneration report	90-105
Independent auditors' report	110-117
Statement of comprehensive income	118
Statement of financial position	119
Statement of changes in equity	120
Statement of cash flows	121
Notes to the financial statements	122-182

### ***Information incorporated by reference from the OSB 2017 Annual Report and Accounts***

The following pages are incorporated by reference from the OSB 2017 Annual Report and Accounts:

<b>Information</b>	<b>Pages</b>
Strategic report	1-59
Independent auditors' report	99-106
Statement of profit or loss	107
Statement of other comprehensive income	108
Statement of financial position	109
Statement of changes in equity	110
Statement of cash flows	111
Notes to the financial statements	112-177



***Information incorporated by reference from the OSB 2016 Annual Report and Accounts***

The following pages are incorporated by reference from the OSB 2016 Annual Report and Accounts:

<b>Information</b>	<b>Pages</b>
Strategic report	1-55
Independent auditors' report	94-98
Statement of profit or loss	99
Statement of other comprehensive income	100
Statement of financial position	101
Statement of changes in equity	102
Statement of cash flows	103
Notes to the financial statements	104-158

***Information incorporated by reference from the Charter Court 2018 Annual Report and Accounts***

The following pages are incorporated by reference from the Charter Court 2018 Annual Report and Accounts:

<b>Information</b>	<b>Pages</b>
Strategic report	2-57
Risk Committee report	79-80
Independent auditors' report	109-116
Consolidated financial statements	117-120
Notes to the Consolidated financial statements	121-156

***Information incorporated by reference from the Charter Court 2017 Annual Report and Accounts***

The following pages are incorporated by reference from the Charter Court 2017 Annual Report and Accounts:

<b>Information</b>	<b>Pages</b>
Strategic report	1-45
Independent auditors' report	92-98
Consolidated financial statements	99-102
Notes to the Consolidated financial statements	103-144

***Information incorporated by reference from the Charter Court 2016 Annual Report and Accounts***

The following pages are incorporated by reference from the Charter Court 2016 Annual Report and Accounts:

<b>Information</b>	<b>Pages</b>
Strategic report	1-9
Independent auditors' report	12-13
Consolidated statement of comprehensive income	15-16
Consolidated statement of financial position	16-17
Consolidated statement of changes in equity	17-18
Consolidated statement of cash flows	18-19
Notes to the consolidated financial statements	19-66

## PART XVIII

### DEFINITIONS

#### Interpretation

For the purposes of this Prospectus:

- the terms “**subsidiary**”, “**subsidiary undertaking**” and “**undertaking**” have the respective meanings given thereto by the Companies Act and “**associated undertaking**” has the meaning given by paragraph 19 of Schedule 6 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (other than paragraph 19(1)(b) of Schedule 6 to those Regulations, which shall be excluded for this purpose).
- all references to statutory provision or law or to any order or regulation shall be construed as a reference to that provision, law, order or regulation as extended, modified, replaced or re-enacted from time to time and all statutory instruments, regulations and orders from time to time made thereunder or deriving validity therefrom;
- all references to time in this Prospectus are to London time unless otherwise stated; and
- all references to “pounds”, “pounds Sterling”, “Sterling”, “GBP”, “£”, “pence”, “penny” or “p” are to the lawful currency of the United Kingdom.

#### Definitions

The following definitions apply in this Prospectus unless the context otherwise requires:

“ <b>Admission</b> ”	admission of the New OSB Shares to the Official List with a premium listing and to trading on the Main Market
“ <b>Announcement</b> ”	the announcement made on 14 March 2019 in relation to the Combination pursuant to Rule 2.7 of the City Code
“ <b>AT1 Securities</b> ”	CRD IV compliant additional tier 1 securities
“ <b>Awards</b> ”	options and awards granted under the Charter Court Share Plans
“ <b>Barclays</b> ”	Barclays Bank PLC, acting through its Investment Bank
“ <b>BCBS</b> ”	Basel Committee on Banking Supervision
“ <b>Board</b> ”	means the OSB Board or the Charter Court Board, as the context requires
“ <b>Brexit</b> ”	the withdrawal of the UK from the EU
“ <b>BRRD</b> ”	Bank Recovery and Resolution Directive (2014/59/EU)
“ <b>Business Day</b> ”	a day (other than a Saturday, Sunday or public holiday in England) on which banks are generally open for business in London other than solely for trading and settlement in Euro
“ <b>CCA</b> ”	Consumer Credit Act 1974
“ <b>CCFSL</b> ”	Charter Court Financial Services Limited
“ <b>CET1</b> ”	Common Equity Tier 1
“ <b>Change in Control Condition</b> ”	Condition 4(B), as set out in the Scheme Document

