one
Savings Bank

Annual Report and Accounts 2015

Specialist Personal Flexible

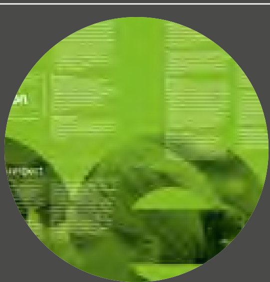
OneSavings Bank is a specialist lender, primarily focused on carefully-selected sub-sectors of the mortgage market. Its specialist lending is supported by a stable retail savings franchise with 150 years of heritage.

I am delighted to welcome you to OneSavings Bank plc's Annual Report for 2015. Building on our successes in 2014, the Company continued to meet its financial objectives during 2015, with the consistent delivery of strong loan book and earnings growth. I am very pleased that the Company's shares were included in the FTSE 250 in June 2015, a year after its initial listing. The business continues to develop and remains well-placed to take advantage of market demand for our specialist lending capabilities and customer-centric business model.

Mike Fairey, Non-Executive Chairman

Go to Governance section p50 for the Chairman's letter to shareholders

Strategic report



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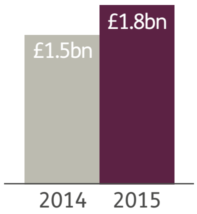
Governance

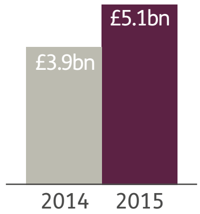
Financial statements

Highlights

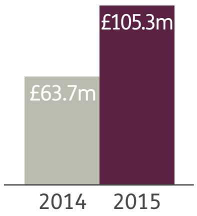
Gross new lending
up 20%
£1.8bn
(2014: £1.5bn)



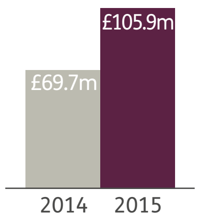
Net loan book
up 31%
£5.1bn
(2014: £3.9bn)



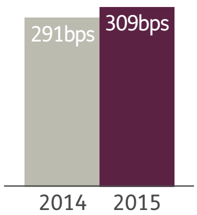
Profit before tax
up 65%
£105.3m
(2014: £63.7m)



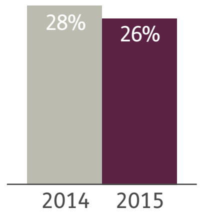
Underlying profit before tax
up 52%
£105.9m
(2014: £69.7m)



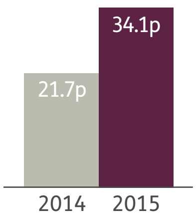
Net interest margin
up 18bps
309bps
(2014: 291bps)



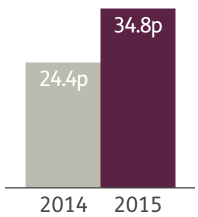
Cost:income ratio
improved 2% points
26%
(2014: 28%)



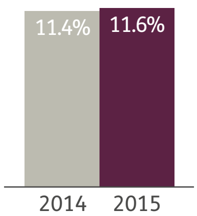
Basic EPS
up 57%
34.1p
(2014: 21.7p)



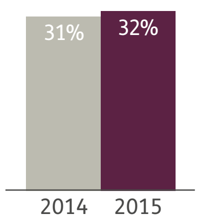
Underlying basic EPS
up 43%
34.8p
(2014: 24.4p)



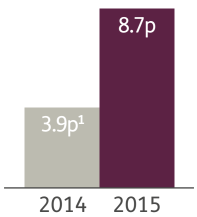
Fully-loaded common equity tier 1 ratio
strengthened
11.6%
(2014: 11.4%)



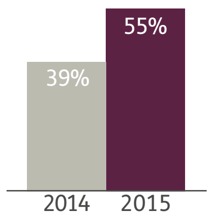
Underlying return on equity
up 1% point
32%
(2014: 31%)



Full year dividend per share
8.7p
(2014: 3.9p two-thirds dividend)



Customer satisfaction (NPS)
up 15.9% points
55%
(2014: 39%)



1 Two-thirds final dividend.

For more information and definitions, go to the Key performance indicators p20

At a glance

Our business

Retail savings

- **Online**
  We attract retail savings deposits via the internet.
- **Direct**
  The direct channel sources savings products via the telephone and post.
- **High Street branches**
  Our Kent Reliance branded network operates in the South East of England and offers a variety of fixed, notice, easy access and regular savings products, including ISAs.

