PILLAR 3 DISCLOSURES

For the year ended 31 December 2016

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krbs, krbs.com, Kent Reliance Banking Services and Kent Reliance are trading names of OneSavings Bank plc.
Registered in England and Wales (Company number 7312896). Registered office: Reliance House, Sun Pier, Chatham, Kent, ME4 4ET.
OneSavings Bank plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (registered number 530504).

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Overview

This document sets out the consolidated Pillar 3 disclosures of OneSavings Bank plc (OSB) and its subsidiaries (the Group) as at 31 December 2016. The disclosures have been prepared in accordance with the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR) together known as CRD IV, which came into force on 1 January 2014.

The Basel Committee on Banking Supervision introduced the Basel framework with the primary goal of promoting the safety and soundness of the financial system. The framework consists of the following three pillars of regulation:

- Pillar 1 defines minimum capital requirements for certain risks, including credit, market and operational risks;
- Pillar 2 sets out the supervisory review process; and
- Pillar 3 on market discipline specifies disclosure requirements, which allow market participants to assess key pieces of information on the firm's capital, risk exposures and risk assessment process.

The CRD was initially introduced on 1 January 2007, bringing in capital adequacy standards for banks and an associated EU-wide supervisory framework based on the Basel II Accord. The EU implemented the Basel III proposals published in December 2010 through CRD IV, which is enforced in the UK by the Prudential Regulation Authority (PRA). Disclosure requirements under CRD IV as detailed in Part 8 of the CRR are designed to promote market discipline through the publication by banks of key information. These comprise risk exposures, risk management frameworks and risk management processes. CRD IV also made changes to rules on corporate governance, including remuneration, and introduced standardised regulatory reporting within the EU.

This document makes references to the Group's Annual Report and Accounts, which can be found at www.osb.co.uk. All figures in these disclosures are consistent with the basis used for prudential regulatory reporting. The main differences from what is disclosed in the annual accounts to prudential regulatory reporting are:

- Lending commitments for which capital is held are included.
- Exposure amount is presented net of specific provisions.
- Amounts from non-solo consolidated subsidiaries.
- Differences in valuation methodology including derivatives and secured financing transactions.

Pillar 3 Disclosure Policy

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

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

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

Materiality

The Group regards information as material in disclosures if its omission or misstatement would change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Group deems a certain disclosure to be immaterial, it may be omitted from the Pillar 3 disclosure.

Confidentiality

Information is considered as proprietary if its public disclosure would undermine the Group's competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Group's investments therein less valuable. Further, the Group must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Group to confidentiality. In the event that any such information is omitted, the Group shall disclose such and explain the grounds of non-disclosure.

Verification

The information and figures contained in the Pillar 3 disclosure document have been subject to internal verification and are based on the financial statements and supporting schedules. For the 2016 Pillar 3 disclosures there is additional reporting over what is presented in the statutory financial accounts and Common Reporting ("COREP") which is submitted to the Prudential Regulation Authority (PRA). The additional disclosures over the statutory financial accounts are the table showing code staff aggregate remuneration for 2016 and other remuneration disclosures, the table for disclosing the impact of the transitional rules from the current own funds capital to the final own funds capital under CRD IV (Appendix II - Own Funds), the main characteristics of capital instruments (Appendix III - Subordinated Debt Instruments), Asset Encumbrance (Appendix I - Disclosure on Asset Encumbrance) and Leverage Ratio (Appendix IV). The additional disclosures over the COREP are contained in the table illustrating the main features of capital instruments (Appendix III - Subordinated Debt Instruments).

For Liquidity Coverage Ratio (LCR) for December 2016, the Group provides a qualitative discussion on how it meets the LCR. For Net Stable Funding Ratio ("NSFR") the first reporting in the Group's Pillar 3 disclosures is scheduled for December 2018.

Basis and frequency of disclosure

Pillar 3 disclosures will be made at least annually and more frequently if management determines that significant events justify such disclosures. The disclosures are made around the same time as publication of the Group's Annual Report and Accounts.

Media and location of publication

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

Management and Board sign-off

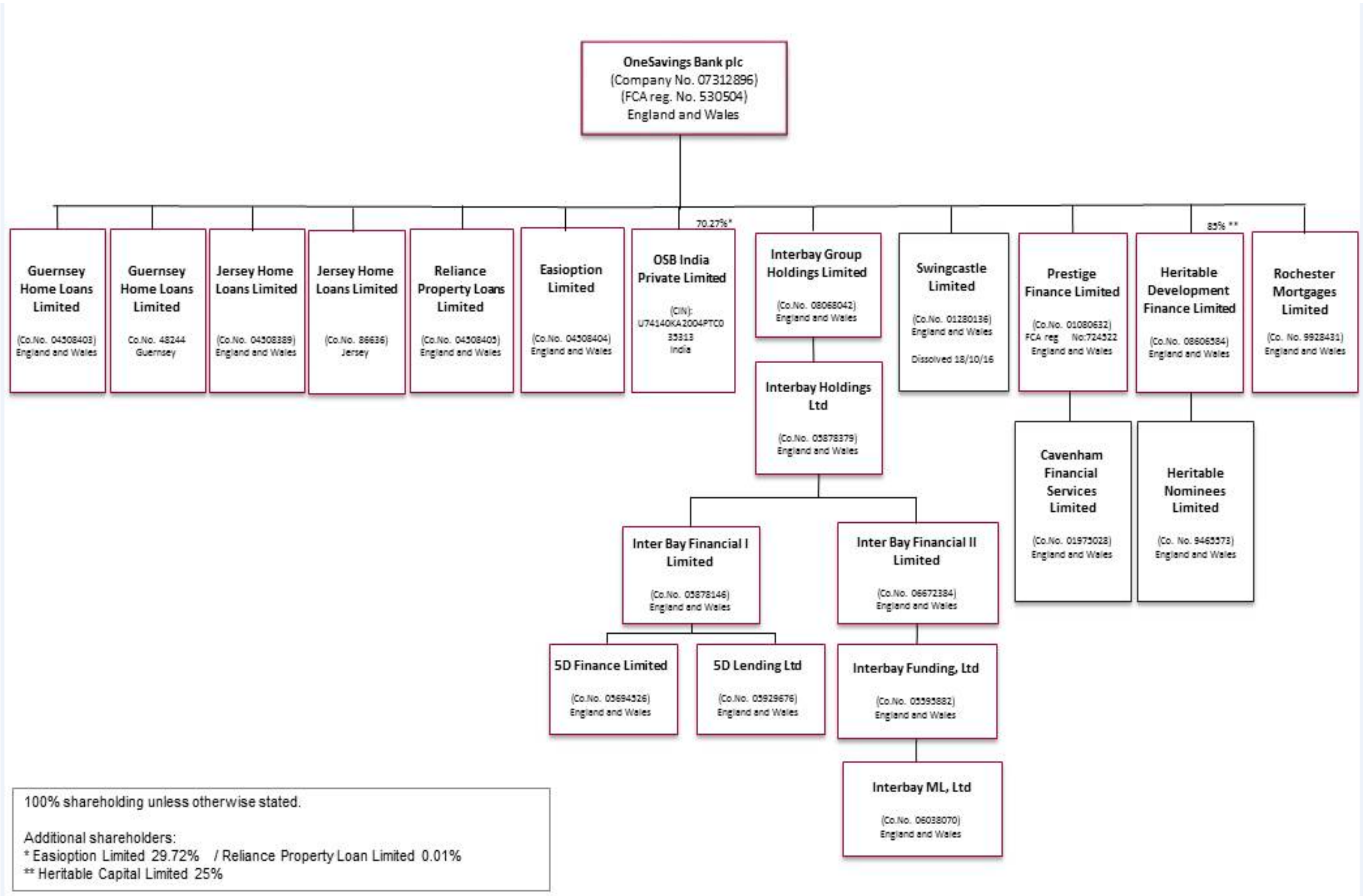
The Executive Committee and the Audit Committee are responsible for assessing and confirming the appropriateness of the Pillar 3 disclosures, including their verification and frequency. The disclosures must convey the Group's risk profile comprehensively to market participants as required under Part 8 of CRR.

The Pillar 3 disclosures are approved by the Audit Committee and the Board.

Scope

The Group operates a number of lending subsidiaries for functional or fiscal reasons rather than to effect risk transfer. Figure 1 illustrates the Group's structure.

Figure 1: Group Structure as at 31 December 2016



The Group accounts include the results of the Bank and its subsidiary undertakings. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. Upon consolidation, inter-company transactions, balances, and unrealised gains on transactions are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

All subsidiaries are 100 per cent funded by the Group and solo consolidated within the Group with the exception as at 31st December 2016 of OSB India Private Limited and Rochester Mortgages Limited. There are no material differences in the basis of consolidation for accounting and prudential purposes.

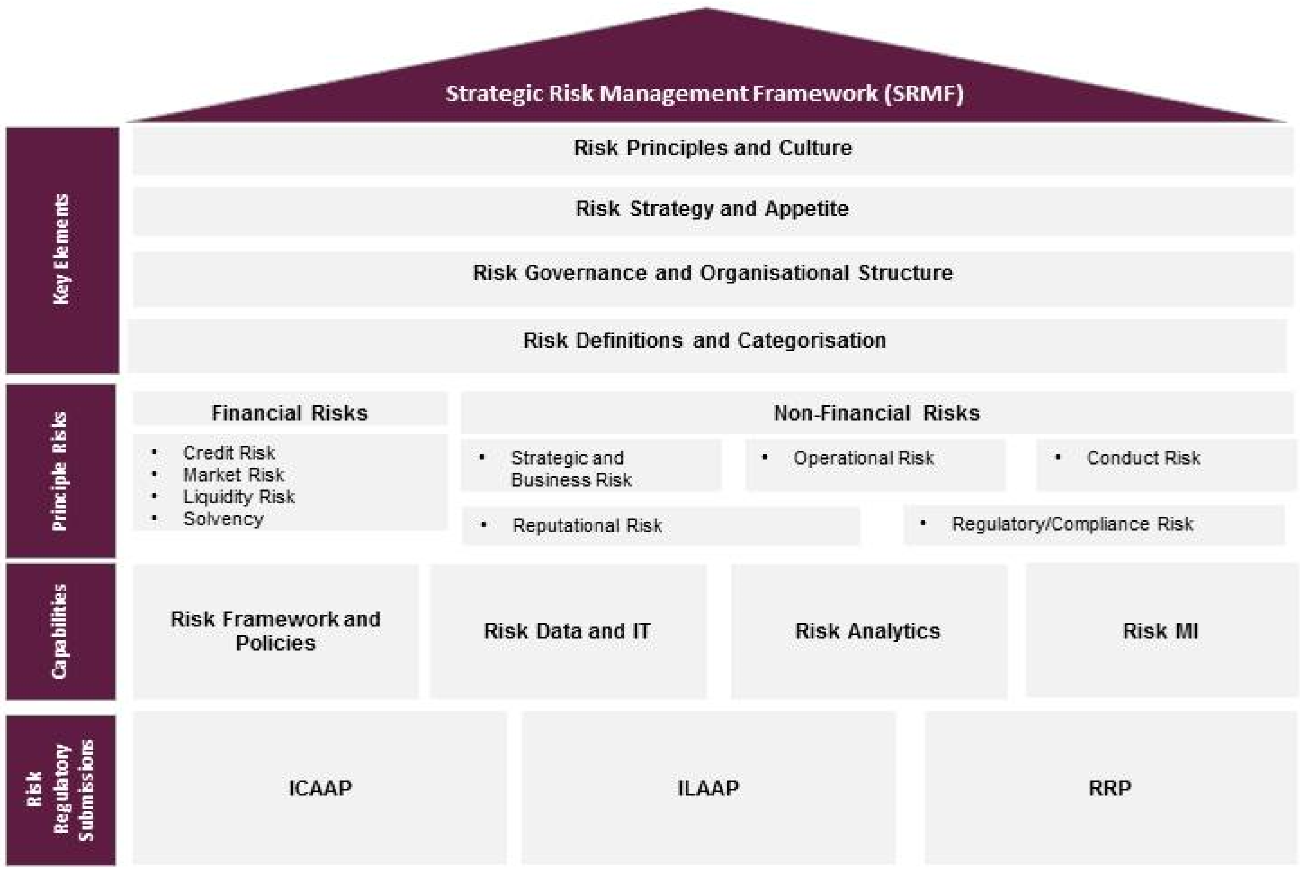
Chief Risk Officer's report

Strategic Risk Management Framework

OSB continues to enhance and leverage its Strategic Risk Management Framework (SRMF) in support of its strategic and business growth objectives. OSB's approach to risk management ensures effective identification, assessment and pricing of risk and therefore is a critical driver of the Bank's competitive advantage. Effective risk management has generated board approved shareholder value through the optimisation of the risk-reward profile which is framed within the risk appetite. Specifically, OSB's risk management capabilities have made it possible to operate in distinct specialist market segments.

The SRMF and its core modular components are subject to periodic review and approval by the Board and its oversight committees. The modular construct of the SRMF makes it dynamic and versatile, making it an enduring framework. The integrated nature of the SRMF provides for improved Board oversight, engagement, and monitoring of the Bank's risk profile. The following sections describe the key modules of the SRMF structure.

Figure 2: Strategic Risk Management Framework



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

Risk Principles and Culture

The Board has established overarching risk based principles. These risk principles provide for a clearly articulated risk vision and strategy, and ensure that Bank's risk capabilities and processes are aligned. The Risk Principles are:

- **Customer Interests:** Customer outcomes and conduct risk are central to all aspects of the Bank's business and control functions.
- **Proportionate and Commensurate:** The strategic risk management framework reflects the complexity of OSB's business model and is scalable to accommodate future growth.
- **Defined Risk Appetite:** Risks are assumed subject to defined qualitative statements and quantitative limits and thresholds.
- **Coverage:** All principal risks are identified, assessed and managed based on robust systems and controls.
- **Risk Governance:** Risk taking and oversight responsibility is appropriately segregated, in adherence to the 'three lines of defence' principle.
- **Integration and Usage:** Risk management disciplines are fully integrated into the Board and senior management decision making processes.
- **Versatile:** Risk framework and underlying capabilities are subject to ongoing review and are adaptive to the changing operating environment and the Bank's business model.

The Group's corporate vision of being a leading specialist lender within its chosen market helps to shape its risk culture. The Board and senior management have cultivated a risk culture which encourages a proactive, transparent and informed approach to risk management in a balanced and considered manner, taking into account stakeholder expectations and good customer outcomes.

Risk Strategy and Appetite

Risk Strategy

OSB's risk strategy is to create value through correct decisions being taken informed by accurate and timely risk assessments.

This risk strategy is based on three key components:

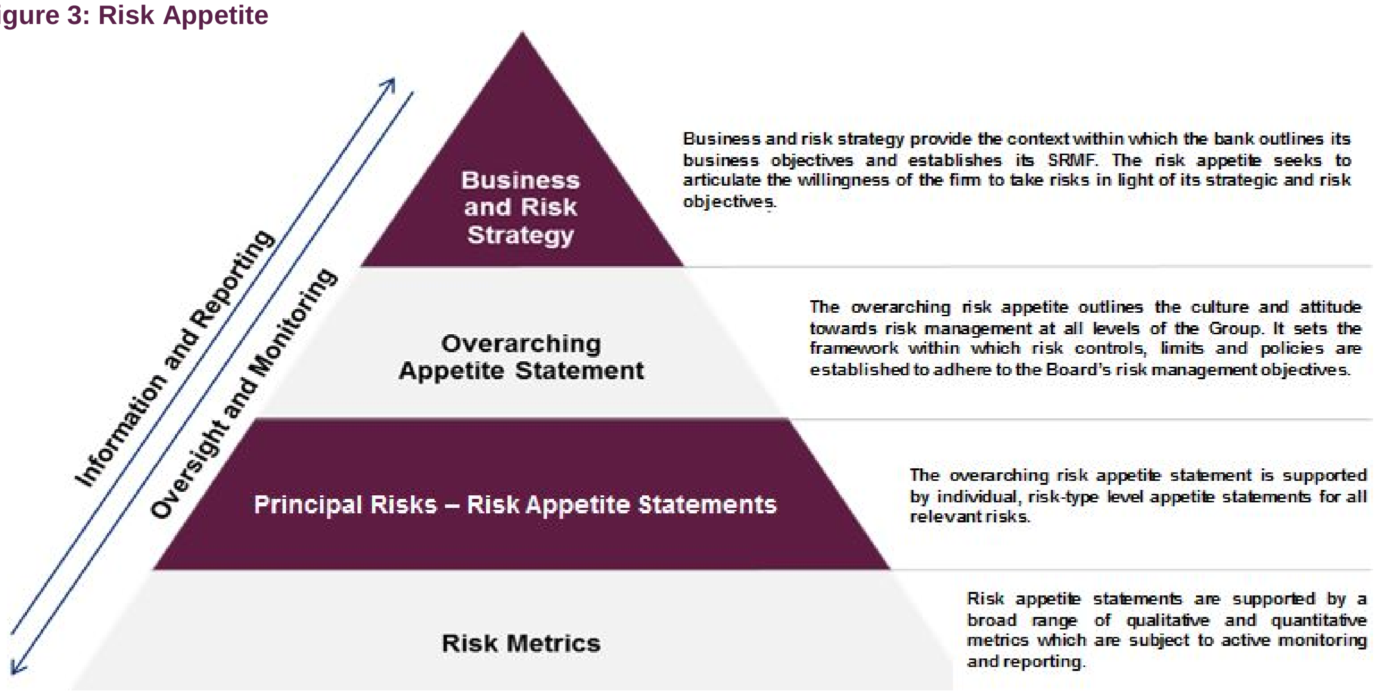
- Scalability of the Risk Function;
- Structure and discipline around how risks are identified, assessed and managed;
- Risk management capability leveraged to create true information value.