<b>“Charter Court”</b>	Charter Court Financial Services Group plc, a public limited company incorporated in England and Wales with registered number 06712054
<b>“Charter Court 2018 Annual Report and Accounts”</b>	Charter Court’s annual report and audited accounts for the year ended 31 December 2018 (which includes the Charter Court Group’s audited historical financial statements for the year ended 31 December 2018)
<b>“Charter Court 2017 Annual Report and Accounts”</b>	Charter Court’s annual report and audited accounts for the year ended 31 December 2017 (which includes the Charter Court Group’s audited historical financial statements for the year ended 31 December 2017)
<b>“Charter Court 2016 Annual Report and Accounts”</b>	Charter Court’s annual report and audited accounts for the year ended 31 December 2016 (which includes the Charter Court Group’s audited historical financial statements for the year ended 31 December 2016)
<b>“Charter Court Articles”</b>	the current articles of association of Charter Court or, where the context so requires, the articles of association of Charter Court from time to time
<b>“Charter Court Board”</b>	the Charter Court Directors collectively
<b>“Charter Court Directors”</b>	the directors of Charter Court at the time of this Prospectus or, where the context so requires, the directors of Charter Court from time to time
<b>“Charter Court General Meeting”</b>	the general meeting of Charter Court Shareholders (including any adjournment thereof) to be convened in connection with the Scheme for the purpose of considering and, if thought fit, approving the Charter Court Resolutions
<b>“Charter Court Group”</b>	Charter Court and its subsidiaries and subsidiary undertakings
<b>“Charter Court Meetings”</b>	the Court Meeting and the Charter Court General Meeting and, where the context permits, each of them
<b>“Charter Court Preliminary Results Announcement”</b>	Charter Court’s preliminary results announcement for the twelve-month period ended 31 December 2018 (which includes the Charter Court Group’s audited historical consolidated financial statements for the twelve-months ended 31 December 2018) dated 14 March 2019
<b>“Charter Court Resolutions”</b>	such shareholder resolutions of Charter Court as are necessary to enable Charter Court to approve, implement and effect the Scheme and the Combination, including (without limitation) a resolution to amend the Charter Court Articles by the adoption and inclusion of a new article under which any Charter Court Shares issued or transferred after the Charter Court General Meeting shall either be subject to the Scheme or (after the Effective Date) be immediately transferred to OSB (or as it may direct) in exchange for the same Consideration as is due under the Scheme
<b>“Charter Court Share Plans”</b>	the Charter Court Performance Share Plan 2017, the Charter Court Deferred Bonus Plan 2014 and the Charter Court Sharesave Scheme
<b>“Charter Court Shareholders”</b>	the holders of Charter Court Shares