Retail savings balance by channel	2014	2015
Direct	49%	**44%**
Online	32%	**35%**
Branches	19%	**21%**

For more information go to Our business model in action p10

Buy-to-Let/ SME lending

- **Buy-to-Let mortgages**
  We lend to individuals and limited companies secured on residential property held for investment purposes. Our target market is experienced and professional landlords or High Net Worth individuals with established and extensive property portfolios.
- **Commercial mortgages**
  We provide loans to limited companies and individuals secured on commercial and semi-commercial properties held for investment purposes or for owner occupation.
- **Residential development**
  We provide development loans to small and medium sized developers of residential property. Loans are staged with independent chartered surveyors signing off each stage of the development before funds are released.
- **Funding lines**
  The bank provides funding lines (loans) to non-bank finance companies secured against portfolios of financial assets, principally mortgages and leases.

Buy-to-Let/SME	2014	2015
Loans & advances (£bn)	2.1	**3.1**
Gross new lending (£bn)	1.2	**1.5**
Average book LTV at 31 December (%)	68	**66**

For more information go to the Operating and financial review p18

Residential mortgage lending

- **Bespoke first charge**
  We provide loans to individuals, secured by a first charge against their residential home. Our target market includes High Net Worth and Complex Income customers.
- **Second charge**
  We provide loans to individuals seeking to raise additional funds secured by a second charge against their residential home. We predominantly target good credit quality borrowers.
- **Shared ownership**
  We lend to first-time buyers and key workers buying a property in conjunction with a Housing Association.

Residential	2014	2015
Loans & advances (£bn)	1.8	**2.0**
Gross new lending (£bn)	0.3	**0.3**
Average book LTV at 31 December (%)	54	**56**

For more information go to the Operating and financial review p18

Personal loans

OneSavings Bank (OSB) acquired the performing former Northern Rock consumer loan portfolio from Northern Rock (Asset Management) plc in July 2013. This portfolio of high-margin, seasoned loans currently represents the Group's only unsecured lending and is serviced by a third party specialist servicer.

Our trading brands

OneSavings Bank is made up of a family of specialist financial services brands.

KentReliance

Largest lending business in the Group, offering Buy-to-Let and first charge residential loans.

KentReliance

Kent Reliance is also an established, stable and award winning savings franchise. Its strong customer focus delivers high levels of customer satisfaction, resulting in strong customer loyalty and customer retention.

InterBay Commercial

Specialist semi-commercial and commercial mortgage lender providing Buy-to-Let loans, alongside owner-occupied and investor commercial mortgages throughout England and Wales (acquired in August 2012).

Heritable Development Finance

Experienced team providing specialist residential development finance to small and medium sized developers with a proven track record (commenced trading in January 2014).

Prestige Finance

Long standing second charge lender, which offers an award-winning range of specialist secured loans throughout the UK (acquired in September 2012).

Guernsey Home Loans

Specialist residential and Buy-to-Let mortgages for its local market since 2005.

Jersey Home Loans

Specialist residential and Buy-to-Let mortgages for its local market since 2002.

osbIndia

Based in Bangalore, India, and a wholly-owned subsidiary of OneSavings Bank; provides primary processing for our Kent Reliance, Jersey and Guernsey brands.

Chief Executive Officer's statement

Andy Golding
Chief Executive Officer

I am delighted to report a further year of strong performance for the OneSavings Bank Group. We continue to deliver and exceed our stated financial objectives across all key metrics. Our clear strategy and capabilities demonstrate the robustness of our business model, and ensure we are well positioned to achieve future growth.

Continued strong performance

OneSavings Bank has remained focused on delivering our objective of being a leading specialist lender in our chosen sub-sectors, supported by a strong retail savings franchise and an efficient and scalable Indian back office. We have continued to focus on customer needs and the quality of new lending, leading to an enhanced customer reputation across our lending and savings brands.