Risk Appetite

At OSB we have established a clear linkage between our strategy and risk appetite, ensuring that the setting and monitoring of risk appetite is embedded within the business (with respect to processes e.g. business planning processes, new product development / approval). Our risk appetite is informed by our strategic choices and our business strategy, which in turn is developed within the confines of our articulated risk appetite. Our risk appetite is calibrated to a plausible but extreme macro-economic scenario severity (1 in 20), which seeks to ensure that our strategy and business model remains resilient under a range of macro-economic environments.

The risk appetite process is informed by robust statistical analysis which supports the development of scenario analysis and stress testing. Our risk appetite framework ensures we understand how the Group performs under current market and economic conditions and under a range of stress scenarios.

Figure 3: Risk Appetite



Risk Appetite Statements

Overarching Risk Appetite Statement

The Group has a prudent and proportionate approach to risk taking and management, which is reflective of its straightforward business model. The business model is based on secured lending, robust underwriting standards, intermediary based distribution, stable funding, financial strength, and efficient and effective operational capabilities. A strong conduct and compliance culture is critical to the overall success of the Group.

Business and Strategic Risk Appetite Statement

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

Reputational Risk Appetite Statement

The Group does not knowingly conduct business or organise its operations to put its reputation and franchise value at risk.

Credit Risk Appetite Statement

The Group seeks to maintain a high quality lending portfolio that generates adequate returns, in benign and stressed periods. The portfolio is actively managed to operate within set criteria and limits based on profit volatility, focusing on key sectors, recoverable values, and affordability and exposure levels. The Group aims to continue to generate sufficient income and control credit losses to a level such that it remains profitable even when subjected to a credit portfolio stress of a 1 in 20 intensity stress scenario.

Market Risk Appetite Statement

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

Liquidity and Funding Risk Appetite Statement

The Group actively manages stable and efficient access to funding and liquidity to support its ongoing operations. It also maintains an appropriate level and quality of liquid asset buffer so as to withstand market and idiosyncratic liquidity-related stresses.

Solvency Risk Appetite Statement

The Group seeks to ensure that it is able to meet its Board level capital buffer requirements under a 1 in 20 stress severity scenario. The Group's solvency risk appetite is constrained within the leverage ratio related requirements. We manage our capital resources in a manner which avoids excessive leverage and allows us flexibility in raising capital.

Operational Risk Appetite Statement

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

Conduct Risk Appetite Statement

The Group considers its culture and behaviours in ensuring the fair treatment of customers and in maintaining the integrity of the markets in which it operates as a fundamental part of its strategy and a key driver to sustainable profitability and growth. OSB does not tolerate any systemic failure to deliver fair customer outcomes. On an isolated basis incidents can result in detriment owing to human and / or operational failures. Where such incidents occur they are thoroughly investigated, and the appropriate remedial actions are taken to address any customer detriment and to prevent recurrence.

Compliance and Regulatory Risk Appetite Statement

The Group will not tolerate systemic failures to comply with the relevant laws, regulations and codes of conduct applicable to its business activities. The Group’s compliance culture and supporting procedures ensure adherence to all relevant regulation and it actively monitors and assesses changing and emerging regulatory standards. The Group applies its own intellectual capital and seeks external advice where appropriate to ensure that it is compliant with the intent and spirit of regulation without causing unforeseen detriment to its customers.

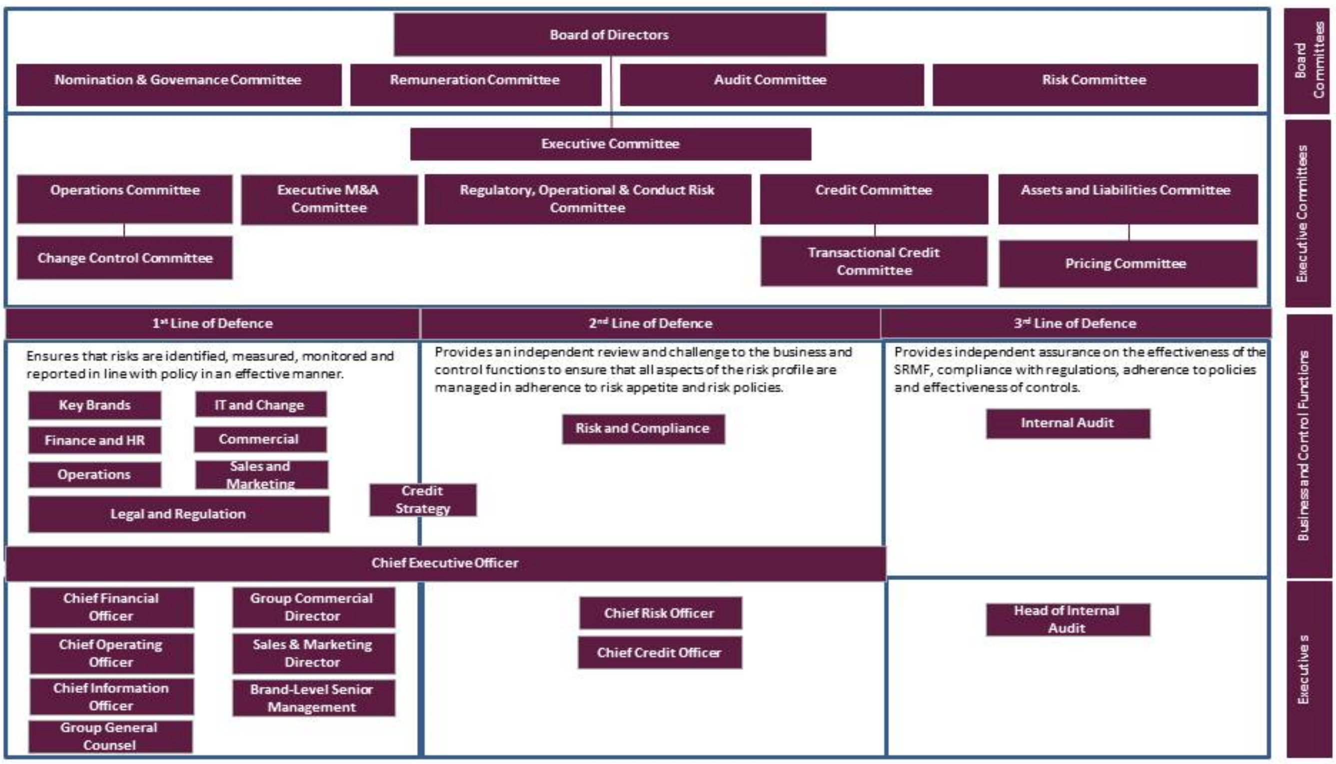
Risk Governance & Organisational Structure

Risk governance refers to the processes and structures established by the Board, to ensure that risks are taken within the approved appetite, with clear delineation between risk taking and oversight responsibilities.

The Group has established a structural approach to risk governance, ensuring an effective level of alignment between oversight and management responsibility for risk. The risk governance structure has clearly defined roles and responsibilities for Board and Management committees, control functions and the accountable executives. The risk based roles and responsibilities are organised in adherence to the 'three lines of defence' principle to ensure appropriate levels of segregation.

The OSB risk governance framework is summarised in the diagram below.

Figure 4: Risk Governance and Organisational Structure



The OSB risk governance structure, as summarised in the diagram below.

Figure 5: Risk Governance Structure

<table>
<tr><th>Risk</th><th>Credit</th><th>Market</th><th>Liquidity</th><th>Operational</th><th>Regulatory</th><th>Conduct</th></tr>
<tr><td rowspan="2">Board Governance</td><td colspan="6">Board</td></tr>
<tr><td colspan="4">Risk Committee</td><td colspan="2">Audit Committee</td></tr>
<tr><td rowspan="3">Management Governance</td><td colspan="6">Executive Committee</td></tr>
<tr><td>Credit Committee</td><td colspan="2">Assets and Liabilities Committee (ALCO)</td><td>Regulatory, Operational and Compliance Risk Committee (ROCC)</td><td colspan="2">Regulatory Governance Committee</td></tr>
<tr><td colspan="6">Chief Risk Officer</td></tr>
<tr><td>Frameworks</td><td colspan="6">Strategic Risk Management Framework</td></tr>
<tr><td rowspan="3">Key policies and documents</td><td>Lending Policy, Arrears, Repossession and Forbearance Policy</td><td>Interest Rate and Basis Risk Policy</td><td>Treasury, Funding Risk, and Liquidity Risk Policies</td><td colspan="2">Operational Risk Framework / Policy, Anti Money Laundering Policy, Anti Corruption and the Bribery Policy, Approved persons, Data retention, Fraud, Waiver and Modification policies</td><td>Conduct Risk Framework, Conduct Risk Policy</td></tr>
<tr><td colspan="6">ICAAP</td></tr>
<tr><td></td><td colspan="2">ILAAP</td><td colspan="3"></td></tr>
<tr><td>Management Information</td><td>Credit MI pack</td><td colspan="2">ALCO MI pack</td><td>Operational Risk MI pack</td><td>Compliance and Financial Crime MI pack</td><td>Conduct Risk MI pack</td></tr>
</table>

The Board acts directly or through its Committees to discharge its risk oversight and control responsibilities. The Board and its committees are provided with appropriate and timely information relating to the nature and level of risks to which the Group is exposed and the adequacy of risk controls and mitigants. Internal Audit provides independent assurance as to the effectiveness and compliance with the SRMF and the underlying risk management policies and procedures.

The executive function has day-to-day responsibility for managing the risk profile of the Group within the defined risk appetite, with oversight and guidance provided by the Board and its Risk Committee. The Chief Risk Officer (CRO) is the executive accountable for establishing an effective risk management and reporting framework. The CRO has dual reporting lines into the Chief Executive Officer (CEO) and the Chair of the Board Risk Committee.

The CRO has management responsibility for ensuring an independent risk oversight and reporting function is established and is able to undertake its second line responsibility. The risk function is organised to ensure an appropriate level of resources and capabilities are in place to identify, assess, manage and report all material risks.

Management level risk committees have been established to ensure a more focused approach to the review and challenge of individual principal risk profiles. Additional sub-committees are also in place that focus on specific and finer aspects of the risk profile and its ongoing management. For example, the Transactional Credit Committee, a sub-committee of the Credit Committee, meet twice a week to sanction individual lending cases that fall outside the mandates of the Underwriting team.

Risk Management Capabilities

Risk capabilities refer to the policies, procedures and infrastructure established to ensure that the risk function is able to discharge its responsibilities in an effective manner. On-going improvement to the Group's risk capabilities is vital to the successful achievement of the Group's risk strategy.

Risk Frameworks and Policies

The Group has adopted a hierarchical approach to organising its risk framework and policies. The SRMF represents the overarching framework within which risk management policies and procedures are organised.

Underpinning the SRMF are risk type specific policies and procedures. Risk policies have been established for the ongoing identification, assessment, monitoring and reporting of all principal risks.

All material frameworks and policies are subject to annual Board review and approval. Internal Audit review of the risk function provides independent assurance as to the effectiveness of and adherence to risk based frameworks and policies.

Risk Management Data

The Group continues to enhance its risk data management strategy and controls. Risk data quality and completeness are helping to facilitate improved risk analytics and Management Information (MI).

The Group has established processes for reconciling data across the risk, finance and regulatory platforms.

In the year, investment in data analytics, mining tools and reporting applications have improved data functionality (manipulation and integration of data). Additionally, the Group continues to invest in acquiring credit bureau data to support its risk analysis and collections activities.

Risk Management Information

Improvements in risk MI continue to improve the Board and senior management engagement through timely and insightful risk based information. Risk MI plays a vital role in the ongoing review and challenge of the Group's risk profile in the context of its risk appetite.

Risk MI is helping to assess risks in the wider context of the business and economic drivers and the early warning indicators established by the Group. This is enabling an increasingly forward looking approach to risk management.

Risk Management Analytics

Risk analytics is playing an increasingly important part in the generation of insightful and forward looking risk based information. In keeping with the risk principle of proportionality, the Group has developed a suite of risk models and methodologies to quantify the various risks to which it is exposed. These model and methodologies are fit-for-purpose given the scale and complexity of the Group's current business and risk profiles. The Group will continue to enhance these in line with industry best practice. Investment in enhanced risk analytics continues to be viewed as essential to delivering on the risk strategy and keeping pace with industry standards and regulatory expectations. Outlined below are the key areas of risk.

Stress Testing and Scenario Analysis

The Group has made extensive use of stress testing and scenario analysis to assess the impact of extreme but plausible scenarios on the level and nature of risks to which it is exposed, as well as the adequacy of controls and mitigants to manage these risks. Stress testing and scenario analysis have been used to inform management decisions as well as to support key regulatory submissions; including the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and Recovery and Resolution Process (RRP).

Stress testing also plays an integral role in how capital and liquidity risk appetite limits are calibrated and risk exposures are reported on an ongoing basis.

The Group also performs reverse stress tests to identify scenarios which would render its current business model unviable. Reverse stress tests are used to enable the Board and management to better appreciate the nature and characteristics of extreme risk events and the potential areas of business model vulnerability. Reverse stress test are also used to inform the Group's recovery triggers and options as part of the RRP process.

Credit Risk Modelling

The Group has established procedures to quantify probability of default rates on impaired loans based on actual portfolio performance. These credit risk parameters are used in collective provision models and internal capital assessment. Enhancements to credit risk modelling will be an important aspect to obtaining Internal Rating Based approach approval.

Mortgage Pricing Model

The mortgage pricing model is used to determine the expected profitability and the return on equity (ROE) for OSB's primary lending products. The pricing model plays an important role in product design and performance monitoring. The ROE metric also enables the Group to achieve its strategic objective of being a lender in underserved market segments that offer risk-adjusted high margin returns.

Liquidity Cash Flow Modelling

The liquidity cash flow model is a forecasting tool used to estimate future liquidity requirements. It is updated daily using the latest available data and compares the current and projected position against risk appetite limits and early warning indicators. It is reviewed daily by management and monthly by Assets and Liabilities Committee (ALCO) and the Risk committee. The liquidity cash flow model is continuously updated in light of evolving regulatory requirements. It is also used to assist with decision making on new savings product proposals to help the Group maintain liquidity within target levels.

Risk Profile Review

Coupled with the strong financial performance, the Group's risk profile has been managed in accordance with the Board approved risk appetite. The performance against key risk indicators has been strong throughout the year.

Credit Risk

The Group's credit portfolio has exhibited strong performance across all risk indicators and has operated within the Board approved risk appetite. Deep market knowledge, prudent lending policies and supportive market conditions have been the underlying explanatory factors.