<b>“Charter Court Shares”</b>	the existing unconditionally allotted or issued and fully paid ordinary shares of 1 pence each in the capital of Charter Court and any further such ordinary shares that are unconditionally allotted or issued before the Scheme becomes effective
<b>“Circular”</b>	the circular to be sent by OSB to OSB Shareholders summarising the background to and reasons for the Combination, which will include a notice convening the OSB General Meeting
<b>“City Code”</b>	the City Code on Takeovers and Mergers
<b>“Closing Price”</b>	the closing middle market quotations of a share derived from the Daily Official List of the London Stock Exchange
<b>“CMA”</b>	the UK Competition and Markets Authority, the competent UK authority, a department of the government of the United Kingdom, responsible for competition
<b>“Combination”</b>	the proposed acquisition by OSB of the entire issued and to be issued ordinary share capital of Charter Court, to be effected by means of the Scheme or, should OSB so elect and subject to the consent of the Panel and the terms of the Co-operation Agreement, by means of an Offer and, where the context permits, any subsequent revision, variation, extension or renewal thereof
<b>“Combined Group”</b>	the enlarged group comprising the OSB Group and the Charter Court Group if the Combination completes
<b>“Companies Act”</b>	the UK Companies Act 2006
<b>“Conditions”</b>	the conditions to the implementation of the Combination, as set out in the Scheme Document
<b>“Consideration”</b>	the consideration payable to Charter Court Shareholders pursuant to the Combination, comprising 0.8253 New OSB Shares per Charter Court Share
<b>“Consumer Credit Directive”</b>	Directive 2008/48/EC on consumer credit
<b>“Co-operation Agreement”</b>	the agreement dated 14 March 2019 between OSB and Charter Court and relating to, among other things, the implementation of the Combination (as amended from time to time)
<b>“Court”</b>	the High Court of Justice in England and Wales
<b>“Court Meeting”</b>	the meeting or meetings of the Charter Court Shareholders (or any class or classes thereof) to be convened by order of the Court pursuant to section 899 of the Companies Act (notice of which will be set out in the Scheme Document) for the purpose of considering and, if thought fit, approving the Scheme (with or without amendment) and any adjournment, postponement or reconvention thereof
<b>“Court Order”</b>	the order of the Court sanctioning the Scheme under section 899 of the Companies Act
<b>“Court Sanction Hearing”</b>	the hearing of the Court to sanction the Scheme pursuant to section 899 of the Companies Act and any adjournment, postponement or reconvening thereof
<b>“CRD IV”</b>	the Capital Requirements Directive (2013/36/EU) (as implemented in the UK through applicable regulatory rules set

	out in the PRA Rulebook and other PRA publications) and the EU Capital Requirements Regulation (575/2013/EU)
<b>“CREST”</b>	the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001/3755)) in respect of which Euroclear UK & Ireland Limited is the Operator (as defined in those Regulations) in accordance with which securities may be held and transferred in uncertificated form
<b>“CRR”</b>	Capital Requirements Regulation 2013
<b>“Current OSB Directors”</b>	the directors whose names appear in Part IV (Directors, Company Secretary, registered and head offices and advisers) as Current OSB Directors
<b>“Disclosure Guidance and Transparency Rules”</b>	the disclosure guidance and transparency rules made by the FCA and forming part of the FCA’s Handbook, as amended from time to time
<b>“DSBP”</b>	the OSB Deferred Share Bonus Plan 2014
<b>“EBT”</b>	the OSB employee benefit trust in Jersey
<b>“Effective Date”</b>	the date on which either: (i) the Scheme becomes effective in accordance with its terms; or (ii) if OSB elects to implement the Combination by means of an Offer, the date on which the Offer becomes or is declared unconditional in all respects
<b>“Elliott”</b>	Elliott International L.P. and The Liverpool Limited Partnership
<b>“Elliott Major Shareholders”</b>	Elliott International L.P. and Elliott Associates L.P.
<b>“EMIR”</b>	European Market Infrastructure Regulation
<b>“EU”</b>	the European Union
<b>“Excluded Shares”</b>	any Charter Court Shares: <ol style="list-style-type: none"> <li>1. registered in the name of, or beneficially owned by, OSB or any member of the OSB Group or their respective nominees; or</li> <li>2. held in treasury</li> </ol>
<b>“FCA” or “Financial Conduct Authority”</b>	the FCA (as defined in FSMA) (including the FCA acting in the capacity of performing its UK Listing Authority functions), or its successor from time to time
<b>“FCA Handbook”</b>	FCA’s handbook of rules and guidance
<b>“FLS”</b>	the Bank of England Funding for Lending Scheme
<b>“Forms of Proxy”</b>	the forms of proxy for use in connection with the Court Meeting and the Charter Court General Meeting (as applicable) that accompany the Scheme Document
<b>“FOS”</b>	the Financial Ombudsman Service
<b>“FPC”</b>	the Financial Policy Committee
<b>“FSCS”</b>	the Financial Services Compensation Scheme
<b>“FSMA”</b>	the Financial Services and Markets Act 2000
<b>“GDPR”</b>	the EU General Data Protection Regulation (2016/679/EU)