We have enhanced our core residential segment through organic growth as well as selective asset acquisition and I am very pleased that we have continued to innovate in the commercial side of our Buy-to-Let/SME segment. We have extended the InterBay brand product range to provide more choice for professional investors, increased the range and volume of secured funding lines and grown Heritable Development Finance. These newer business lines are core to the growth of our Buy-to-Let/SME franchise.

Results

The Group delivered strong profit and loan book growth in 2015. Underlying[1] pre-tax profit increased by 52% to £105.9m (2014: £69.7m) and underlying[1] basic earnings per share grew by 43% to 34.8 pence (2014: 24.4 pence). The Group grew its loan book by 31% to £5.1bn in 2015 (2014: £3.9bn), whilst maintaining an appropriate risk return profile. This was driven by consistent loan book growth in our core Buy-to-Let/SME segment, which continued to build on our 2014 achievements. Our high quality residential mortgage segment also continued to perform well. The balance sheet growth was achieved whilst improving our high underlying[1] return on equity to 32% (2014: 31%) and strengthening our fully-loaded common equity tier 1 capital ratio to 11.6% (2014: 11.4%) demonstrating the strong organic capital generation capability of the business through profitability.

The Board is recommending a final dividend of 6.7 pence per share in line with our stated dividend policy. This gives a total dividend per share for the full year of 8.7 pence.

1 See Highlights, page 1 for statutory equivalents.

Underlying RoE

2015:
32%
2014: 31%

Dividend

2015:
8.7p
2014: Final two-thirds dividend 3.9p per share

Key drivers

The increase in gross new origination of 20% to £1.8bn (2014: £1.5bn) demonstrates the opportunities that exist in our specialist lending sub-sectors and the strength of our lending franchises. We have continued to differentiate ourselves from the competition by offering well defined propositions in high margin, underserved markets, where we have the experience, as well as the internal and intermediary infrastructure, to successfully develop and service those markets. Each of our mainstream lending brands, Kent Reliance, InterBay Commercial and Prestige Finance, has extended their position as leaders in their chosen markets and enhanced their reputation amongst mortgage intermediaries. Application volumes in our core businesses remained strong throughout the year and we are not experiencing competitive price pressure in our core markets as demonstrated by our improving net interest margin (NIM).

I am pleased that our Commercial businesses are developing strongly. Heritable Development Finance continues to grow and deliver high quality residential development lending, consolidating its position within the Group and exceeding the expectations set when it commenced lending in early 2014. Loan commitments stood at £168m at year end, an increase of £99m for the year. We have also grown the provision of secured funding lines to other lenders which operate in certain high yielding, specialist sub-segments, such as residential bridge finance, by 80% to £126m (2014: £70m).

We continue to gain recognition amongst customers and intermediaries, winning multiple awards during the year. I am particularly pleased that Kent Reliance won the What Mortgage Best Buy-to-Let Lender award for the second year running in 2015. This combined with our improved broker Net Promoter Score (NPS) of 59% demonstrates the strength and value of our customer franchise.

We have kept tight control on credit quality, as seen in our reportable arrears statistics: from more than 21,500 loans totalling £4.2bn of new organic originations since the bank's creation in February 2011, we only have 48 cases of arrears over three months in duration, with an aggregate balance of £5.1m and average LTV of 56%.

Our stable retail funding franchise continues to support lending growth with retail deposits up 24% to £5.4bn (2014: £4.3bn). Our loan to deposit ratio for 2015 was 93%[1], comfortably below our target of less than 100%, delivering on our strategy to be primarily retail funded. Over 23,000 new savings customers joined the Bank during 2015 and our successful programme of managing long term savings relationships by offering market competitive rates to all customers, including those with maturing fixed rate bonds and ISAs, continued to deliver a very strong 89% retention rate. We have diversified our sources of funding to include the government's Funding for Lending Scheme (FLS) and managed liquidity using a mixture of new and retained retail deposits and FLS. The strength and fairness of our retail savings proposition coupled with excellent customer service and high retention rates continues to allow the Bank to raise significant funds without needing to price at the very top of the best buy tables.