OSB continues to identify low-risk opportunities in areas of the market poorly serviced by mainstream lenders, including the delivery of compelling products to professional Buy-to-Let Landlords, first charge bespoke residential, second-charge loans to prime borrowers at conservative loan to value levels, commercial loans against highly marketable properties, and niche residential development lending to borrowers with strong track record and credible projects. We offer secured funding lines to finance companies, managing credit risk through cross-collateralisation.

The Group carefully underwrites each lending case, maintains sensible LTVs, assesses affordability on each loan and avoids lending on property where we believe current valuations are unsustainable. A suite of portfolio limits have been established in adherence to the Board credit risk appetite. Stress and scenario analysis are used to assess the potential impact on credit impairments, losses and capital requirements when subjected to severe but plausible stress scenarios.

The Group ensures that security valuations are reviewed on an ongoing basis for appropriateness, with ongoing annual indexing of commercial properties, with residential properties indexed against monthly HPI data. Where the Group identifies that a published index is not representative, a formal review will be carried out by the Group Real Estate function to assess valuations appropriately. The Group Real Estate function ensures that newly underwritten lending cases are written to appropriate valuations, with assessment being carried out by appointed, qualified chartered surveyors, accredited by the Royal Institute of Chartered Surveyors (RICS). The Group has ensured that the Real Estate function is placed within the Bank's assurance team and are therefore independent from all credit making decisions.

Since its inception the Group has experienced material loan growth with Group loans and advances totalling £5.9bn as at December 2016. Importantly there has been a portfolio composition change over the period, with post 2011 lending (incorporating enhanced lending criteria) now making up a greater proportion of the total Group loan balances.

Since 2011 the Group has originated 29,000 loans with only 91 cases with aggregate balances totalling £8.6m greater than three months in arrears, with an average 60% LTV, reflecting the continued strength of the Group's underwriting and lending criteria. During 2016, the Group continued to prudently underwrite new loans, carefully assessing customer affordability as demonstrated by the number of newly originated residential mortgage loans with a loan to income of greater than 4.5 falling to 2.6% from 3.3% during 2015. Buy-to-Let interest coverage ratios (ICR) for new loans increased to 171% up from 159% during 2015, further demonstrating the prudent underwriting conducted during 2016. Buy-to-Let LTV's for new lending remained stable at 72%, whilst residential mortgage new lending LTV's increased marginally to 66% from 64% during 2016. The acquired portfolios, funding lines and development finance portfolios continued to perform in line with expectations, whilst the Group also sold £10.9m (gross value) of non-performing personal loan accounts during the year. Pre 2011 lending balances continued to run down during the year, and historic problem loans reduced from £17.8m to £13.8m as at December 2016.

The net impact of the above loan book composition changes and strong performance of new lending, in conjunction with the sale of non-performing loan balances resulted in the Group observing a historically low portfolio greater than three months in arrears rate of 1.4% versus 2.1% as at December 2016 (excluding legacy problem loan balances).

Occasionally, some borrowers experience financial difficulties which impact their ability to meet mortgage finance obligations. We may seek to identify borrowers who are experiencing financial difficulties as well as contacting borrowers whose loans have gone into arrears, consulting with them in order to ascertain the reasons for the difficulties and to establish the best course of action to be taken to bring the account up-to-date. In certain circumstances, where the borrower is experiencing significant financial distress, we may use forbearance measures to assist them.

Throughout the year the Group materially enhanced its identification and management of forborne accounts. With respect to proactive identification the Group now leverages external forward looking bureau information, analysing probability of default and customer indebtedness which in turn underpin pre arrears watchlist triggers. Watchlist cases are then in turn carefully monitored and managed as appropriate. During the year the Group also internally developed a collections dashboard tool, again leveraging external bureau information which provides the arrears management team with detailed information about the borrower's full financial position, facilitating enhanced conversations when establishing the best course of action to bring their accounts up to date or out of a forborne state.

The Group continues to observe low levels of accounts in forbearance with total forbearance balances reducing materially within the year.

Table 1: Forbearance measures undertaken during the financial year

Forbearance Type	Number of Accounts 2016	2016 Year End Balances £m	Number of Accounts 2015	2015 Year End Balances £m	2016 vs. '2015 variance number of accounts	2016 vs. 2015 variance of balances (£m)
Interest only switch	60	6.3	106	10.7	(46)	(4.4)
Interest rate reduction	3	2.2	0	0.0	3	2.2
Term extension	31	5.9	59	3.5	(28)	2.4
Payment holiday	37	3.6	21	6.5	16	(2.9)
Voluntary assisted sale	0	0.0	11	7.7	(11)	(7.7)
Payment concession (reduced monthly payments)	58	6.4	70	5.7	(12)	0.7
Capitalisation	3	0.1	4	0.2	(1)	(0.1)
Full or partial debt forgiveness	0	0.0	0	0.0	0	0.0
Total	**192**	**24.5**	**271**	**34.3**	**(79)**	**(9.8)**

Loan Type	Number of Accounts 2016	2016 Year End Balances £m	Number of Accounts 2015	2015 Year End Balances £m	2016 vs. 2015 variance number of accounts	2016 vs. 2015 variance of balances (£m)
First charge owner occupier	117	12.3	200	21.0	(83)	(8.7)
Second charge owner occupier	60	6.2	38	1.3	22	4.9
Buy to let	14	5.5	27	11.5	(13)	(6.0)
Commercial	1	0.5	6	0.5	(5)	(0.1)
Total	**192**	**24.5**	**271**	**34.3**	**(79)**	**(9.8)**

1. Forbearance data based on all Group mortgages and does not include personal loans
2. First charge owner occupier includes shared ownership mortgages

The Group will consider all relevant forbearance options when attempting to reach an affordable and sustainable plan with the borrower. Forbearance is the restructuring of loans to conditions and by means not stipulated under the original contract when the borrower in in financial difficulty. The specific tools available to assist customers vary by product and the customer's status. The various treatments considered for customers are as follows:

Temporary switch to interest-only: a temporary account change to assist customers through periods of financial difficulty where arrears do not accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained.

Interest rate reduction: the Group may in certain circumstances where the borrower meets the required eligibility criteria transfer the mortgages to a lower contractual rate. Where this is a formal contractual change the borrower will be requested to obtain independent financial advice as part of the process.

Loan term extension: a permanent account change for customers in financial distress where the overall term of the mortgage is extended, resulting in a lower contractual monthly payment.

Payment Holiday: a temporary account change to assist customers through periods of financial difficulty where arrears accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained.

Voluntary Assisted Sale: a period of time is given to allow borrowers to sell the property and arrears accrue based on the contractual payment.

Reduced monthly payments: a temporary arrangement for customers in financial distress. For example, a short-term arrangement to pay less than the contractual payment. Arrears continue to accrue based on the contractual payment

Capitalisation of interest: arrears are added to the loan balance and are repaid over the remaining term of the facility or at maturity for interest only products. A new payment is calculated which will be a higher than the previous payment.

Full or partial debt forgiveness: where considered appropriate the Group will consider writing off part of the debt. This may occur where a borrower has an agreed sale and there will be a shortfall in the amount required to redeem the Group's charge, in which case repayment of the shortfall may be agreed over a period of time subject to an affordability assessment or where possession has been taken by the Group, and on subsequent sale where there has been a shortfall loss.

Solvency Risk

The Group continues to maintain an appropriate level and quality of capital to support its growth objectives and to meet its prudential requirements. By subjecting its financial operating plan to extreme but plausible stresses, the Group is able to assess the effectiveness of its capital strategy and plan under expected and stressed market conditions.
The Group defines its solvency risk appetite by projecting forward its capital requirements (internal and prudential) and ensuring that it currently holds sufficient common equity tier 1 (CET1) and total capital to meet its target capital ratios.

Solvency risk is a function of balance sheet growth, profitability, access to capital markets and regulatory changes. The Group actively monitors all key drivers of solvency risk and takes prompt action to maintain its solvency ratios at acceptable levels. The Board and management also assess solvency when reviewing the Group's business plans and inorganic growth opportunities.

During the course of 2016, the Group strengthened its (CET1) capital ratio and total capital ratio despite organic and inorganic growth, demonstrating the strength of internal capital generation capabilities of its business through profitability.

Liquidity & Funding Risk

The Group has a prudent approach to liquidity management through maintaining sufficient liquidity resources to cover cash flow imbalances and fluctuations in funding under both normal and stressed conditions arising from market wide and Group specific events. The Group's liquidity risk appetite has been calibrated to ensure that the Group always operates above the minimum prudential requirements with sufficient contingency for unexpected stresses whilst actively minimising the risk of holding excessive liquidity which would adversely impact the financial efficiency of the business model.

The Group has successfully utilised the Bank of England Funding for Lending Scheme (FLS) and Term Funding Scheme (TFS) secured funding facilities to manage its liquidity in 2016, and continues to attract new retail savers and retain existing customers through transparent and loyalty-based product offerings.

During the course of 2016 the Group actively managed its liquidity and funding profile within the confines of its risk appetite as set out in the Liquidity Risk Policy and reviewed in the year-end Individual Liquidity Adequacy Assessment Process (ILAAP).

Market Risk

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

Interest Rate Risk in the Non-trading book

The Group does not actively assume interest arte risk and does not seek to take a significant directional interest rate position. Limits have been set to allow management to run some un-hedged positions in response to balance sheet dynamics and capital has been allocated for this. The Group does not take a directional view on future interest rates. The capital allocation has been set to be proportionate to the available CET1 capital to allow for balance sheet growth.

The Group sets limits on the mismatch between fixed-rate assets and liabilities, taking into account interest rate swaps that are in place. Exposure is mitigated on a continuous basis through the use of derivatives within limits set by ALCO, the Board and reserve allocations (currently 1.5% of common equity tier 1 capital). The limit is measured against the sensitivity of the fair value of the portfolio as a whole to defined yield curve scenarios. These moves are specified in the Board-approved interest rate and basis risk policy and capture parallel movement, twist and flex in the yield curve. The stress scenario interest rate movements are scaled to approximate the potential move over one year at 99.9% two-tailed confidence interval. After taking into account the derivatives entered into by the Group, the highest loss under these scenarios as at year end would have been £1.9m and the highest gain £2.1m. Against a parallel interest rate movement of 2%, the impact would have been £3.9m gain (2015: £0.2m gain) recognised in the statement of profit or loss.

Basis Risk

Basis risk arises from assets and liabilities re-pricing with reference to different interest rate indices, including positions which reference variable market, policy and managed rates. As with structural interest rate risk, the Group does not seek to take a significant basis risk position, but maintains defined limits to allow operational flexibility.

As with structural interest rate risk, capital allocation has been set in proportion to CET1 capital, with exposure assessed and monitored monthly across a range of 'business as usual' and stressed scenarios.

Operational Risk

OSB continues to assume a proactive approach to the management of operational risks. The Operational Risk Management Framework has been designed to ensure a robust approach to the identification, measurement and techniques mitigation of operational risks, utilising a combination of both qualitative and quantitative evaluations in order to promote an environment of progressive operational risk management. The Group's operational processes, systems and controls are designed to minimise disruption to customers, damage to the Bank's reputation and any detrimental impact on financial performance. The Group actively promotes the continual evolution of its operating environment through the identification, evaluation and mitigation of risks, whilst recognising that the complete elimination of operational risk is not possible.

A strong culture of transparency and escalation has been cultivated throughout the organisation, with the Operational Risk function having a Group wide remit, ensuring a risk management model that is well embedded and consistently applied. In addition, a community of Risk Champions representing each business line and functional area have been identified. Operational Risk Champions ensure that the operational risk identification and assessment processes are established across the Group in a consistent manner. Risk Champions are provided with appropriate support and training by the Group Operational Risk function.

Regulatory and Compliance Risk

The Group is committed to the highest standards of regulatory conduct and aims to minimise breaches, financial costs and reputational damage associated with non-compliance. However, given the growing scale and complexity of regulatory changes, it is acknowledged that there may be isolated instances whereby the Group's interpretation and response to new regulatory requirements may be subject to interpretation risk.

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

In order to minimise regulatory risk, OSB maintains a proactive relationship with key regulators, engages with industry bodies such as the Council for Mortgage Lenders (CML) and British Bankers' Association (BBA), and seeks external advice from our professional advisors. The Group also assesses the impact of upstream regulation on OSB and the wider markets in which we operate, and undertakes robust assurance assessments from within the Risk and Compliance functions.

During 2016, the Group has responded effectively to a broad range of regulatory changes impacting its primary products (Buy-to-Let and ISA's), Board and senior management governance and oversight (Senior Managers and Certification Regime) and financial crime (EU Fourth Money Laundering Directive).

Conduct Risk

The Group's culture and behaviours are central to ensuring a fair and considered approach in dealing with its customers. It operates in a manner that ensures the underlying integrity of markets in which it operates OSB will not tolerate any systemic failure to deliver fair customer outcomes or practices that distort markets.

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

OSB views effective conduct risk management as a core feature of its risk culture and values. A clear tone from the top with respect to conduct ensures awareness of behaviours which demonstrate commitment to good customer outcomes and market integrity.

Strategic & Business Risk

The Board has clearly articulated the Group's strategic vision and business objectives underpinned by performance targets. The Group does not intend to undertake any medium to long term strategic actions which would put at risk the Group's vision of being a leading specialist lender in its chosen markets and being backed by a strong and dependable saving franchise.

To deliver against its strategic objectives and business plan, the Group has adopted a resilient and efficient business operating model based on a focused approach to core niche markets where its experience and capabilities give it a clear competitive advantage.

The Group remains highly focused on delivering against its core strategic objectives and strengthening its market position further through strong and sustainable financial performance.

Risk Based Submissions

The Group undertakes a comprehensive review of its current and projected risk profiles based on expected and stressed market and economic conditions. The two primary risk-based annual planning exercises are the Internal Capital Adequacy Assessment Process (ICAAP) and the ILAAP. The ICAAP informs the Board's and management's view on the level and quality of capital needed to meet the prudential and risk based capital requirements over the planning horizon under base and stress scenarios. The ICAAP is an integral input into the PRA's supervisory review process (SREP) and forms the basis upon which the Group's capital guidance is set. The ILAAP informs the Board's view on the Group's level and quality of liquidity buffer and liquidity management framework. It is an input to the PRA's L-SREP process, which leads to regulatory liquidity buffer guidance (ILG).

The Group also reviews and updates its RRP on an annual basis. The recovery plan process is designed to ensure that the Group's recovery plan is credible and can be implemented in a time of stress. The Group's recovery options are assessed for feasibility and time to implementation under stressed conditions. The Group leverages its risk appetite and stress testing procedures to identify a suite of early warning indicators and triggers which inform the nature and type of recovery options which would be put in place. The resolution pack provides the regulatory authorities with information and analysis on the Group's businesses, organisation and structures to facilitate an orderly resolution should it become necessary.

The Group actively engages with its key regulators to ensure that the supervisory teams are kept abreast of the Group's strategic and business objectives, the risks to which it is exposed and the adequacy of risk controls and mitigants.

Table 2: Principal Risks and Uncertainties

The Board has carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that could threaten its business model, future performance, solvency or liquidity, as set out in the table below.

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

Risk Appetite Statement	Risk	Mitigation and controls	Direction
The Group's strategic and business risk appetite states that the Group does not intend to undertake any long to medium-term strategic actions that would put at risk its vision of being a leading specialist lender, backed by a strong and dependable saving franchise. The Group adopts a long-term sustainable business model which, while focused on niche sub-sectors, is capable of adapting to growth objectives and external developments.	Performance against strategic and business targets does not meet stakeholder expectations. This has the potential to damage the Group's franchise value and reputation.	Regular monitoring by the Board and the Executive Committee of monitoring of strategic and business performance against market commitments, the balanced business scorecard and risk appetite. Use of stress testing to flex core business planning assumptions to assess potential performance under stressed operating conditions.	**Unchanged** The Group's strategic and business operating environments are subject to on-going changes primarily driven by market competition, economic outlook and regulation. However, the business model has proven to be resilient and responsive to the dynamic environment in which it operates.

Reputational risk
Definition - The potential risk of adverse effects that can arise from the Group's reputation being sullied due to factors such as unethical practices, adverse regulatory actions, customer dissatisfaction and complaints or negative/adverse publicity. Reputational risk can arise from a variety of sources and is a second order risk - the crystallisation of a credit risk or operational risk can lead to a reputational risk impact.