<b>“HMRC”</b>	Her Majesty’s Revenue and Customs
<b>“IAS Regulation”</b>	Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of International Accounting Standards
<b>“ICAAP”</b>	Internal Capital Adequacy Assessment Process
<b>“ICO”</b>	the UK Information Commissioner’s Office
<b>“IFRS”</b>	International Financial Reporting Standards
<b>“KPMG”</b>	KPMG LLP
<b>“KRPS”</b>	Kent Reliance Provident Society, a mutual industrial and provident society organisation formed as part of the transfer of Kent Reliance Building Society’s business to OSB
<b>“Latest Practicable Date”</b>	13 May 2019, being the latest practicable date prior to the publication of this Prospectus
<b>“LIBOR”</b>	the London Inter-bank Offered Rate
<b>“Listing Rules”</b>	the listing rules and regulations made by the FCA pursuant to Part 6 of FSMA, and contained in the FCA’s publication of the same name
<b>“London Stock Exchange”</b>	London Stock Exchange plc
<b>“Longstop Date”</b>	31 October 2019 or such later date as may be agreed in writing by OSB and Charter Court (with the Panel’s consent and as the Court may approve (if such approval(s) is or are required))
<b>“LTIP”</b>	the OSB India Private Limited Long Term Incentive Scheme
<b>“Main Market”</b>	the Main Market of the London Stock Exchange
<b>“Merian”</b>	Merian Global Investors (UK)
<b>“Mortgage Credit Directive”</b>	Mortgage Credit Directive (2014/17/EU)
<b>“MREL”</b>	Minimum requirements for own funds and eligible liabilities
<b>“New OSB Shares”</b>	the new OSB Shares proposed to be issued to Charter Court Shareholders in connection with the Scheme (or the Combination, as the context requires) or in Consideration for the transfer to OSB of Charter Court Shares pursuant to the Charter Court Articles as amended by the Charter Court Resolutions
<b>“Offer”</b>	if, subject to the consent of the Panel and the terms of the Co-operation Agreement, the Combination is implemented by way of a takeover offer as defined in Chapter 3 of Part 28 of the Companies Act, the offer to be made by or on behalf of OSB to acquire the entire issued and to be issued ordinary share capital of Charter Court and, where the context admits, any subsequent revision, variation, extension or renewal of such offer
<b>“Official List”</b>	the official list maintained by the FCA pursuant to FSMA
<b>“OFT”</b>	the Office of Fair Trading
<b>“OSB”</b>	OneSavings Bank plc, a public limited company incorporated in England with registered number 07312896



<b>“OSB 2018 Annual Report and Accounts”</b>	OSB’s annual report and audited accounts for the year ended 31 December 2018 (which includes the OSB Group’s audited historical financial statements for the year ended 31 December 2018)
<b>“OSB 2017 Annual Report and Accounts”</b>	OSB’s annual report and audited accounts for the year ended 31 December 2017 (which includes the OSB Group’s audited historical financial statements for the year ended 31 December 2017)
<b>“OSB 2016 Annual Report and Accounts”</b>	OSB’s annual report and audited accounts for the year ended 31 December 2016 (which includes the OSB Group’s audited historical financial statements for the year ended 31 December 2016)
<b>“OSB Audit Committee”</b>	the Audit Committee of OSB
<b>“OSB Board”</b>	the OSB Directors collectively
<b>“OSB Directors”</b>	the directors of OSB as at the date of this Prospectus or, where the context so requires, the directors of OSB from time to time
<b>“OSB Executive Directors”</b>	the executive directors of OSB, from time to time
<b>“OSB Form of Proxy”</b>	the personalised form of proxy accompanying the notice of the OSB General Meeting
<b>“OSB General Meeting”</b>	the general meeting of OSB Shareholders (including any adjournment thereof) to be convened to consider and, if thought fit, approve the OSB Resolution (as well as any other incidental or related matter that OSB may wish to place before such meeting), notice of which will be sent to OSB Shareholders
<b>“OSB Group”</b>	OSB and its subsidiaries and subsidiary undertakings from time to time and, where the context permits, each of them
<b>“OSB Nomination and Governance Committee”</b>	the Nomination and Governance Committee of OSB
<b>“OSB Preliminary Results Announcement”</b>	OSB’s preliminary results announcement for the twelve-month period ended 31 December 2018 (which includes the OSB Group’s audited historical consolidated financial statements for the twelve-months ended 31 December 2018) dated 14 March 2019
<b>“OSB Remuneration Committee”</b>	the Remuneration Committee of OSB
<b>“OSB Resolution”</b>	means the shareholder resolution of OSB necessary to approve, effect and implement the Combination, including, without limitation, to: (i) approve the Combination as a “Class 1 transaction” under the Listing Rules; and (ii) grant authority to the OSB Directors to allot the New OSB Shares (and any amendment(s) thereof)
<b>“OSB Risk Committee”</b>	the Risk Committee of OSB
<b>“OSB Senior Management”</b>	the executive leadership team of OSB
<b>“OSB Share Plans”</b>	has the meaning in paragraph 8 of Part XV (Directors, senior management and corporate governance)
<b>“OSB Shareholders”</b>	the holders of OSB Shares
<b>“OSB Share Plans”</b>	the PSP; the DSBP; the LTIP and the Sharesave