As the Group has grown, costs have been controlled in line with our stated targets, resulting in a further improvement in cost:income ratio to 26% (2014: 28%). We have continued to invest in customer facing and back office infrastructure as previously reported. To accommodate the Bank's growth in people, a new head office building in Chatham opened in the third quarter of 2015, and new premises in Bangalore are expected to be operational during the first quarter of 2016. During 2015 we rebranded our wholly-owned Indian operation from EasiProcess to OSBIndia reflecting its role as a core part of the Group.

OSBIndia undertakes a range of primary processing services at a significantly lower cost than an equivalent UK-based operation at very high quality.

I am particularly proud that we have achieved this whilst maintaining our focus on customers, borne out by a fundamental increase in consumer NPS to 55% (2014: 39%). This is also demonstrated by our numerous awards including Kent Reliance being named in the Moneyfacts awards as Best Bank Savings Provider.

1 Excluding the impact of drawdowns under the FLS.

Chief Executive Officer's statement continued

Management and Board changes

During 2015 we welcomed a new Independent Non-Executive Director, Eric Anstee. He is a qualified accountant with over 40 years' experience, including senior positions at Ernst and Young and Old Mutual Plc. Eric was the first Chief Executive of the Institute of Chartered Accountants in England and Wales and is a current member of the Takeover Panel Appeals Board and a former member of the Board of the Financial Reporting Council. In addition, Stephan Wilcke announced in December his intention to step down from the Board with effect from the 2016 AGM. I wish to thank him for his support and drive, both as a Director and for his time as Executive Chairman of OneSavings Bank.

Additionally, Hasan Kazmi joined in September 2015 as Chief Risk Officer and is a member of the executive team. Hasan has held senior roles in several financial institutions and advisers, and brings a wealth of risk management experience to the Group.

Market outlook

In his Summer Budget, the Chancellor announced changes to the tax regime for deposit taking institutions in the United Kingdom through the introduction of a Bank Corporation Tax Surcharge of 8%. In common with other deposit funded institutions it will ultimately reduce the Bank's post tax shareholder returns and capital available to fund new lending, however, we remain confident in at least meeting all of our financial objectives, including our return on equity target of greater than 25% in 2016.

There are a number of regulatory and financial changes, both announced and in consultation, that have the potential for changing some parts of the wider Buy-to-Let market.

The Chancellor announced a change to mortgage interest relief for individual landlords potentially reducing yield for some. Landlords who have chosen to borrow in their own name have until 2017 to plan any changes to their portfolios; furthermore the tax changes will be gradually implemented over a four year period allowing landlords time to adapt to these changes. We have already seen an increase in the proportion of applications through limited companies for our main Buy-to-Let brand, Kent Reliance, from 21% in January 2015 to more than 40% during December 2015. Lending to limited companies has always been a specialism for the Group, which will enable us to capitalise on this growing opportunity.

In his Autumn Statement, the Chancellor announced an increase in Stamp Duty Land Tax (SDLT) of 3% for Buy-to-Let purchases. Landlords view SDLT as a transaction cost that is spread over the life of the investment and tax deductible on sale. A significant proportion of the Buy-to-Let market comes from re-financing, which will see no direct impact from this change. OSB's Buy-to-Let refinancing percentage during 2015 was 58% in line with the Council of Mortgage Lenders (CML) market average.

Collectively these tax changes are likely to have an impact on the wider Buy-to-Let market and are expected to lead to rent increases in the private rented sector (PRS). However, OSB targets professional landlords with multiple properties who are generally seeking long term capital growth and should be less impacted by these changes than amateurs looking for a yield on their investment. Professional/multi-property landlords accounted for 69% of applications to OSB by value during the second half of 2015 and this number continues to increase (Q4 2015: 71%) in a strong market.

The Financial Policy Committee (FPC) has requested powers to direct the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) to require regulated lenders to place limits on Buy-to-Let mortgage lending by reference to LTV Ratios, and Interest Coverage Ratios (ICRs). This is consistent with the powers it has for residential mortgages and is the subject of consultation due to complete in March 2016. Ahead of these powers being finalised, the FPC has seen no immediate need to take action in the Buy-to-Let market to protect and enhance financial stability but is monitoring developments closely following the announced stamp duty changes.