Risk Appetite Statement	Risk	Mitigation and controls	Direction
The Group does not knowingly conduct business or organise its operations to put its reputation and franchise value at risk.	Potential loss of trust and confidence that our stakeholders and customers place in us as a responsible and fair provider of financial services.	Culture and commitment to treating customers fairly and being open and transparent in communication with key stakeholders. Established processes to proactively identify and manage potential sources of reputational risk.	**Unchanged** The Group has increased the size and capabilities of its Risk and Compliance function to ensure appropriate oversight of the growing balance sheet.

Credit risk

Definition - Potential for loss due to the failure of counterparty to meet its contractual obligation to repay a debt in accordance with the agreed terms.

Risk Appetite Statement	Risk	Mitigation and controls	Direction
The Group seeks to maintain a high quality lending portfolio that generates adequate returns, in benign and stressed periods. The portfolio is actively managed to operate within set criteria and limits based on profit volatility, focusing on key sectors, recoverable values, and affordability and exposure levels. The Group aims to continue to generate sufficient income and control credit losses to a level such that it remains profitable even when subjected to a credit portfolio stress of a 1 in 20 intensity stress scenario.	**Individual borrower defaults** Borrowers may encounter idiosyncratic problems in repaying their loans, for example loss of a job or execution problems with a development project. While most of the Bank's lending is secured, some borrowers fail to maintain the value of the security.	All loans are extended only after thorough bespoke and expert underwriting to ensure ability and propensity of borrowers to repay and sufficient security in case of default. Should there be problems with a loan, the collections and recoveries team works with customers unable to meet their loan service obligations to reach a satisfactory conclusion while adhering to the principle of treating customers fairly. A summary of forbearance measures undertaken is presented on p17. While information on arrangements to pay is not included in the forbearance data, the Bank typically finds that over 80% of arrangements made by the team meet the payment plan agreed. Our strategic focus on lending to professional landlords means that properties are likely to be well managed, with income from a diversified portfolio mitigating the impact of rental voids or maintenance costs. Lending to owner-occupiers is subject to a detailed affordability assessment, including the borrower's ability to continue payments if interest rates increase. Lending on commercial property is more based on security, and is scrutinised by the Group's independent Real Estate team as well as by external valuers. Development lending is extended only after a deep investigation of the borrower's track record and	**Decreased** Greater than three months in arrears balances fell to a historically low rate of 1.4% from 2.3% (not including legacy problem loans) during 2016, driven by the strong credit performance of post 2011 lending (underwritten using enhanced lending policy). Pre 2011 lending including legacy problem loans continues to run down. During December 2016 the group sold £10.9m of non performing personal loans which contributed to the marked reduction in arrears balances. Group weighted average loan to value ratios of the mortgage book remained low at 63% at the end of 2016, with an average LTV of 69% for new originations within the year.

		the specific project and requires approval by a dedicated Development Finance Transactional Credit Committee.	
	Macroeconomic downturn A broad deterioration in the economy would adversely impact both the ability of borrowers to repay loans and the value of the Group's security. Credit losses would impact across the lending portfolio, so even if individual impacts were to be small, the aggregate impact on the Group could be significant.	The Group works within portfolio limits on LTV, affordability, name, sector and geographic concentration that are approved by Risk Committee and the Board. These are reviewed at least annually. In addition, stress testing is performed as part of the ICAAP to ensure the Group maintains sufficient capital to absorb losses in an economic downturn and still meet its regulatory requirements.	**Increased** Although the UK economy has remained stable during 2016, the economic outlook is uncertain following the EU referendum and the US presidential election.
	Wholesale credit risk The Group has wholesale exposures both through call accounts used for transactional and liquidity purposes and through derivative exposures used for hedging.	The Group transacts only with high-quality wholesale counterparties. Derivative exposures include collateral agreements to mitigate credit exposures.	**Unchanged** The Group continues to utilise a reserve account with the Bank of England, enabling it to eliminate credit risk on most of its liquidity portfolio.

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

Risk Appetite Statement	Risk	Mitigation and controls	Direction
The Group actively manages market risk arising from structural interest rate positions. The Group does not seek to take a significant interest rate position or a directional view on rates and it limits its mismatched and basis risk exposures.	**Interest rate risk** An adverse movement in the overall level of interest rates could lead to a loss in value due to mismatches in the duration of assets and liabilities.	The Group's Treasury department actively hedges to match the timing of cash flows from assets and liabilities.	**Unchanged** The Group has developed a better of the potential impact of more complex movements in rates and enabling better hedging.
	Basis risk A divergence in market rates could lead to a loss in value, as assets and liabilities are linked to different rates.	The Group strategically focuses on products linked to administered rates to keep control of yield. Where there is a mismatch of market rates in the portfolio (e.g. Base Rate vs. LIBOR), the Treasury department hedges the exposure.	**Unchanged** Product design and hedging has enabled the Group to maintain the overall level of basis risk through the year.

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

Risk Appetite Statement	Risk	Mitigation and controls	Direction
The Group actively manages stable and efficient access to funding and liquidity to support its ongoing operations. It also maintains an appropriate level and quality of liquid asset buffer so as to withstand market and idiosyncratic liquidity-related stresses.	**Retail funding stress** As the Group is primarily funded by retail deposits, a retail run could put it in a position where it could not meet its financial obligations.	The Group's funding strategy is focused on a highly stable retail deposit franchise. The large number of depositors provides diversification, with a high proportion of balances covered by the FSCS and so at no material risk of a retail run. In addition, the Group performs in-depth liquidity stress testing and maintains a liquid asset portfolio sufficient to meet obligations under stress. Finally, the Group has prepositioned mortgage collateral with the Bank of England, so that its liquidity insurance facilities can be accessed in the unlikely event that should become necessary.	**Decreased** The Group has made continual improvements in both its regular liquidity forecasting and stress testing framework. In addition, it has gained access to the Bank of England liquidity insurance facilities.

Solvency risk
Definition - The potential inability of the Group to ensure that it maintains sufficient capital levels for its business strategy and risk profile under both the base and stress case financial forecasts.

Risk Appetite Statement	Risk	Mitigation and controls	Direction
The Group seeks to ensure that is able to meets its Board level capital buffer requirements under a 1 in 20 stress severity scenario. The Group's solvency risk appetite is constrained within the leverage ratio related requirements. We manage our capital resources in a manner which avoids excessive leverage and allows us flexibility in raising capital.	Key risks to solvency arise from balance sheet growth and unexpected losses which can result in the Bank's capital requirements increasing or capital resources being depleted such that it no longer meets the solvency ratios as mandated by the PRA and Board risk appetite. The regulatory capital regime is subject to change and could lead to increases in the level and quality of capital that the Group needs to hold to meet regulatory requirements.	Currently the Group operates from a strong capital position and a consistent record of strong profitability. The Group actively monitors its capital requirements and resources against financial forecasts and plans and undertakes stress testing analysis to subject its solvency ratios to extreme but plausible scenarios. The Group also holds prudent levels of capital buffers based on CRD IV requirements and expected balance sheet growth.	**Decreased** The Group has improved both its CET1 capital and total capital position increasing its resilience against unexpected losses.

		The Group engages actively with regulators, industry bodies, and advisers to keep abreast of potential changes and provide feedback through the consultation process, and actively manages its capital strategy and plan.	

Operational risk

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

Risk Appetite Statement	Risk	Mitigation and controls	Direction
The Group's operational processes, systems and controls are designed to minimise disruption to customers, damage to the Bank's reputation and any detrimental impact on financial performance. The Bank actively promotes the continual evolution of its operating environment through the identification, evaluation and mitigation of risks, whilst recognising that the complete elimination of operational risk is not possible.	**Network/system intrusion** If hackers were to penetrate the Group's IT system, consequences could range from the diversion of funds to the theft of customer data.	A series of tools designed to identify and prevent network / system intrusions are deployed across the Group. The effectiveness of the controls is overseen by a dedicated IT Security Governance Committee, with specialist IT Security staff employed by the Bank.	**Unchanged** Whilst the Group has made a series of enhancements to its defences in respect to IT security threats during 2016 it recognises that the threats to the industry continue to grow both in respect to the volume and the level of sophistication.
	Data risk The use of inaccurate, incomplete or outdated data may result in a range of risks impacting risk management and reporting services.	The Group continues to invest in and enhance its data management architecture, systems, governance and controls.	**Increased** The increase in data risk has been primarily driven by the increased scale of operations and the multiple sources from which data is derived.
	People risk The risk that the Group will be unable to meet its future resource requirements through a combination of higher-than-expected staff attrition and/or the inability to identify and hire candidates with the necessary skills.	The Group has a series of initiatives that are intended to respond to this risk. This includes the introduction of a range of development programmes intended to improve retention and increase the population of in-house developed talent.	**Unchanged** As the business continues to grow the need for additional resources increases the pressure on hiring. In a number of specialist areas the issue is exacerbated by the wider industry demands for individuals with the relevant skills. However the Group is adopting a proactive approach to ensure future resource requirements can be met.
	Operational resilience Banks should have	The Group carries out scenario based Business	**Increased** The increasing scale and

	business resiliency, continuity monitoring and plans in place to ensure an ability to operate on an ongoing basis and limit losses in the event of severe business disruption.	Continuity Planning (BCP), has crisis management procedures and recovery and contingency plans. The BCP is periodically tested to ensure operability.	globalisation of operations together with dependencies on a number of third party service and network providers. The sophistication of cyber-crime continues to evolve.

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

Risk Appetite Statement	Risk	Mitigation and controls	Direction
The Group considers its culture and behaviours in ensuring the fair treatment of customers and in maintaining the integrity of the markets in which it operates a fundamental part of its strategy and a key driver to sustainable profitability and growth. OSB does not tolerate any systemic failure to deliver fair customer outcomes. On an isolated basis incidents can result in detriment owing to human and / or operational failures. Where such incidents occur they are thoroughly investigated, and the appropriate remedial actions are taken to address any customer detriment and to prevent recurrence.	**Product suitability** Whilst the Group's originates relatively simple products, there remains a risk that (primarily legacy) products may be deemed to be unfit for their original purpose in line with the current regulatory definitions.	The Group has a strategic commitment to provide simple, customer-focused products. In addition a Product Governance framework is established to oversee both the origination of new products and to revisit the ongoing suitability of the existing product suite. The combination of a dedicated Product Governance team and an independent Conduct Risk team serves to effectively manage this risk.	**Decreased** Whilst this risk has reduced in 2016 as a result of increased awareness and dedicated oversight, the Group remains aware of the changes to the regulatory environment and their possible impact on product suitability.
	Data protection The risk that customer data is accessed inappropriately either as a consequence of network / system intrusion or through operational errors in the management of the data.	In addition to a series of network / system controls (documented within as part of the operational risks) the Group performs extensive root cause analysis of any data leaks in order to ensure that the appropriate mitigating actions are taken.	**Unchanged** Despite a number of additional controls being introduced in 2016 the network / system threats continue to evolve in both volume and sophistication.

Compliance and regulatory risk

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

Risk Appetite Statement	Risk	Mitigation and controls	Direction
The Group will not tolerate systemic failures to comply with the relevant laws, regulations and codes of conduct applicable to its business activities. The Group's compliance culture and supporting procedures ensure adherence to all relevant regulation and it actively monitors and assesses changing and emerging regulatory standards. The Group applies its own intellectual capital and seeks external advice where appropriate to ensure that it is compliant with the intent and spirit of regulation without causing unforeseen detriment to its customers.	Key compliance based regulatory changes that the Group is subject to include European Mortgage Credit Directive (EMCD), Senior Managers Regime (SMR) and potential macro prudential controls of the But-to-Let sector. Further proposals currently under discussion, including the Basel Committee consultation on standardised risk weights, could lead to significant increases in the Group's capital requirements.	The Group has adopted the EMCD and SMR in an effective and timely manner. The adoption of SS13/16 and the lending policy requirements around affordability mean that the Group should be well placed to respond to any macro prudential regulation of the Buy-to-Let sector. The Basel proposals will be subject to extensive consultation and the eventual outcome could be materially different to those initially proposed. The adoption of the eventual changes may take a number of years to implement. The Group intends to migrate to IRB. Another consultation of note relates to the recently published CP/13 issued by the PRA, which details proposed refinements to the PRA's Pillar 2A capital framework. The Group is currently assessing the potential impact this consultation may have on the Group's capital strategy and plan going forward.	**Increased** The Group has historically responded effectively to regulatory changes and does not believe that future changes represent a heightened level of compliance risk. Recent changes implemented as part of CRD IV have resulted in requirements for more and higher quality capital, though elements of these requirements are being phased in. Further proposals currently under discussion, including the Basel Committee standardised risk weight consultation, could lead to significant increases in the Group's capital requirements.
	Conduct regulation Regulatory changes focused on the conduct of business could force changes in the way the Group carries out business and impose substantial compliance costs. For example, the Financial Policy Committee's increased focus on Buy-to-Let lending or tax changes such as the Bank corporation tax surcharge must be considered.	The Group has a programme of regulatory horizon scanning linking into a formal regulatory change management programme. In addition, the focus on simple products and customer oriented culture means that current practice may not have to change significantly to meet new conduct regulations.	**Increased** The regulatory environment has tightened and this is likely to continue, exposing the Group to increased risk.

Key events and achievements during 2016

The Group has further improved its approach to assessing and calibrating its risk appetite through closer alignment with the Group's strategic objectives and business operating plan. Through the use of stress testing analysis the risk appetite has been calibrated to ensure that the level of risk being assumed is commensurate with the risk management and absorption capabilities of the Group.

The Group's IFRS 9 programme progressed to plan, moving into the parallel run phase for 2017. Embedding the IFRS 9 framework into the standard monthly reporting processes is ongoing.

Improvements made to the collective provision methodology have enabled the Group to better align its approach to industry good practice basing its provisioning decisions on a more robust and prudent approach. A comprehensive review of the methodologies, judgements and estimates which underpin IAS 39 collective provisioning calculations took place during 2016.

Risk based management information has been identified as a critical area of enhancement and investment. During 2016, the Group has leveraged the improved analytics and has aligned internal risk data with external credit bureau customer profiles to provide a more insightful and forward looking assessment of its risk profile.

The Group has identified stress testing capabilities as a critical tool to assess and quantify the potential areas of vulnerability in its risk profile. Stress testing as a discipline has been applied across all principal risks, based on industry best practice and regulatory guidelines. Stress testing has also been used to support the Group's development of both the ICAAP and ILAAP.

To ensure that the Group's growth objectives are achieved in a stable and controlled operating environment, a significant level of management focus has been placed on further enhancements to the Operational Risk Management Framework. A fully integrated purpose built risk management system ('OSIRIS') has been put in place, supporting both operational and conduct risk management.

A comprehensive Group-wide Risk and Control Self-Assessment ('RCSA') has been performed to identify material risks and assess controls effectiveness. Identified risks have also informed the Group's operational risk scenario exercises which in turn informed the internal assessment of capital requirements.

Priorities for 2017

On a forward looking basis, the Risk function has identified the following area of priority:

- Integration of the IFRS 9 capability into other core risk processes such as risk appetite, ICAAP, stress testing and risk based pricing, is a priority for 2017.
- Integration of the IRB capability into the Group's capital monitoring and planning framework and independent review and validation of the first generation models are key objectives for 2017. In parallel, a comprehensive self-assessment against the regulatory requirements will take place within the year allowing further development of the implementation route to gaining the necessary regulatory approvals.
- The Risk function will be an important contributor to the Strategic Data Management Project, in light of the requirements arising from IRB, but also the wider risk data management discipline's outlined in the Strategic Risk Management Framework.
- Further build out of the Group's risk management information capability is a continuing priority for 2017. This is a key area where further enhancements will result in even more informed risk and reward decisions being made across the Group.
- In line with the Group's business model the Risk function plans to build out a risk analytics support function at our OSBIndia subsidiary to support our UK based risk teams. Investment in enhanced risk analytics continues to be viewed as essential in delivering the risk strategy and keeping pace with industry standards and regulatory expectations.

The Board of Directors

The role and structure of the Board

Board of Directors (the Board) is responsible for the long term success of OneSavings Bank plc (the Company) and provides entrepreneurial leadership to the Group. The Board focuses on setting strategy and monitoring performance, and ensures that the necessary financial and human resources are in place to enable the Company to meet its objectives. In addition, it ensures the appropriate financial and business systems and controls are in place to safeguard shareholders' interests and to maintain effective corporate governance.