<b>“OSB Shares”</b>	the allotted and issued ordinary shares of 1 pence each in the capital of OSB
<b>“Panel”</b>	the UK Panel on Takeovers and Mergers
<b>“Payment Systems Regulator”</b>	the body corporate to regulate payment systems required to be set up by the FCA under the Banking Reform Act 2013
<b>“PD Regulation”</b>	the Prospectus Directive Regulation EU (809/2004/EC)
<b>“Phase 2 CMA Reference”</b>	a reference of the Combination (including as a result of the acceptance of undertakings in lieu of a reference), any part of it or any matter arising from it, to the chair of the CMA for the constitution of a group under Schedule 4 to the Enterprise and Regulatory Reform Act 2013
<b>“PPI”</b>	payment protection insurance
<b>“PRA” or “Prudential Regulation Authority”</b>	the Prudential Regulation Authority (as defined in FSMA) or its successor from time to time
<b>“PRA Rulebook”</b>	the PRA’s rules made under FSMA
<b>“Permitted Dividend”</b>	has the meaning in paragraph 13 of Part XVI (Directors, senior management and corporate governance)
<b>“Proposed OSB Directors”</b>	the directors whose names appear in Part IV (Directors, Company Secretary, registered and head offices and advisers) as Proposed OSB Directors
<b>“Prospectus”</b>	this prospectus in respect of the New OSB Shares to be issued to Charter Court Shareholders in connection with the Combination and for the purpose of Admission
<b>“Prospectus Rules”</b>	the prospectus rules made by the FCA pursuant to Part 6 of FSMA (as amended), referred to in section 73A(4) of FSMA and contained in the FCA’s publication of the same name
<b>“PSD2”</b>	Directive (EU) 2015/2366
<b>“PSP”</b>	the OSB Performance Share Plan 2014
<b>“Quantified Financial Benefits Statement”</b>	the statements of estimated cost savings and synergies arising out of the Combination set out paragraph 5 of Part VI (Information on the Combination)
<b>“Registrar of Companies”</b>	the Registrar of Companies in England and Wales
<b>“Regulatory Information Service”</b>	means a regulatory information service as defined in the Listing Rules
<b>“Restricted Jurisdiction”</b>	any jurisdiction where local laws or regulations may result in a significant risk of civil, regulatory or criminal exposure if information concerning the Combination is sent or made available to Charter Court Shareholders in that jurisdiction
<b>“Restricted Overseas Persons”</b>	any Charter Court Shareholder who (A) is resident or has a registered address in a jurisdiction outside the United Kingdom or United States, or (B) whom OSB reasonably believes to be a citizen, resident or national of a jurisdiction outside the United Kingdom or United States; and in each case, in respect of whom OSB is advised that the law of a country or territory outside the United Kingdom and the United States: (i) precludes the allotment, issue and/or delivery to that Charter Court

Shareholder of OSB Shares; or (ii) precludes the matters referred to in Clause 3.1.1, except after compliance by Charter Court or OSB (as the case may be) with any governmental or other consent or any registration, filing or other formality with which Charter Court and/or OSB is unable to comply or compliance with which Charter Court and/or OSB (as the case may be) regards as unduly onerous