OSB has always undertaken affordability testing as it assesses mortgage applications including interest rate rises through ICRs. The weighted average ICR for Buy-to-Let origination during 2015 was 159% demonstrating the cautious approach taken when assessing customer affordability. The average LTV on new lending in 2015 remained strong at 69%.

The key issue in the UK housing market continues to be the undersupply of housing, both in stock and new properties. Added to long term demographic factors such as population growth, affordability, and household fragmentation, this ensures the private rented sector (PRS) will remain key to UK housing strategy and Buy-to-Let lending will be crucial to its development over the long term. The CML publishes forecasts for UK Buy-to-Let lending which is expected to increase to 245,000 transactions during 2016 of which 57% will be remortgage. If the regulatory and fiscal changes act as a deterrent to inexperienced amateur landlords entering the market, then this will likely benefit the broader private rented sector in the longer term.

In November 2015 the consultation from the Basel Committee on standardised risk weights proposed higher risk weights for Buy-to-Let, to be implemented from 2019. This is based on a global calibration which is not appropriate for the UK Buy-to Let market. The Basel capital framework does accommodate for national discretion over Buy-to-Let risk weights to capture the 'differences in structure and development of financial systems', and this was applied at the EU level when adopting CRDIV for Buy-to-Let risk weights. OSB will progress towards an internal ratings-based approach (IRB) and aims to have it in place for Buy-to-Let prior to the EU's adoption of final rules on standardised risk weights. The Basel Committee is planning to consult on an IRB underpin, but we still expect significant benefit from moving to IRB.

Despite the potential headwinds, we have entered 2016 with our strongest ever pipeline and we believe that the long-term professional landlords that we target are well placed to continue developing their Buy-to-Let portfolios.

Focus for upcoming year

Over the coming year, OneSavings Bank will maintain its focus on delivering its stated strategy and objectives. Organic lending will remain the key driver of growth in the loan book and we anticipate loans growing at a rate in line with organic capital generation whilst sticking rigorously to our key return hurdles. We are well placed to develop our chosen markets and identify new areas of lending that are underserved by the large banks and require the skills and approach we bring. Each of our lending brands are broadening in their markets and identifying new opportunities to develop.

We acknowledge that, as a responsible lender, we need to recognise the causes of the political and regulatory headwinds in Buy-to-Let. 2016 has therefore seen us amend lending criteria such that we now focus even more strongly on the professional landlord community, and equally, we have reduced our attractiveness to the amateur. This has further strengthened our position as a specialist lender and we will build on this throughout the year. In addition, we continue to evaluate inorganic opportunities that provide long-term value and meet our strategic objectives. We will continue to deploy our expertise in chosen markets across all segments to deliver target return on equity and enhance our reputation across all lending and savings brands.

Our achievements in 2015 are a testament to the management and staff of OSB and I would like to thank my colleagues for their hard work and commitment throughout the year.

Andy Golding
Chief Executive Officer
16 March 2016

Market review

Economic overview
The UK economy continued to recover throughout 2015, with a Q4 GDP growth rate of 2.2% that is forecast at 2% in 2016, according to the Bank of England (BoE)[1]. The combination of GDP growth, low inflation and falling unemployment fed through to housing demand, with an increase in property transactions and lending volumes. Despite modest upward movements in wage inflation, overall inflation as measured by the Consumer Price Index (CPI), has been negligible, largely due to lower commodity prices and persistent geopolitical uncertainties hindering global economic growth. The continuing lack of inflationary pressure in the UK economy and weak global market performance in early 2016 has seen expectations of any rise in interest rates pushed further out.

The housing market
The UK housing market experienced growth in 2015, although the double digit levels of 2014 moderated to 6.7% in the year to December 2015. House prices grew more slowly in the second half of 2015, reflecting primarily the availability of mortgage credit, although changes to SDLT have impacted prices, particularly on more expensive properties. The economic recovery should continue to mitigate the impact of rising interest rates on affordability and repossessions.

The mortgage market
The CML entered 2015 expecting modest growth in new lending to £222bn. Year on year, however, the first half of 2015 saw a 1.1% reduction in like for like new lending, prompting the CML to revise initial forecasts downward to £209bn, 3% up on 2014. The final outcome was £220bn however, driven by a second half performance that represented a 16.8% increase on 2014.