The Board is also responsible for ensuring the Company's continuing commitment to carrying on its business fairly, honestly and openly, with a commitment to zero tolerance towards bribery.

The Board operates in accordance with the Company's Articles of Association (the Articles) and its own written terms of reference. The Board has established a number of Committees as indicated in the table on page 30. Each Committee has its own terms of reference which are reviewed at least annually.

The Board retains specific powers in relation to the approval of the Group's strategic aims and policies and other matters, which must be approved by it under legislation or the Articles. These powers are set out in the Board's written 'Terms of Reference' and 'Matters Reserved for the Board' which are approved annually. A summary of the matters reserved for decision by the Board is set out below:

Strategy and management

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

Structure and capital

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

Risk management

- Overall risk appetite of the Group
- Approval of strategic risk management framework

Financial reporting and controls

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

Remuneration

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

Corporate governance

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

Other

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

Board members

- Changes to the structure, size and composition of the Board
- Appointment or removal of the Chairman, CEO, Senior Independent Director (SID) and Company Secretary

Board Committees

The Board has delegated specific areas of oversight and control to the Committees set out below. Each committee has Board-approved terms of reference, which are reviewed at least annually. The Board Committees and a summary of their terms of reference are listed in Table 3.

Table 3: Board Committees

Subcommittee	Objectives
Audit Committee	• Assist the Board in overseeing the system of internal control and external financial reporting across the Group • Ensure the external and internal audit arrangements are appropriate and effective • Ensure that fraud prevention and whistleblowing arrangements are established • Ensure that the annual report and accounts, related internal control disclosures, and any other publicly available financial information are reviewed and scrutinised
Nomination and Governance Committee	• Lead the process for Board appointments • Ensure the Board and its Committees, and the boards of subsidiaries, have an appropriate balance of skills, experience, availability, independence, and knowledge of the Group to enable them to discharge their respective responsibilities effectively • Oversight of corporate governance arrangements and sustainability
Remuneration Committee	• Advise the Board on developing policy on executive remuneration • Fix the remuneration packages of individual directors and members of the Executive Team
Risk Committee	• Oversight of the Group's risk appetite, risk monitoring, and capital and liquidity management • Ensure the compliance arrangements are appropriate and effective • Provide oversight and advice to the Board on current risk exposures and future risk strategy • Assist the Board to foster a culture within the Group that emphasises and demonstrates the benefits of a risk-based approach to internal control and management of the Group • Approve lending up to 20% of CET1 capital at the connection level • Approve asset purchases and secured funding lines up to £100m investment with RWA not exceeding £50m at any point under a base case scenario

The Business

Executive Committees

The CEO chairs the Bank's Executive Committee (ExCo), whose members are the Chief Financial Officer, the Chief Operating Officer, Chief Risk Officer, Group General Counsel and Company Secretary (advisory), Commercial Director, Chief Information Officer, Chief Credit Officer, Sales and Marketing Director and Head of Internal Audit (advisory). There are seven other Committees reporting to the Executive Committee as listed in Table 4.

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

- the development and implementation of the strategic plan including a strong operating model and systems and controls to support the strategic plan;
- the monitoring of operating and financial performance;
- the assessment and control of risk;
- the prioritisation and allocation of resources;
- the development of a high performing senior management team; and
- monitoring customer proposition and experience.

The ExCo's activities during the year included:

- Business review;
- Capital and funding;
- Human Resources and succession planning;
- Governance, control and risk environment – current and forward looking;
- System transformation; and
- Monitoring target operating model progress.

Executive subcommittees

Table 4: Executive subcommittees

Committee	Main objectives and responsibilities
Assets and Liabilities Committee (ALCO)	• Reports to Executive Committee and monitored by Risk Committee • Ensure the Treasury Function is operating effectively and in accordance with the Board's Interest Rate and Basis Risk Policy • Assess the exposure of the Group to movements in interest rates and establish a strategy for managing and containing such risks • Review the limit report and highlight any departure or threat of departure from agreed limits • Monitor the net interest margin
Pricing and Criteria Committee	• Subcommittee of ALCO • Consider and approve pricing and criteria of savings and lending products within terms set by ALCO • Make recommendations to ALCO on pricing and criteria changes that fall outside terms set by ALCO • Ensure consideration of economic, competitive, operational, and regulatory factors in pricing and criteria decisions
Credit Committee	• Reports to Executive Committee and monitored by Risk Committee • Review, assess, and recommend to Risk Committee proposed changes to Lending Policy, Arrears and Possession Policy, and Forbearance Policy • Approval of certain lending decisions as required by Lending Policy • Monitoring adherence to Lending Policy • Review of credit risk exposure in lending portfolio, including arrears • Review, assess, and approve recovery strategies

	• Review, assess, and recommend to Audit Committee any changes to Group Loan Loss Provisioning Policy • Oversight of calculation of specific and collective provisions • Identifying and recommending improvements to systems and controls for the management of credit risk • Monitor conduct risk considerations in lending activity • Review staff loans annually
Transactional Credit Committee	• Subcommittee of the Credit Committee • Consider and approve lending decisions that fall outside the mandates of underwriters but within the mandates for the Committee • Consider and approve bespoke pricing • Review and recommend certain adjustments to Lending Policy
Operations Committee	• Oversee operational management of business • Provide operational inputs into larger projects • Structure and manage smaller operational projects • Oversee Indian Operations
Change Control Committee	• Subcommittee of Operations Committee • Oversee implementation of changes to business processing
Regulatory, Operational, and Conduct Risk Committee (ROCC)	• Review legal risk register to ensure risk remains within the Board stated risk appetite, agree mitigation plans and monitor progress against those plans • Propose and regularly review the implementation and effectiveness of the operational risk policy and statement of operational risk appetite • Propose and regularly review the implementation and effectiveness of the group's conduct risk policy and statement of conduct risk appetite
Regulatory Governance Committee	• Revising approaches, treatments and management subjective decisions on regulatory reporting practice • Act as Project Change Governance Committee for changing reports, reporting processes and approval for spends
Executive M&A Committee (EMAC)	• Coordinate internal stakeholders for inorganic agenda • Ensure that due diligence covers all relevant aspects • After completion, oversee delivery of the integration plan
Executive Disclosure Committee	• Determine in accordance with the Disclosure and Communication Policy and Market Abuse Regulation whether specified information is inside information which requires disclosure to the market • Reviewing scheduled and ad-hoc announcements to market • Keeping accurate records of evaluations and decisions around inside information including any decision to delay disclosure • Monitoring business activity and incidents and reporting any matters deemed sufficiently material to the Board

Risk and Compliance

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

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

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

The CRO also provide assurance to the Board through regular reports which assess strategic risks as well as business risks.

The CRO's responsibilities includes ensuring that all key business risks are appropriately considered, with allocated business owners responsible for taking remedial action to mitigate shortcomings. The CRO is also responsible for ensuring the PRA's requirements are met. The CRO facilitates action and provides regular reporting to the Executive Committee and the Board. Assurance is provided that risks are controlled through the Risk Committee.

The CRO's role also includes ensuring that Financial Conduct Authority (FCA) requirements are met and all relevant legislation is complied with. A compliance risk assessment is carried out annually and informs the prioritisation of compliance activities, resourcing and plans for the year, including compliance monitoring, review and assessment activity.

Internal Audit

Internal Audit operates as the third line of defence within OSB’s three lines of defence risk management framework. The Head of Internal Audit’s primary role is to help the Board and executive management to protect OSB’s assets, reputation and sustainability. Internal Audit will:

- assess whether significant risks have been identified and reported appropriately to the Board and Executive management;
- provide a view of the design and operation of key controls to determine whether they are effective at mitigating risk; and
- challenge management to improve the effectiveness of governance, risk management and internal control.

It assists OSB in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the risk management, control, and governance processes.
The internal audit activity is established by the Board of Directors, who has delegated authority to the Audit Committee to oversee the activities of the internal audit function.

The Head of Internal Audit’s primary reporting line is to the Chair of the Audit Committee with a secondary reporting line to the Chief Executive Officer.

Recovery and Resolution Plan (RRP)

The Group is committed to developing and maintaining the RRP as a core component of its risk management framework.

The recovery plan process is designed to ensure that the Group's recovery plan is credible and can be implemented in a time of stress. The Group's recovery options must be appropriate to ensure its survival and the Group must be able to execute these options in a timely manner. The Group has developed a suite of indicators and triggers to ensure it can become aware of, and react to, a firm specific, market wide or combined stress in time to apply remedial actions to ensure the Group does not fail.

Resolution planning is the provision of information and analysis to the authorities, in order to help them prepare a resolution plan for the Group.

The Group's RRP has been reviewed and approved by the Board.

Capital Resources

Table 5 summarises the composition of regulatory capital resources as of 31 December 2016. Details on the Group's leverage ratio are presented in Appendix IV - Leverage Ratio. The Group complied with all externally imposed capital requirements to which it is subject for the years ended December 2015 and December 2016.

Table 5: Capital resources

		Group 2016 £m	Group 2015 £m
Common equity tier 1 capital			
	Called up share capital	2.4	2.4
	Share premium / Capital contribution	166.0	164.4
	Retained earnings	217.0	122.9
	Transfer reserve	(12.8)	(12.8)
	Other reserves	-	(0.1)
Deductions from common equity tier 1 capital			
	Intangible assets	(4.7)	(2.9)
	Deferred tax asset	(2.3)	(1.9)
	Investments in subsidiaries	-	-
	Common equity tier 1 capital	**365.6**	**272.0**
Additional Tier 1 capital			
	Convertible preference shares	-	-
	Share premium on preference shares	-	-
Total Tier 1 Capital		**365.6**	**272.0**
Tier 2 capital			
	Subordinated debt	48.5	50.6
	Collective Provisions	1.6	9.1
	Deductions from tier 2 capital	(2.0)	(3.0)
Total Tier 2 Capital		**48.1**	**56.7**
Total regulatory capital		**413.7**	**328.7**

Additional information on the main features of the Group's Tier 2 Subordinated Debt instruments can be found in Appendix III - Subordinated Debt Instruments.

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

All the Perpetual Subordinated Bonds (PSBs), Subordinated Liabilities and Bonds are issued by OSB. Table 6 shows the terms of PSBs, Subordinated Liabilities and Bonds are detailed below:

Table 6: PSBs, Subordinated Liabilities and Bonds[1]

Subordinated liabilities	Group 2016 £m	Group 2015 £m
Linked to LIBOR (London Interbank Offered Rate):		
Floating rate Subordinated Liabilities 2016	-	3.0
Floating rate Subordinated Liabilities 2017	5.7	5.7
Floating rate Subordinated Loans 2022	0.7	0.7
Linked to the average standard mortgage rate of the five largest building societies:		
Floating rate Subordinated Liabilities 2017	5.0	5.0
Fixed rate:		
Subordinated Liabilities 2024	10.2	10.2
	21.6	**24.6**
Perpetual subordinated bonds		
Sterling perpetual subordinated bonds	**15.3**	**15.3**
Total subordinated liabilities and bonds	**36.9**	**39.9**

Subordinated liabilities and bonds which are in their final five years to maturity are being amortised on a straight line basis.

[1] In addition to the PSBs in Table 6, the Bank has issued £22m PSBs which are classified as equity, as full discretion can be exercised by the Board over the payment of the coupon. The classification of these PSBs means that coupon payments are treated within retained earnings rather than through profit or loss.

Capital requirements

The Group's policy is to be well capitalised, and its approach to capital management is driven by strategic and organisational requirements, while also taking account of the regulatory and commercial environment in which it operates. The Group maintains a strong capital base to support the development of the business and to ensure that Pillar 1 capital requirements and Individual Capital Guidance are met at all times. As a result the Group maintains capital adequacy ratios above minimum regulatory requirements.

Pillar 1 requirements

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

- Credit - Standardised approach
- Market risk - not applicable
- Credit valuation adjustment (CVA) risk - Standardised method
- Operational risk - Basic indicator approach

The following table shows the Risk Weighted Assets (RWA) in accordance with the standardised approach to credit risk and separately 8% hereof reflecting the minimum Pillar 1 capital requirement for each of the standardised credit risk exposure classes. The table also shows the Group's capital requirements due to counterparty credit risk and operational risk capital requirement calculated in accordance with the basic indicator approach.

Table 7: Pillar 1 capital requirements

	2016		2015	
Standardised Exposure Classes	**Risk Weighted Assets £m**	**Capital Requirement £m**	**Risk Weighted Assets £m**	**Capital Requirement £m**
Central government and central banks	-	-	-	-
Regional governments or local authorities	-	-	-	-
Administrative bodies and non-commercial	-	-	-	-
Multilateral development banks	-	-	-	-
International organisations	-	-	-	-
Institutions[1]	7.7	0.6	6.2	0.5
Corporates[2]	19.7	1.6	7.9	0.6
Retail	6.7	0.5	31.5	2.5
Secured by mortgages on residential property	1,922.3	153.8	1,798.9	143.9
Secured by mortgages on commercial real estate	229.7	18.4	194.2	15.5
Past due[3]	95.3	7.6	147.5	11.8
Regulatory high-risk categories	212.5	17.0	-	-
Covered bonds	-	-	-	-
Securitisation positions	-	-	-	-
Short-term claims on institutions and corporates	-	-	-	-
Collective Investment Undertakings (CIUs)	-	-	-	-
Other items	30.2	2.4	26.1	2.1
Total Credit Risk	**2,524.1**	**201.9**	**2,212.3**	**177.0**
Counterparty Credit Risk	**1.4**	**0.1**	**1.4**	**0.1**
Operational Risk - Basic Indicator Approach	**216.8**	**17.3**	**125.2**	**10.0**
Current Valuation Adjustment	**0.7**	**0.1**	**0.6**	**-**
Total Pillar 1 /Risk Weighted Assets	**2,743.0**	**219.4**	**2,339.5**	**187.2**

[1]Excluding those assessed as short-term claims on institutions.

[2]Excluding those assessed as short-term claims on corporates. Includes funding line secured by non mortgage assets and intercompany balances outside the solo consolidated group.

[3]Past due are accounts which are over 90 days in default or with a specific provision.

Large Exposures

The Group tracks its exposures by connection and regularly reports on its largest exposures, those exceeding £3.0m, to the Credit Committee, Risk Committee, and Board*.

As of 31 December 2016, there were seventy-one connections over £3.0m with a total net exposure of £411m. Of these, two were allocated specific provisions and had a total carrying value of £14.8m and provision of £4.2m.

Connections within the large exposure list are reviewed monthly by the Credit Committee. While the emphasis is on non-performing assets where the Group's actions will have the most impact, the credit profile of large performing connections is also monitored closely to help anticipate any problems.

*Note: This report covers connections that are not defined as large exposures under article 392 of the CRR, for which the threshold is 10 per cent of total capital resources. Exposures below £3.0m are reported at the discretion of the risk team.

Overall Pillar 2 Rule

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

At least annually the Group undertakes a detailed, forward-looking assessment of capital adequacy in order to assess the Pillar 2 capital requirement. This exercise is known as the ICAAP. Based on the results of the ICAAP the PRA determines the Group's required ICG and supervisory buffers which include the countercyclical capital buffer, the capital conservation buffer and the PRA buffer. It is the Group's policy to hold capital resources in excess of its ICG plus its supervisory buffers.

Capital is allocated to businesses in the Board approved Capital Strategy and Plan. The Capital Strategy and Plan is updated at least annually with the associated capital forecasts updated on a monthly basis and reviewed by the ALCO, Risk Committee and Board. The refreshed forecasts reflect the impact of actual performance to that time and any actual or anticipated changes in the business, capital requirements or other changes. Capital forecasts are also produced in circumstances where a potential impact to capital may occur such as revised budget forecasts or in the course of evaluating a substantial acquisition.

Capital Buffers

The Group’s business is predominantly in the United Kingdom where the countercyclical capital buffer was zero as of 31 December 2016. For capital conservation buffer the Group is transitioning to the required 2.5% of CET1 capital by 2018.

Counterparty risk

Group wholesale counterparty risk through Treasury dealing is concentrated in two main areas. Deposits with institutions and to a lower extent mark to market exposures with derivative counterparties.