<b>“Rothschild &amp; Co”</b>	N. M. Rothschild & Sons Limited
<b>“Scheme”</b>	the proposed scheme of arrangement under Part 26 of the Companies Act between Charter Court and Charter Court Shareholders to implement the Combination, with or subject to any modification, addition or condition approved or imposed by the Court and agreed to by Charter Court and OSB
<b>“Scheme Document”</b>	the document to be dispatched to Charter Court Shareholders and persons with information rights setting out, among other things, the details of the Combination, the full terms and conditions of the Scheme and containing the notices convening the Court Meeting and the Charter Court General Meeting
<b>“Scheme Record Time”</b>	the time and date specified as such in the Scheme Document, expected to be 6.00 p.m. on the Business Day immediately before the Effective Date, or such other time as OSB and Charter Court may agree
<b>“Scheme Shares”</b>	<ol style="list-style-type: none"><li>1. the Charter Court Shares in issue at the date of the Scheme Document;</li><li>2. any Charter Court Shares issued after the date of the Scheme Document and prior to the Voting Record Time; and</li><li>3. any Charter Court Shares issued at, or after, the Voting Record Time and prior to the Scheme Record Time in respect of which the original or any subsequent holder thereof is bound by the Scheme, or shall by such time have agreed in writing to be bound by the Scheme,</li></ol> <p>in each case excluding any Charter Court Shares held in treasury and any Charter Court Shares beneficially owned by OSB or any other member of the OSB Group</p>
<b>“SDRT”</b>	stamp duty reserve tax
<b>“SEC”</b>	US Securities and Exchange Commission
<b>“Sharesave”</b>	the OSB 2014 Sharesave Scheme
<b>“Shareholder Approval Longstop Date”</b>	30 June 2019 or such other date as may be agreed in writing by OSB and Charter Court
<b>“Significant Interest”</b>	in relation to an undertaking, a direct or indirect interest of 20 per cent. or more of the total voting rights conferred by the equity share capital of such undertaking
<b>“SME”</b>	small and medium-sized enterprise
<b>“SM&amp;CR”</b>	senior managers and certification regime
<b>“TFS”</b>	the Bank of England Term Funding Scheme

<b>“Third Party”</b>	each of a central bank, government or governmental, quasi-governmental, supranational, statutory, regulatory, environmental, administrative, fiscal or investigative body, court, trade agency, association, institution, employee representative body, any entity owned or controlled by any relevant government or state, or any other body or person whatsoever in any jurisdiction
<b>“UK” or “United Kingdom”</b>	the United Kingdom of Great Britain and Northern Ireland
<b>“UK Corporate Governance Code”</b>	means the 2016 and/or 2018 UK Corporate Governance Code, as the context requires
<b>“Unaudited Pro Forma Financial Information”</b>	the unaudited pro forma income statement of the Combined Group and the unaudited pro forma statement of net assets of the Combined Group
<b>“US” or “United States”</b>	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
<b>“US Exchange Act”</b>	US Securities Exchange Act of 1934, and the rules and regulations promulgated thereunder
<b>“US Securities Act”</b>	US Securities Act of 1933, and the rules and regulations promulgated thereunder
<b>“UTCCR”</b>	Unfair Terms in Consumer Contracts Regulations 1999
<b>“Voting Record Time”</b>	the time and date specified in the Scheme Document by reference to which entitlement to vote on the Scheme will be determined, which is expected to be 6.30 p.m. on the day two calendar days before the Court Meeting or any adjournment thereof (as the case may be)
<b>“Wider Charter Court Group”</b>	Charter Court and its subsidiaries, subsidiary undertakings, associated undertakings and any other body corporate, partnership, joint venture or person in which Charter Court and/or such subsidiaries or undertakings (aggregating their interests) have a Significant Interest
<b>“Wider OSB Group”</b>	OSB and its subsidiaries, subsidiary undertakings, associated undertakings and any other body corporate, partnership, joint venture or person in which OSB and/or such subsidiaries or undertakings (aggregating their interests) have a Significant Interest
<b>“4MLD”</b>	the Fourth Anti Money Laundering Directive 2015/849
<b>“5MLD”</b>	the Fifth Anti Money Laundering Directive 2018/843