This growth was driven substantially by new Buy-to-Let lending, with the Buy-to-Let market growing from £27.2bn of new lending in 2014 to £37.9bn in 2015. The Buy-to-Let sector saw two significant interventions announced in the year. In the Summer Budget, the Chancellor announced changes to tax relief on rental income and in the Autumn Statement, changes were announced in respect of SDLT. The former will be phased in over four years from 2017, with the latter to come into effect from April 2016.

The competitive landscape
The UK market for lending and savings products is highly concentrated towards the High Street Banks. It is dominated by five major players, whose strategy is to use current accounts to cross-sell a range of products including savings and investments, mortgages, personal loans and credit cards. The High Street Banks primarily target the traditional, high-volume consumer markets and rely upon economies of scale and process automation. In recent years, High Street Banks have been subject to heightened and sustained regulatory, political and public scrutiny following several industry crises: the need for state aid during the financial crisis, alleged complicity in LIBOR rate fixing, mis-selling of payment protection insurance and interest rate swaps.

This has facilitated the entry of Challenger Banks, a term applied to an emerging group of banks seeking to challenge the dominant market share of the High Street Banks. These Challenger Banks also offer current accounts as their core proposition, using them to develop wider customer relationships. Smaller than High Street Banks and without the negative brand legacy, they develop customer propositions where they have identified areas of competitive advantage such as service, accessibility and product features.

The newest entrants are Specialist Banks, a group that includes OneSavings Bank. The Specialist Banks focus on specific UK lending niches that are underserved and do not offer current accounts. A key feature of these Specialist Banks is a growing presence in the retail savings sector as they develop a range of funding sources.

OneSavings Bank's lending markets
UK Buy-to-Let/Specialist SME Market
Growth in the private rented housing sector (PRS) has been consistent since 2000, underpinned by strong tenant demand as a result of social and demographic changes, government policy and the potential difficulties faced by first-time buyers in securing finance. The major shift seen in residential mortgage lending has been to make affordability assessments stricter, and this has curtailed lending activity, despite mortgage rates at historically low levels.

The PRS now provides accommodation for more than 5.6m households in Great Britain (as at September 2015) over 20% of the total. Sector growth is expected to continue, increasing to 25% of total households by 2025 (Local Government forecasting). The total value of property in the PRS in Great Britain is £1.2 trillion, driven by house price inflation (HPI) and PRS growth. At the same time, social housing properties as a percentage of the housing sector have decreased, with renting the only major alternative to home ownership.

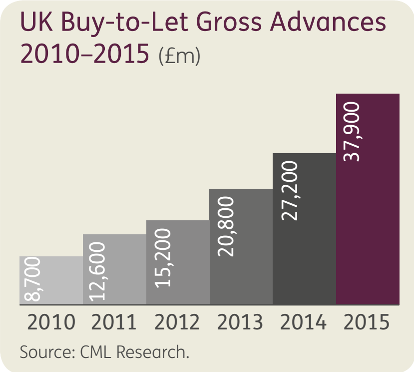
The Buy-to-Let (BTL) mortgage market serving the PRS has increased, with the number of outstanding mortgages rising from 120,300 in 2000 to over 1.7 million in 2015. Expansion in the Buy-to-Let market has been criticised for inhibiting growth in the owner-occupied market, particularly for first time buyers. Changes to tax relief and SDLT may moderate Buy-to-Let market growth, however the PRS is expected to remain a core component of the UK housing supply and the primary issue affecting the owner occupied market remains the lack of available stock and insufficient new build starts.

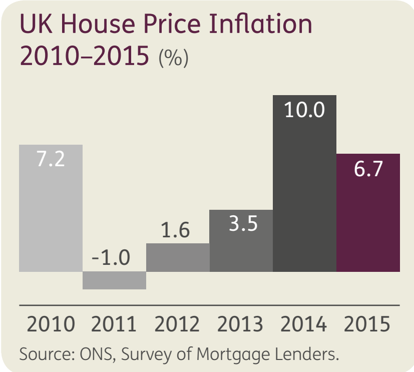
Over 2015, a number of lenders focusing on the amateur market have tightened their lending criteria and affordability assessments, and this is predicted to become more widespread in 2016.