Cash deposit exposures are controlled through Board approved limits to banks and selected building societies rated at least investment grade. Counterparty ratings are monitored by Treasury and reviewed monthly by ALCO.

Counterparty risk is mitigated with derivative counterparties that have Collateral Service Agreements (CSA) in place. Regular derivative valuations allow the Group to assess exposures and call for margin when it exceeds threshold tolerances.

Credit risk

This section provides detailed information regarding the Group's exposure to credit risk.

Definition of past due and impaired

For regulatory purposes, a financial asset is considered as past due when the contractual payment is overdue for more than three months or has an impairment provision against it. For accounting purposes, a financial asset is treated as past due and then impaired when there is objective evidence that impairment exists either individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Provisions under regulatory rules are calculated on the same basis as impairment provisions, and so all provisions for impaired loans and advances are referred to as impairment provisions.

Impairment of financial assets

The Group regularly assesses its financial assets valued at amortised cost for impairment. During the reporting period, the main category within the scope was loans and advances to customers.

The Group individually assesses for impairment loans over £500k which are more than three months in arrears, where LPA receivers are appointed, the property is taken in possession or there are any other events that suggest a high probability of credit loss. Loans are considered at a connection level, i.e. including all loans belonging to and connected to the customer.

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

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

All loans which do not have an individually assessed specific provision against them are subsequently assessed for impairment on a collective basis. Every loan is assigned a one-year probability of default (PD) and a loss given default (LGD) generally consistent with the requirements of the Internal Ratings Based (IRB) Approach, leading to the expected loss (EL). The collective provision is the sum of all ELs. The calculation uses indexed valuations from ONS statistics applied at a postcode level, as it is usually impossible to request market property valuation for loans not in default. Provisions on loans greater than 3 months in arrears are treated as specific provisions. Provisions on loans less than 3 months are treated as collective provisions.

Different PDs are used for Buy-to-Let mortgages, residential mortgages and unsecured loans. Interest-only mortgages which are predominantly within the Buy-to-Let segment are not differentiated further from capital repayment mortgages. As PDs are generated from historic portfolio performance using a mix of interest-only and repayment loans, they capture the impact of interest-only mortgages as long as the mix remains similar.

The Group regularly assesses whether there is evidence that a financial asset or a portfolio of financial assets that is not carried at fair value through profit or loss is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date ('a loss event'), and that loss event or events has / or have had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

The risk of interest-only customers not repaying at maturity is currently not calculated. The Group has begun to contact customers with upcoming interest-only loan maturities, and tracking responses and outcomes, through specific campaigns since 2014.

Second charge mortgages are considered separately to first charge residential mortgages in that separate PDs are calculated and used in loss calculations based on previous experience of losses on second charge loans. The LGD calculation on second charge mortgages considers the fact that the holder of the first charge on collateral has first claim on the proceeds of a sale.

Incurred but not reported losses (IBNR), where a loss trigger has occurred but the borrower has not yet missed a payment, are captured through the Group’s collective provisioning process. PDs are calculated for loans that are not in arrears based on historic loss data and a provision value is calculated for these accounts.

Loans and the related provision are written off when the underlying security is sold or an unsecured loan customer has not paid for 12 months. Subsequent recoveries of amounts previously written off are taken through profit or loss.

The overriding principle when dealing with a borrower in arrears is that the Group follows prescribed policies and procedures that allow for flexibility and an individual approach, tailored to the circumstances of the particular borrower. The Group offers assistance and a range of tools to act in the best long-term interests of borrowers who are experiencing financial stress. These are designed to allow customer loans to be brought back into a sustainable position. Cases are managed on an individual basis, with the circumstances of each customer considered separately and the action taken judged as being affordable and sustainable for the customer.

The Group will consider all relevant forbearance options when attempting to reach an affordable and sustainable plan with the borrower. Forbearance is the restructuring of loans to conditions and by means not stipulated under the original contract when the borrower is in financial difficulty. The specific tools available to assist customers vary by product and the customer’s status. The various treatments considered for customers are as follows:

Temporary switch to interest-only: a temporary account change to assist customers through periods of financial difficulty where arrears do not accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained.

Loan term extension: a permanent account change for customers in financial distress where the overall term of the mortgage is extended, resulting in a lower contractual monthly payment.

Payment holiday: a temporary account change to assist customers through periods of financial difficulty where arrears accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained.

Assisted voluntary sale: a period of time is given to allow borrowers to sell the property and arrears accrue based on the contractual payment.

Reduced monthly payments: a temporary arrangement for customers in financial distress. For example, a short-term arrangement to pay less than the contractual payment. Arrears continue to accrue based on the contractual payment.

Capitalisation of interest: arrears are added to the loan balance and are repaid over the remaining term of the facility or at maturity for interest only products. A new payment is calculated which will be a higher than the previous payment.

The Group classifies a loan as forborne at the point a concession is granted based on the deteriorated financial status of the borrower. Accounts are classified as forborne only for the period of time which the loan is known to be, or may still be, in financial difficulty. When the borrower is no longer experiencing financial difficulties the loan will revert to standard terms. If the forbearance eliminates the arrears, the loan is no longer considered past due.

None of the currently used forbearance measures modify the overall cash flows to an extent that requires derecognition of the existing and recognition of a new loan under IAS 39.

Loans that ever had forbearance applied are assigned a higher probability of default in the collective provision calculation. Forborne accounts are not treated differently in relation to impairments in any other way.

The following tables analyse impaired loans as treated for accounting purposes and past due loans as treated for regulatory purposes as at 31 December 2016.

Table 8: Impaired, past due, provisions and provision charges by counterparty type

2016 Counterparty type	Gross impaired loans £m	Gross past due loans £m	Impairment provisions £m	Charges for impairment provisions during the year £m
Corporates	80.8	124.8	24.7	6.9
Retail	0.3	0.5	0.3	2.1
Other	-	-	-	-
Total	**81.1**	**125.3**	**25.0**	**9.0**

2015 Counterparty type	Gross impaired loans £m	Gross past due loans £m	Impairment provisions £m	Charges for impairment provisions during the year £m
Corporates	45.5	133.5	19.9	7.7
Retail	7.5	7.5	7.3	2.9
Other	-	-	-	-
Total	**53.0**	**141.0**	**27.3**	**10.6**

Notes:
1. Counterparty type analysis is based on mapping all relevant loans to either Corporates or Retail as classified by the PRA
2. Impairment provisions include both collective and specific provisions
3. Gross past due loans is presented on the regulatory basis where contractual payment is due for more than three months or the loan has a specific provision applied.
4. Gross impaired loans are defined as loans with a specific provision against them at the reporting date.
5. There is a variance between statutory gross impaired loans (£125m) and COREP gross impaired loans (£112m) of £13m. These are loans in possession included in the statutory accounts, not in COREP.

Table 9: Impaired, past due, provisions and provision charges by geographic area

2016 Geographic area	Gross impaired loans £m	Gross past due loans £m	Impairment provisions £m	Charges for impairment provisions during the year £m
UK	70.1	103.8	20.4	7.4
Channel Islands	11.0	21.5	4.6	1.6
Total	**81.1**	**125.3**	**25.0**	**9.0**

2015 Geographic area	Gross impaired loans £m	Gross past due loans £m	Impairment provisions £m	Charges for impairment provisions during the year £m
UK	22.1	116.4	24.1	10.0
Channel Islands	30.9	24.6	3.2	0.6
Total	**53.0**	**141.0**	**27.3**	**10.6**

Table 10: Reconciliation of changes in provisions for impaired exposures

2016 Impairment provisions	**£m**
Opening balance as at 1 January 2016	27.3
Write offs in year	(5.7)
Disposals	(5.6)
Transfers between reserves	-
Charge/(credit) for the year net of recoveries	9.0
31 December 2016	**25.0**

2015 Impairment provisions	**£m**
Opening balance as at 1 January 2015	26.1
Write offs in year	(9.4)
Charge/(credit) for the year net of recoveries	10.6
31 December 2015	**27.3**

Note: Impairment provisions include both collective and specific provisions

Credit risk exposure breakdowns

The following tables show the Group's credit risk exposure as at 31 December 2016.

Table 11: Year end and average exposure by exposure class

Standardised Exposure Classes	**Exposure at 31/12/2016 £m**	**Average exposure[1] in 2016 £m**	**Exposure at 31/12/2015 £m**	**Average exposure[1] in 2015 £m**
Central government and central banks	513.6	592.2	670.8	637.5
Regional governments or local authorities	-	-	-	-
Administrative bodies and non-commercial	-	-	-	-
Multilateral development banks	29.1	31.7	34.2	67.8
International organisations	-	-	-	-
Institutions[2]	18.3	17.0	15.6	110.4
Corporates[3]	19.7	13.8	7.9	4.0
Retail	9.0	25.5	42.0	75.6
Secured by mortgages on residential property	5,475.9	5,126.8	4,777.8	4,173.5
Secured by mortgages on commercial real estate	266.2	257.9	249.6	216.8
Past due[4]	88.6	113.1	137.7	130.3
High risk	141.7	70.8	-	-
Covered bonds	-	-	-	-
Securitisation positions	-	-	-	-
Short-term claims on institutions and corporates	-	-	-	-
Collective Investment Undertakings (CIUs)	-	-	-	-
Other items	27.4	25.3	23.2	19.1
Total	**6,589.5**	**6,274.1**	**5,958.8**	**5,435.0**

[1]A simple average has been used taking the start and end of year figures.

[2]Excluding those assessed as short-term claims on institutions.

[3]Excluding those assessed as short-term claims on corporates. Includes funding line secured by non mortgage assets and intercompany balances outside the solo consolidated group.

[4]Past due are accounts which are over 90 days in default or with a specific provision and are shown net of specific provision.

Table 12: Exposures by geographic area and material exposure classes

2016

Standardised Exposure Classes[1]	UK £m	Channel Islands £m	Rest of the World £m	Total £m
Central government and central banks	513.6	-	-	**513.6**
Regional governments or local authorities	-	-	-	**-**
Administrative bodies and non-commercial	-	-	-	**-**
Multilateral development banks	-	-	29.1	**29.1**
International organisations	-	-	-	**-**
Institutions[2]	18.3	-	-	**18.3**
Corporates[3]	19.2	-	0.5	**19.7**
Retail	9.0	-	-	**9.0**
Secured by mortgages on residential property	5,131.3	344.6	-	**5,475.9**
Secured by mortgages on commercial real estate	250.4	15.8	-	**266.2**
Past due[4]	77.6	11.0	-	**88.6**
High risk	141.7	-	-	**141.7**
Covered bonds	-	-	-	**-**
Securitisation positions	-	-	-	**-**
Short-term claims on institutions and corporates	-	-	-	**-**
Collective Investment Undertakings (CIUs)	-	-	-	**-**
Other items	27.4	-	-	**27.4**
Total	**6,188.5**	**371.4**	**29.6**	**6,589.5**

2015

Standardised Exposure Classes[1]	UK £m	Channel Islands £m	Rest of the World £m	Total £m
Central government and central banks	670.8	-	-	**670.8**
Regional governments or local authorities	-	-	-	**-**
Administrative bodies and non-commercial	-	-	-	**-**
Multilateral development banks	-	-	34.2	**34.2**
International organisations	-	-	-	**-**
Institutions[2]	15.6	-	-	**15.6**
Corporates[3]	7.9	-	-	**7.9**
Retail	42.0	-	-	**42.0**
Secured by mortgages on residential property	4,374.7	403.1	-	**4,777.8**
Secured by mortgages on commercial real estate	233.0	16.6	-	**249.6**
Past due[4]	106.7	30.9	-	**137.7**
High risk	-	-	-	**-**
Covered bonds	-	-	-	**-**
Securitisation positions	-	-	-	**-**
Short-term claims on institutions and corporates	-	-	-	**-**
Collective Investment Undertakings (CIUs)	-	-	-	**-**
Other items	23.2	-	-	**23.2**
Total	**5,474.0**	**450.7**	**34.2**	**5,958.8**

In 2016 there was an update to the categorisation where collectively assessed provisions on loans greater than 3 months in arrears are now treated as a specific, in addition to those that are individually assessed. The 2015 comparatives have not been restated.

Notes:
[1] Credit risk categories shown reflect PRA reporting.
[2] Excluding those assessed as short-term claims on institutions.
[3] Excluding those assessed as short-term claims on corporates. Includes funding line secured by non mortgage assets and intercompany balances outside the solo consolidated group.
[4] Past due are accounts which are over 90 days in default or with a specific provision and shown net of specific provision and excludes loans in possession.

Table 13: Exposures by significant counterparty type and exposure classes

2016

Standardised Exposure Classes	Corporate £m	Retail £m	Other £m	Total £m
Central government and central banks	513.6	-	-	**513.6**
Regional governments or local authorities	-	-	-	**-**
Administrative bodies and non-commercial	-	-	-	**-**
Multilateral development banks	29.1	-	-	**29.1**
International organisations	-	-	-	**-**
Institutions[1]	18.3	-	-	**18.3**
Corporates[2]	19.7	-	-	**19.7**
Retail	-	9.0	-	**9.0**
Secured by mortgages on residential property	-	5,475.9	-	**5,475.9**
Secured by mortgages on commercial real estate	-	266.2	-	**266.2**
Past due	-	88.6	-	**88.6**
High risk	-	141.7	-	**141.7**
Covered bonds	-	-	-	**-**
Securitisation positions	-	-	-	**-**
Short-term claims on institutions and corporates	-	-	-	**-**
Collective Investment Undertakings (CIUs)	-	-	-	**-**
Other items	-	-	27.4	**27.4**
Total	**580.7**	**5,981.4**	**27.4**	**6,589.5**

2015

Standardised Exposure Classes	Corporate £m	Retail £m	Other £m	Total £m
Central government and central banks	670.8	-	-	**670.8**
Regional governments or local authorities	-	-	-	**-**
Administrative bodies and non-commercial	-	-	-	**-**
Multilateral development banks	34.2	-	-	**34.2**
International organisations	-	-	-	**-**
Institutions[1]	15.6	-	-	**15.6**
Corporates[2]	7.9	-	-	**7.9**
Retail	-	42.0	-	**42.0**
Secured by mortgages on residential property	-	4,777.8	-	**4,777.8**
Secured by mortgages on commercial real estate	-	249.6	-	**249.6**
Past due	-	137.7	-	**137.7**
High risk	-	-	-	**-**
Covered bonds	-	-	-	**-**
Securitisation positions	-	-	-	**-**
Short-term claims on institutions and corporates	-	-	-	**-**
Collective Investment Undertakings (CIUs)	-	-	-	**-**
Other items	-	-	23.2	**23.2**
Total	**728.5**	**5,207.1**	**23.2**	**5,958.8**

[1] Excluding those assessed as short-term claims on institutions.
[2] Excluding those assessed as short-term claims on corporates. Includes funding line secured by non mortgage assets intercompany balances outside the solo consolidated group.

Table 14: Exposures by residual maturity breakdown

2016

Standardised Exposure Classes	< 3 months £m	3 months to 1 year £m	1 to 5 years £m	> 5 years £m	Total £m
Central government and central banks	401.0	112.6	-	-	**513.6**
Regional governments or local authorities	-	-	-	-	**-**
Administrative bodies and non-commercial	-	-	-	-	**-**
Multilateral development banks	10.0	-	19.1	-	**29.1**
International organisations	-	-	-	-	**-**
Institutions[1]	18.3	-	-	-	**18.3**
Corporates[2]	8.8	5.6	5.3	-	**19.7**
Retail	0.5	6.4	2.1	-	**9.0**
Secured by mortgages on residential property	93.6	93.4	258.7	5,030.2	**5,475.9**
Secured by mortgages on commercial real estate	4.0	25.8	29.6	206.8	**266.2**
Past due	3.2	1.9	7.9	75.6	**88.6**
High risk	63.5	39.6	38.6	-	**141.7**
Covered bonds	-	-	-	-	**-**
Securitisation positions	-	-	-	-	**-**
Short-term claims on institutions and corporates	-	-	-	-	**-**
Collective Investment Undertakings (CIUs)	-	-	-	-	**-**
Other items	1.5	2.0	1.6	22.3	**27.4**
Total	**604.4**	**287.3**	**362.9**	**5,334.9**	**6,589.5**

2015

Standardised Exposure Classes	< 3 months £m	3 months to 1 year £m	1 to 5 years £m	> 5 years £m	Total £m
Central government and central banks	331.5	339.3	-	-	**670.8**
Regional governments or local authorities	-	-	-	-	**-**
Administrative bodies and non-commercial	-	-	-	-	**-**
Multilateral development banks	5.0	-	29.2	-	**34.2**
International organisations	-	-	-	-	**-**
Institutions[1]	15.6	-	-	-	**15.6**
Corporates[2]	-	-	-	7.9	**7.9**
Retail	0.9	9.8	31.3	0.1	**42.0**
Secured by mortgages on residential property	155.7	110.5	270.7	4,240.9	**4,777.8**
Secured by mortgages on commercial real estate	4.3	6.7	32.9	205.6	**249.6**
Past due	14.0	2.0	21.9	99.7	**137.7**
High risk	-	-	-	-	**-**
Covered bonds	-	-	-	-	**-**
Securitisation positions	-	-	-	-	**-**
Short-term claims on institutions and corporates	-	-	-	-	**-**
Collective Investment Undertakings (CIUs)	-	-	-	-	**-**
Other items	0.9	9.7	-	12.7	**23.2**
Total	**527.9**	**477.9**	**386.0**	**4,566.9**	**5,958.8**

[1] Excluding those assessed as short-term claims on institutions.