Many professional landlords run their portfolio as a business, focusing on well-managed gearing levels and ensuring that cash flow adequately supports debt servicing obligations. Their long-term perspective means they are selective and cautious about portfolio growth.

OSB is particularly focused on this market hence we believe that the changes to tax relief and SDLT will not materially affect our business. We have already noted an increase in the proportion of new business applications from limited companies however and this is expected to continue.

1 Source: Bank of England Inflation Report February 2016.





Residential development

The UK has experienced a long-term upward trend in real house prices, creating affordability problems as demand for housing continues to outstrip both supply and real wage growth. Furthermore, turnover in the second-hand housing market is subdued.

The Commons Library (Stimulating Housing Supply) estimates that around 230,000 new homes are required each year, far greater than the 117,070 homes added to the national housing stock over the 12 months to the end of September 2015.

The number of small and medium size developers has not recovered after the financial crisis in 2008 due to difficulties in obtaining viable development finance and challenges of the planning system. The Housing and Planning Bill, which has received its third reading in Parliament, will introduce various measures in an attempt to boost the construction of new homes including specific measures to amend planning policy to support small sites. The sector will struggle to produce sufficient homes without the small to medium sized developers.

Specialist residential lending

The High Street Banks typically rely on a heavily automated, scorecard-driven approach to lending, as this provides a cost-effective means of servicing a high volume of residential mortgage loans. This is not an effective model for the specialist market, where OneSavings Bank's manual underwriting and individual case assessment model is more appropriate. Customers with complex asset or income structures and those seeking shared ownership mortgages are ill-served by the commoditised and inflexible decision processes of mainstream lenders. This is OSB's target market, which has been enhanced by the Mortgage Market Review (MMR) changes in 2014, which resulted in growth in demand for our personalised and manual approach to underwriting. Experienced and skilled underwriting assessment and process management techniques can achieve higher margins than mainstream lending, while maintaining a low risk profile.

There has been significant regulatory change in the residential market over the past decade, with new measures to ensure good lending practices and consumer outcomes. The MMR introduced new qualification requirements for sales staff and tougher affordability tests for consumers, in turn creating opportunities for lenders such as OneSavings Bank, with our efficient, intermediary based distribution model and a willingness to invest time in assessing individual cases.

Second charge lending

The second charge market saw an estimated £844m of gross new lending in 2015 (2014: £630m). OneSavings Bank targets good credit quality mortgage borrowers who wish to extend their borrowing but do not want to change their existing mortgage arrangements. Borrowers are typically seeking to fund a major purchase, undertake home improvements or consolidate and reschedule other consumer debt without refinancing their existing first charge mortgage, as it often carries a low interest rate.

The market will change fundamentally in March 2016 with the implementation of the European Mortgage Credit Directive and the move of second charge lending into the same regulatory framework as first charge lending. The most significant change will be to tighten the rules surrounding affordability assessment and will potentially result in fewer second charge residential loans although there may be some mitigation from the increased number of brokers that are recommending second charge loans. OSB welcomes these changes, which are aimed at improving consumer outcomes in a sector that currently has arrears levels in excess of 10%, several times greater than first charge lending.

While lending levels will fall in 2016, the longer-term outlook is more positive. In changing the regulatory framework, the FCA is sending a clear message that an appropriate outcome for a customer may be a secured loan. Improved regulation will safeguard the consumer and ensures the most appropriate customer outcome is achieved. As an established, regulated business with a strong compliance and 'treating customers fairly' ethic and processes and procedures for managing conduct risk, OneSavings Bank remains well-placed to take advantage of opportunities in the second charge residential market.