[2] Excluding those assessed as short-term claims on corporates. Includes funding line secured by non mortgage assets and intercompany balances outside the solo consolidated group.

Use of External Credit Assessment Institutions (ECAIs)

The Group subscribes to Fitch Ratings (Fitch), a PRA recognised ECAI. Ratings assessments provided by Fitch are used by the Group to establish counterparty credit risk weightings using the PRA standardised approach.

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

Table 15: Exposures by Credit Quality Step

Institutions (incl. banks)*						
Credit Quality Step	**Fitch**	**Moody**	**S&P**	**Risk Weight**	**Exposure 2016 £m**	**Exposure 2015 £m**
1	AAA to AA-	AAA to AA-	Aaa to Aa3	20%	2.4	-
2	A+ to A-	A+ to A-	A1 to A3	50%	15.9	7.6
3	BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	100%	-	-
4	BB+ to BB-	BB+ to BB-	Ba1 to Ba3	100%	-	-
5	B+ to B-	B+ to B-	B1 to B3	100%	-	-
6	CCC+ and below	CCC+ and below	Caa1 and below	150%	-	-
Total					**18.3**	**7.6**

* Excluding those assessed as short-term claims on institutions and corporates

Short term claims on Institutions and Corporates

Credit Quality Step	Fitch	Moody	S&P	Risk Weight	Exposure 2016 £m	Exposure 2015 £m
1	AAA to AA-	AAA to AA-	Aaa to Aa3	20%	-	-
2	A+ to A-	A+ to A-	A1 to A3	20%	-	-
3	BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	20%	-	-
4	BB+ to BB-	BB+ to BB-	Ba1 to Ba3	50%	-	-
5	B+ to B-	B+ to B-	B1 to B3	50%	-	-
6	CCC+ and below	CCC+ and below	Caa1 and below	150%	-	-
Total					**-**	**-**

Interest Rate Risk in the Non-trading Book

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It is most prevalent in mortgage lending where fixed rate mortgages are not funded by fixed rate deposits of the same duration, or where the fixed rate risk is not hedged by a fully matching interest rate derivative.

The Group is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. In calculating its IRR exposure the Group considers prepayment behaviour that is calibrated to reflect historical observations and expected changes in behaviour as market conditions change.

The Group measures Interest Rate risk using 14 different interest rate curve shift scenarios designed to emulate a full range of market movements. These 14 scenarios are defined by ALCO and are based on three 'shapes' of curve movement (shift, twist and flex) with movements in rates scaled to approximate the potential move over one year at 99.9% two-tailed confidence interval with interest rates floored to zero. In addition, the regulatory scenario of an un-floored parallel shift of 200bps in both directions is applied. After taking into account the derivatives entered into by the Group, the maximum loss under these scenarios as at 31 December 2016 would have been £1.9m and the maximum gain £2.1m. Against a parallel interest rate movement of 2%, the impact would have been a £3.9m gain (2015: £0.2m gain) in the statement of profit or loss.

Exposure is mitigated on a continuous basis through the use of derivatives within limits set by the ALCO and the Board (currently 3% of Common Equity Tier 1 Capital). After taking into account the derivatives entered into by the Group and reserve allocations, a parallel interest rate increase of 2% would result in a movement of £0.2m (2014: £2.4m gain) in the statement of profit or loss.

Securitisation Treatment

As of December 2016 the Group had disposed of its entire economic interest in Rochester Finance 1 Plc (Rochester 1), the securitisation vehicle. The sale resulted in derecognition of securitised mortgage assets from the balance sheet and derecognition of Rochester 1.   This removes a total of £239.8m of securitised mortgage assets and cash reserves in the vehicle and £171.6m of debt securities in issue from the Groups balance sheet.

Asset Encumbrance

As a part of its business strategy, the Group has historically held mortgage assets that are encumbered as a result of securitisation as discussed above and continues to pre-position with the Bank of England under the FLS and TFS. Assets are further pledged under repurchase agreements. The Group also receives collateral in certain transactions. Additional information on asset encumbrance can be found in Appendix I - Disclosure on Asset Encumbrance.

Operational Risk

The operational risk capital requirement is calculated under the Basic Indicator Approach as 15 per cent of the three-year average of the Group's annual gross income, excluding any negative or zero values.

In addition, the Group maintains levels of operational risk capital consistent with any Pillar 2A adjustment identified through the ICAAP.

Remuneration

Remuneration Policy disclosures in accordance with Article 450 of the CRR (Regulation of the European Parliament and the Council on prudential requirements for credit institutions and investment firms (Regulation (EU) No 575/2013) and amending Regulation (EU) No 648/2012).

This remuneration disclosure is a requirement under Article 450 of the CRR, which applies to companies within the definition of Significant IFPRU firm (FCA/PRA Combined View IFPRU 1.2).

Remuneration policies and practices for categories of staff whose professional activities have a material impact on the Company's risk profile (Code Staff)

Decision-making process

The Remuneration Committee of the Board of OneSavings Bank plc is responsible for governance of remuneration for Executive Directors and other Code Staff. The Remuneration Committee (the Committee) currently comprises four independent Non-Executive Directors.

During 2016, the members of the Committee were:

- Mary McNamara (Chair)
- Rod Duke
- Malcolm McCaig
- Nathan Moss

The Committee met nine times during the financial year 2016. Going forwards, they will hold a minimum of four meetings in each financial year, with additional meetings held where appropriate to do so.

The Committee has responsibility for setting and reviewing the remuneration policy and determining pay levels and structure for senior management including Executive Directors and Code Staff. A full description of their accountability is set out in the Committee's Terms of Reference, available on the Company's website. In determining the remuneration policy the Committee takes into account all factors which it deems necessary (including relevant legal and regulatory requirements, the provisions and recommendations of the UK Corporate Governance Code ("Code") and associated guidance).

In agreeing the remuneration policy, the Committee obtains independent external advice from New Bridge Street (part of Aon plc), a consultancy specialising in executive remuneration design. Neither New Bridge Street, nor any other part of Aon plc provides other services to the Company. The Committee also considers advice from the Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Group Head of Human Resources, Chief Risk Officer, Risk Committee and the Group General Counsel and Company Secretary as relevant (though not in relation to their own remuneration). The Committee engages proactively with major shareholders through consultation on material changes to remuneration policy relating to Executives Directors.

In the design of pay structures for Executive Directors and other Code Staff, the Committee also takes account of the overall approach to reward for employees in the Company as a whole.

The link between pay and performance

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

- striking an appropriate balance between risk taking and reward;
- encouraging and supporting a strong culture of service and delivery;

- aligning employees' interests with those of shareholders and customers;
- rewarding the achievement of the overall business objectives of the Group; and
- guarding against inappropriate risk taking.

The Company's pay and incentive structures (outlined below) reflect these principles. In addition, to enhance the link between pay and performance, a significant proportion of remuneration for members of the Executive Committee is delivered in OneSavings Bank plc shares and deferred, with the final value dependent on the price of the underlying shares at the time of vesting. Executive Directors are also subject to share ownership guidelines and are required to build up their ownership of shares in the Company. (See share ownership requirements on page 51)

Remuneration Structures and their purpose

This section sets out the key elements of pay for Code Staff, their purpose, and detail on the quantum of variable pay awards and an explanation of the performance conditions which are used.

Fixed pay

In order to attract and retain individuals of a suitable calibre, Code Staff are paid fixed pay components of base salary, pension contribution (or equivalent cash allowance) and fringe benefits which may include a car allowance, medical and life insurance or income protection. These elements are set at a level so as to ensure that there is not an excessive dependence on variable remuneration.

Executive Bonus Scheme, including the Deferred Share Bonus Plan (DSBP)

Members of the Executive Committee are eligible to receive awards under the Executive Bonus Scheme. The purpose of the Executive Bonus Scheme is to incentivise and reward individuals for the achievement of pre-defined, Committee approved, annual financial and operational objectives which are closely linked to the corporate strategy.

The maximum award for Executive Directors is 100% of base salary for excellent performance. The cap for other Code Staff is set by reference to the role and grade within the organisation, but no employee is eligible for a bonus above 100% of salary. Under this scheme, a minimum of 75% of the award is subject to achievement against the Business Balanced Scorecard ("BBS"). The BBS contains a broad range of metrics so as to provide a comprehensive reflection of performance in all key areas of the business, including a strong focus on customer, staff and quality indicators. The remaining proportion of the award is based on personal performance targets.

Prior to approving awards under the Executive Bonus Scheme, the Committee receives reports from the Chief Risk Officer and the Head of Compliance, so as to confirm that the Company has operated within the Board's approved risk framework for the year under review and that the indicative award is appropriate in this context.
For 2016, the performance conditions in the Business Balanced Scorecard ("BBS") which comprised 75% of the award were:

- 35% Company financial (profitability, growth, capital, return on equity, cost and income ratios); and
- 40% Company (Staff (Headcount & Attrition), Customer (Satisfaction & Retention), Quality Compliance, Credit Risk & Operational))

The remaining elements of the award (25%) were based on the Executive's personal performance.
The objectives in the scorecard, and the weightings on each element, will be set annually and the weightings may be flexed according to role (e.g. Code Staff in the Risk and Compliance functions have a significantly higher weighting on Compliance, Credit & Operational Risk).

Executive Directors and members of the Executive Committee defer 50% of any bonus into shares under the DSBP for three years. These deferred shares vest subject to continued employment and the malus provisions outlined below.

While the Committee is committed to ensuring that Executive remuneration is dependent on the long-term success of the Company, some elements of Remuneration Code (SYSC SYSC 19D.3.56R (Retained shares and other instruments), Deferral (SYSC 19D.3.59R) and SYSC 19D.3.61R–SYSC19D.3.62R) (Performance adjustment)) have been disapplied as per paragraph 29 of the FCA's General guidance on proportionality: The Dual-regulated firms Remuneration Code (SYSC 19D) 2015.

Annual bonus

Below the Executive Committee, other Code Staff participate in the management bonus plan. Under this plan, performance is assessed against a matrix of individual and corporate performance factors. In 2014, for the majority of Code Staff, 25% of any bonus earned under this plan was deferred for 12 months.

From 2015, the majority of other Code Staff will defer 50% of their bonus into shares under the DSBP, to be held for three years.

Performance Share Plan

Members of the Executive Committee are eligible for awards under the Performance Share Plan (PSP), although this is not cascaded to all Code Staff. The purpose of the Performance Share Plan is to incentivise and recognise execution of the business strategy over the longer term and reward strong financial performance over a sustained period, and provide a strong equity component to the remuneration package.

The maximum annual award under the PSP is 100% of salary. In exceptional circumstances, such as recruitment, awards of up to 200% of salary can be made. Typically, PSP awards are made annually at the discretion of the Committee. Awards are made in shares measured over three years and vest subject to the satisfaction of a mixture of total shareholder return (TSR) and internal financial performance targets, which are considered by the Board to be the key drivers of shareholder value creation over the longer term.

The awards under the Performance Share Plan relating to performance in the year ended 31 December 2016 are subject to an earning per share (EPS) and TSR performance condition. The performance targets are:

Performance level	EPS element (50% of total award)	TSR element (50% of total award)	% of that part of the award vesting
Below ‘threshold’	Less than 6% CAGR	Below median	0%
‘Threshold’	6% CAGR	Median	25%
‘Stretch’	12% CAGR	Upper quartile	100%
Pro-rata vesting in between the above points			

The vesting of PSP awards is subject to a risk underpin, whereby the Committee must be satisfied that the business has operated within the Board's risk appetite framework (taking into account capital adequacy, liquidity, credit risk operational risk and conduct and compliance risk). The vesting of awards may be reduced or eliminated if the Committee determines that this underpin has not been met.

Share ownership requirements

Members of the Executive Committee are also required to build and maintain a shareholding in the Company. The CEO is required to accumulate and maintain 200%, the Chief Financial Officer 150% and other members of the Executive Committee 100% of base salary.

50% of any vested share awards must be retained until the guideline is achieved.

Malus & Clawback

Clawback and malus provisions apply to both the Executive Bonus Plan (including the deferred element) and the PSP. These provide for incentive recovery in the event of the discovery of a material misstatement of results, an error in the calculation of bonus outcome, significant failure of risk management, regulatory censure or in instances of individual gross misconduct discovered within five years of the end of the performance period. A further two years may be applied following such a discovery, in order to allow for the investigation of any such event.

In order to affect any such clawback, the Committee may use a variety of methods, including with-holding deferred bonus shares, reducing or with-holding future PSP awards or cash bonuses, or seeking to recoup cash already paid.

Ratios between fixed and variable remuneration

The shareholders of OneSavings Bank plc have approved an increase to the variable pay of its Code Staff to two times fixed pay, where legislation requires that pay is capped. In addition, OneSavings Bank plc is aware of the changes to the proportionality guidance and other associated changes currently proposed by the EBA.

Additional information on Directors' remuneration

Additional guidance on Directors' remuneration is available on pages 77-90 of OneSavings Bank plc's 2016 Annual Report and Accounts.

Aggregate quantitative information on remuneration

Table 16 below provides aggregate quantitative information set out in accordance with clauses 1(h) (i) to (vi) of CRR Article 450.

In line with the latest guidance from the regulator, we have updated our approach to include PSP grants made following the end of the financial year which therefore relate to performance during the year being reported. Previously, our approach has been to detail grants made in the year being reported. For reference, If grants made in the year had been included instead, the total number would have been £1,314,000, relating to 8 employees falling within the 'Senior Management' category.

Table 16: Code staff aggregate remuneration for 2016

	Senior Management (ExCo & NED's)		Other Code staff		Notes
	No. of recipients	£'000	No. of recipients	£'000	
Fixed remuneration during 2016	23	3,359	31	3,355	Basic salary, employers contributions
Variable remuneration awarded for 2016 performance					
Cash (Paid)	10	865	26	657	For payment in April 2017
Cash (Deferred for 12 months)	-	-	10	72	Deferred for payment in April 2018
Shares (Deferred for 3 years)	10	865	16	495	Awarded in March 2017, relating to 2016 performance
Performance Share Plan[1] (Awarded in March 2017)	10	2,079	-	-	Awarded in March 2017, relating to 2016 performance
Sign-on payments or awards	-	-	-	-	
Severance payments	1	30	-	-	
Total Remuneration		**7,198**		**4,580**	

Outstanding deferred remuneration change during the year:					
As at 31 December 2015:					
Outstanding unvested [2]	8	6,796	3	1,450	Calculated using 31/12/15 Closing Share Price of £3.537
Outstanding vested but unexercised	2	659	-	-	Calculated using 31/12/15 Closing Share Price of £3.537
Total		7,455		1,450	
Changes during the year:					
Awarded in March 2016 - Performance Share Plan	8	1,315	-	-	Calculated using Grant Price of £2.53
Awarded in March 2016 - Deferred Share Bonus	9	706	13	438	Calculated using Grant

Plan					Price of £2.53
Lapsed due to performance outcomes or adjustments	-	-	-	-	
Lapsed due to leaving service	1	68	-	-	Calculated using 30/12/16 Closing Share Price of £3.38
Vested and exercised	2	882	3	693	Calculated using 30/12/16 closing Share Price of £3.38
As at 31 December 2016					
Outstanding unvested [2]	9	8,749	13	1,888	Calculated using mix of 30/12/16 Closing Share Price of £3.38 and Grant Price of £2.53
Outstanding vested but unexercised	2	630	-	-	Calculated using 30/12/16 Closing Share Price of £3.38
Total		9,379		1,888	

[1] The amounts included for the Performance Share Plan (PSP) in the 2015 disclosure related to those awarded during 2015 .This year the disclosure relates to the PSP awarded in March 2017.
[2] Include IPO awards that had been made to members of the Executive Committee and other Code staff.

Remuneration Code staff aggregate for 2015

	Senior Management (ExCo & NED's)		Other Code staff		Notes
	No. of recipients	£'000	No. of recipients	£'000	
Fixed remuneration during 2015	20	2,911	27	2,787	Includes basic salary, employer pension contribution, car allowances and PMI
Variable remuneration awarded for 2015 performance					
Cash (Paid in Year)	9	706	19	478	For payment in April 2016
Cash (Deferred for 12 months)	-	-	6	39	Deferred for payment in April 2017
Shares (Deferred for 3 years)	9	706	13	438	Awarded in March 2016, relating to 2015 performance
Nil cost share options					
Performance Share Plan (Awarded in March 2015)	9	1,341	-	-	Calculated using IPO Share Price of 1.70
Sign-on payments or awards	-	-	-	-	
Severance payments	-	-	-	-	
Total Remuneration		**5,664**		**3,742**	

Outstanding deferred remuneration change during the year:					
As at 31 December 2014					
Outstanding unvested	5	4,482	17	1,746	Calculated using 31/12/15 Closing Share Price of £3.537
Outstanding vested but unexercised	2	659	-	-	Calculated using 31/12/15 Closing Share Price of £3.537
Total		5,141		1,746	

Changes during the year:					
Awarded in March 2015 - Performance Share Plan	9	1,341	-	-	Calculated using Grant Price of £2.19
Awarded in March 2015 - re 2014 Deferred Share Bonus Plan	9	701	-	-	Calculated using Grant Price of £2.19
Lapsed due to performance outcomes or adjustments	-	-	-	-	
Lapsed due to leaving service	1	910	1	75	Calculated using mix of 31/12/15 Closing Share Price of £3.537 and Grant Price of £2.19
Vested and exercised	2	1,845	13	221	Calculated using 31/12/15 Closing Share Price of £3.537
As at 31 December 2015					
Outstanding unvested	8	3,769	3	1,450	Calculated using mix of 31/12/15 Closing Share Price of £3.537 and Grant Price of £2.19
Outstanding vested but unexercised	2	659	-	-	Calculated using 31/12/15 Intraday Share Price of £3.537
Total		4,428		1,450	

Table 17: Code staff aggregate remuneration of EUR 1m or more for 2016

Total remuneration bands (Euros)	Executive Directors & other Code Staff (no.)
1,000,000 -1,500,000	2
1,500,001 - 2,000,000	0
2,000,001 - 2,500,000	0
2,500,001 - 3,000,000	0

Remuneration includes base salary, pension contribution (or allowance), fringe benefits, and variable pay granted for 2016 performance.

Code staff aggregate remuneration of EUR 1m or more for 2015

Total remuneration bands (Euros)	Executive Directors & other Code Staff (no.)
1,000,000 -1,500,000	2
1,500,001 - 2,000,000	0
2,000,001 - 2,500,000	0
2,500,001 - 3,000,000	0

Appendix I - Disclosure on Asset Encumbrance

Template A - Assets

2016

		Carrying amount of encumbered assets £m	Fair value of encumbered assets £m	Carrying amount of unencumbered assets £m	Fair value of unencumbered assets £m
		010	040	060	090
010	**Assets**	1,450.8		5,130.1	
030	Equity instruments	-	-	0.5	0.5
040	Debt securities	-	-	141.7	141.7
120	Other assets	6.4		77.7	

2015

		Carrying amount of encumbered assets £m	Fair value of encumbered assets £m	Carrying amount of unencumbered assets £m	Fair value of unencumbered assets £m
		010	040	060	090
010	**Assets**	1,138.1		4,856.2	
030	Equity instruments	-	-	1.0	1.0
040	Debt securities	-	-	393.4	393.4
120	Other assets	-		100.5	

Template B - Collateral received

2016

		Fair value of encumbered collateral received or own debt securities issued £m	Fair value of collateral received or own debt securities issued available for encumbrance £m
		010	040
130	**Collateral received**	-	524.8
140	Loans on demand	-	-
150	Equity instruments	-	-
160	Debt securities	-	524.2
230	Other collateral received	-	-
240	**Own debt securities issued other than own covered bonds or ABSs**	-	-

2015

		Fair value of encumbered collateral received or own debt securities issued £m	Fair value of collateral received or own debt securities issued available for encumbrance £m
		010	040
130	**Collateral received**	-	162.1
140	Loans on demand	-	-
150	Equity instruments	-	-
160	Debt securities	-	160.7
230	Other collateral received	-	-
240	**Own debt securities issued other than own covered bonds or ABSs**	-	-

Template C-Encumbered assets/collateral received and associated liabilities

2016

		Matching liabilities, contingent liabilities or securities lent £m	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £m
		010	030
010	**Carrying amount of selected financial liabilities**	**101.0**	**-**

2015

		Matching liabilities, contingent liabilities or securities lent £m	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £m
		010	030
010	**Carrying amount of selected financial liabilities**	-	-

Template D- Information on importance of encumbrance

Assets are encumbered as part of the Group's funding arrangements. The main activities relate to securitisation, repurchase agreements, the FLS and the TFS. The Group also holds encumbered assets in the form of the required cash ratio deposit with the Bank of England. Other Assets items are deemed not able to be encumbered include intangible assets, deferred tax asset, property, plant and equipment, derivative assets and sundry debtors. The Group's ALCO reviews the asset encumbrance of the institution as a whole on a monthly basis and any events causing change in the asset encumbrance level are examined.

Appendix II - Own Funds

Disclosure of the Group's own funds for the current year comparing the transitional rules position to the final CRD IV rules. The main difference is the grandfathering of £10,000k of tier 2 instruments that are amortising down to nil by 2022.

OneSavings Bank plc	**£m**	**£m**	**£m**	**£m**
Common Equity Tier 1 capital: instruments and reserves	**31/12/2016**	**Final CRD IV**	**31/12/2015**	**Final CRD IV**
Capital instruments and the related share premium accounts	**168.4**	**168.4**	**166.8**	**166.8**
of which: Common shares	2.4	2.4	2.4	2.4
Retained earnings	217.0	217.0	122.9	122.9
Accumulated other comprehensive income (and any other reserves)	(12.8)	(12.8)	(12.9)	(12.9)
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**372.6**	**372.6**	**276.8**	**276.8**
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
Goodwill and Other intangible assets (net of related tax liability)	(4.7)	(4.7)	(2.9)	(2.9)
Deferred tax assets that rely on future profitability excluding those arising from temporary difference	(2.3)	(2.3)	(1.9)	(1.9)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(7.0)**	**(7.0)**	**(4.8)**	**(4.8)**
Common Equity Tier 1 (CET1) capital	**365.6**	**365.6**	**272.0**	**272.0**
Additional Tier 1 (AT1) capital	-	-	-	-
Tier 1 capital (T1 = CET1 + AT1)	**365.6**	**365.6**	**272.0**	**272.0**
Tier 2 (T2) capital: instruments and provisions				
Subordinated loans	**48.5**	**48.5**	**50.7**	**50.7**
Credit risk adjustments	1.6	1.6	9.0	9.0
Tier 2 (T2) capital before regulatory adjustment	**50.1**	**50.1**	**59.7**	**59.7**
Tier 2 (T2) capital: regulatory adjustments				
of which holdings existing before 1 January 2013	(2.0)	(10.0)	(3.0)	(10.0)
Total regulatory adjustments to Tier 2 (T2) capital	**(2.0)**	**(10.0)**	**(3.0)**	**(10.0)**
Tier 2 (T2) capital	**48.1**	**40.1**	**56.7**	**49.7**
Total capital (TC = T1 + T2)	**413.7**	**405.7**	**328.7**	**321.7**
Total risk-weighted exposures	2,743.0	2,743.0	2,339.5	2,339.5
Capital ratios and buffers				
Common Equity Tier 1 ratio	13.3%	13.3%	11.6%	11.6%
Tier 1 ratio	13.3%	13.3%	11.6%	11.6%
Total capital ratio	15.1%	14.8%	14.1%	13.8%
Applicable caps on the inclusion of provisions in Tier 2				
Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	1.6	1.6	9.1	9.1
Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	-	27.7	27,7
Capital instruments subject to phase-out arrangements (applicable between 1 Jan 2014 and 1 Jan 2022)				

- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	(2.0)	(10.0)	(3.0)	(10.0)

Appendix III - Subordinated Debt Instruments

Capital instruments' main features template									
Issuer	OneSavings Bank plc	OneSavings Bank plc	OneSavings Bank plc	OneSavings Bank plc	OneSavings Bank plc	OneSavings Bank plc	OneSavings Bank plc	OneSavings Bank plc	OneSavings Bank plc
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	-	-	GB00B67JQX63	GB00B61ZXL72	-	-	-	-	-
Governing law(s) of the instrument	England	England	England	England	England	England	England	England	England
Regulatory treatment									
Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated
Instrument type (types to be specified by each jurisdiction)	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinate d Debt	Subordinated Debt	Subordinated Debt
Amount recognised in regulatory capital (£)	131,873	235,679	15,000,000	22,000,000	3,000,000	5,000,000	355,969	403,000	300,000
Nominal amount of instrument (£)	2,800,000	2,850,000	15,000,000	22,000,000	5,000,000	5,000,000	5,000,000	403,000	300,000
Issue price	Par	Par	Par	Par	Par	Par	Par	Par	Par
Redemption price	Par	Par	Par	Par	Par	Par	Par	Par	Par
Accounting classification	Liabilities	Liabilities	Liabilities	Equity	Liabilities	Liabilities	Liabilities	Liabilities	Liabilities
Original date of issuance	27 March 2007	31 May 2007	27 August 2004	07 March 2006	30 September 2016	30 September 2016	09 May 2009	14 September 2012	14 September 2012
Perpetual or dated	Dated	Dated	Perpetual	Perpetual	Dated	Dated	Dated	Dated	Dated
Original maturity date	27 March 2017	31 May 2017	N/A	N/A	30 September 2024	27 September 2024	10 May 2017	13 September 2022	13 September 2022
Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Optional call date, contingent call dates, and redemption amount	-	-	-	-	-	-	-	-	-
Subsequent call dates, if applicable	-	-	-	-	-	-	-	-	-
Coupons / dividends	-	-	-	-	-	-	-	-	-
Fixed or floating dividend/coupon	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Floating	Floating
Coupon rate and any related index	2.04000	5.98840%	2.19000%	6.59100%	6.45000%	7.45000%	6.70000%	3.05181%	6.05181%
Existence of a dividend stopper	No	No	No	No	No	No	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
Existence of step up or other incentive to redeem	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Noncumulative or cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger(s)	-	-	-	-	-	-	-	-	-
If convertible, fully or partially	-	-	-	-	-	-	-	-	-
If convertible, conversion rate	-	-	-	-	-	-	-	-	-
If convertible, mandatory or optional conversion	-	-	-	-	-	-	-	-	-
If convertible, specify instrument type convertible into	-	-	-	-	-	-	-	-	-
If convertible, specify issuer of instrument it converts into	-	-	-	-	-	-	-	-	-
Write-down features	-	-	-	-	-	-	-	-	-
If write-down, write-down trigger(s)	-	-	-	-	-	-	-	-	-
If write-down, full or partial	-	-	-	-	-	-	-	-	-
If write-down, permanent or temporary	-	-	-	-	-	-	-	-	-
If temporary write-down, description of write-up mechanism	-	-	-	-	-	-	-	-	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	-	-	-	-	-	-	-	-	-
Non-compliant transitioned features	No	No	No	No	Yes	Yes	No	No	No
If yes, specify non-compliant features	-	-	-	-	-	-	-	-	-

Appendix IV: Leverage Ratio

Summary reconciliation of accounting assets and leverage ratio exposures

Item		2016 CRR leverage Ratio Exposure £m	2015 CRR leverage Ratio Exposure £m
1	Total assets as per published accounts	6,580.9	5,970.4
4	Adjustments for derivative financial instruments	(45.8)	(53.8)
5	Adjustment for securities financing transactions (SFTs)		
6	Adjustment for off-balance sheet items (ie conversation to credit equivalent amounts of off-balance sheet exposures)	60.5	67.8
7	Other adjustments	(6.1)	(25.6)
8	**Leverage ratio total exposure**	**6,589.5**	[1]**5,958.8**

Leverage ratio common disclosure

On-balance sheet exposures (excluding derivatives and SFT's)

		2016 CRR leverage Ratio Exposure	2015 CRR leverage Ratio Exposure
Item		£m	£m
	On-balance sheet items (excluding derivatives and , SFT's)		
1	On-balance sheet items (excluding derivatives, SFT's and fiduciary assets, but including collateral)	6,533.2	5,890.6
2	Asset amounts deducted in determining Tier 1 capital	(7.1)	(4.8)
3	**Total on-balance sheet exposures (excluding derivatives, SFT's and fiduciary assets)**	**6,526.1**	**5,885.8**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	-	0.2
5	Add-on amounts of PFE associated with all derivatives transactions (mark-to-market method)	2.9	5.0
11	**Total derivatives exposures**	**2.9**	**5.2**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	295.2	339.1
18	(Adjustments for conversion to credit equivalent amounts)	(234.7)	(271.3)
19	**Other off-balance sheet exposures**	**60.5**	**67.8**
	Capital and total exposures		
20	**Tier 1 capital**	**365.6**	**272.0**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 19)**	**6,589.5**	**5,958.8**
	Leverage ratio		
22	**Leverage ratio**	**5.5%**	**4.6%**
EU-23	**Choice on transitional arrangements for the definition of the capital measure**	Fully phased in	Fully phased in

[1] The 2015 leverage ratio has been updated to 4.6% (previously 4.5%) due to the leverage ratio total exposure reducing by £23.2m, in the other exposures class to £5,958.5m (previously £5,979.4m).

Split-up of on balance sheet exposures (excluding derivatives and SFTs)

		2016 CRR leverage Ratio Exposure £m	2015 CRR leverage Ratio Exposure £m
EU-1	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**6,589.5**	**5,958.8**
EU-2	Trading book exposures	-	-
EU-3	Banking book exposures of which:	6,589.5	5,958.8
EU-5	Exposures treated as sovereigns	513.6	670.8
EU-6	Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns	29.1	34.2
EU-7	Institutions	18.3	15.6
EU-8	Secured by mortgages of immovable properties	5,883.8	5,027.4
EU-9	Retail exposures	9.0	42.0
EU-10	Corporate	19.7	7.9
EU-11	Exposures in default	88.6	137.7
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligations)	27.4	23.2

1	Description of the processes used to manage the risk of excessive leverage	The Group's Capital Plan and Risk Appetite statements set out the Leverage ratio limits, targets, notification points, decisions and action plans including supporting forecasts and stress scenarios that the Group manages to remain in compliance at all times. The Group's SRMF sets out the governance framework for the management and procedures for establishing and changing the limits, targets, notification points, decisions and actions plans for leverage ratio set out in the Capital Plan and Risk Appetite Statements. This involves the Risk Committee and ultimately the Board in making these changes to the policy. The Group's ALCO provides the oversight that evaluates and monitors the Group's compliance with the Capital Plan and Risk Appetite policy on an ongoing basis.
2	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	The Group's leverage ratio increased 1.2% from 4.5% at 31 December 2015 to 5.5% at 31 December 2016 driven by Tier 1 capital increasing by £102.9m due to the continued retention of up to 75% of underlying profit after tax in retained earnings and also due to net exceptional gains in the year. Net total assets (Leverage exposures) increased 10% during the year driven predominately by increases loans and advances through organic lending through the Groups various brands and opportunistic inorganic purchases offset by a decrease in investment securities held.