Our business model

one specialist lender

Targeting underserved market sub-sectors that offer high growth potential and attractive risk-adjusted returns

- private rented sector Buy-to-Let
- commercial and semi-commercial
- residential development finance
- specialist residential lending
- second charge residential lending

Differentiated by expertise and reputation

- bespoke underwriting
- intermediary relationships

Supported by inorganic growth

- selectively increasing our loan portfolio and adding expertise to our lending franchise

one fair place to save

Maintaining our sustainable funding platform to support long-term balance sheet growth

- attracting new and retaining existing savers
- developing long-term relationships with savers

Differentiated by overall customer proposition

- transparent and straightforward savings products
- long-term, recognisable good value
- accessible online, and by post, telephone and branch
- focusing on existing customers

one unique operating model

Structured to deliver maximum efficiency with outstanding customer experience

Differentiated by specialised distribution in each market

- multi-brand approach, using heritage and reputation
- shared infrastructure leveraging core capabilities
- focus on cost efficiency
- supported by award-winning customer experience from our low-cost operating platform in India

Our strategic objective

To be a leading specialist lender in our chosen sub-sectors, supported by a strong retail savings franchise.

Stakeholder focus

Shareholders

Our goals
- Deliver strong profitable growth and achieve our financial objectives
- Target market subsectors with high risk-adjusted returns
- Create long-term shareholder value

We delivered
- Our strategic and financial objectives
- OneSavings Bank's share price increased by 70% during 2015, giving a year end market valuation of £859m
- Inclusion in FTSE 250
- Improved underlying basic EPS to 34.8 pence
- Shareholders equity increased to £297.3m
- Dividend 8.7 pence

Looking forward
- Continue to deliver enhanced performance against financial, customer, quality and operational objectives
- Continue to innovate
- Broaden shareholder base and analyst coverage through performance delivery and increased education

Customers

Our goals
- Deliver transparent, straightforward propositions focusing on customer needs, underserved by high street banks for borrowers and savers
- Focus on service quality and easy-to-understand products and channels
- Bespoke lending assessments by experienced underwriters

We delivered
- Customer NPS of 55% at the end of 2015
- 23,000 new savings customers
- Online service customer numbers increased by 32,500
- Improved online savings process, website and customer experience in branches and online

Looking forward
- Make it easier to do business with us
- Continue to enhance processes, making customer journeys straightforward and quicker
- Continued automation in branches, enhancing customer service
- Continued branch environment improvements

Partners

Our goals
- Focus on intermediaries to develop long-term partnerships and make it easier for them to serve borrowers
- Listen and work with partners to develop new opportunities, based around our specialist lending capabilities
- Make swift decisions where appropriate

We delivered
- Broker NPS of 59% at the end of 2015
- Worked with partners to innovate new lending products
- Re-launched intermediary website with additional support
- Improved online partner communications and events to support brokers

Looking forward
- Improve the broker proposition through infrastructure and system enhancements
- Ongoing investment in deepening broker relationships
- Continue to innovate lending products to meet specific customer needs in commercial, Buy-to-Let and residential sectors

People

Our goals
- Provide a supportive and positive atmosphere for our staff
- Invest in the employee base to drive ongoing development, career progression and retention

We delivered
- Developed new Training and Competency scheme for customer-facing staff
- Opened new head office building to accommodate business growth
- Reduced employee attrition rate within OSBIndia

Looking forward
- Increase employee engagement
- Create and deliver the OSB Leadership Development Programme

Reporting links

Performance: Our key performance indicators (KPIs) measure our performance
For more information see p20

Risk: We seek to understand and mitigate the risks in achieving our goals
For more information see p29

Directors' remuneration: we aim to align this with how we have performed against our strategic targets **For more information see p68**

Our business model in action

one specialist lender

Sub-sector market specialisation

Our goals
We focus on specialist mortgage lending to consumers, entrepreneurs and SMEs in sub-sectors of the UK market, where we have identified opportunities for risk-adjusted high returns and strong growth, and where we can take a leading position.

- private rented sector Buy-to-Let
- commercial and semi-commercial
- residential development finance
- bespoke specialist residential lending
- second charge residential
- shared ownership

We delivered
We have further developed our well-established professional landlord proposition by leveraging our distribution strengths across brands and developing products to support professional landlords, including property refurbishment and second charge Buy-to-Let.

Looking forward
We will continue to identify opportunities where we can use our strengths to take leading sub-sector positions, adding value to the Group and maximising our use of capital.

Best Buy-to-Let Mortgage Provider 2015

Gross new organic lending

2015:
£1.8bn

2014: £1.5bn

A relationship built on respect

Brightstar is one of the UK's leading specialist mortgage brokers. Set up in 2011 by "three blokes with three phones", it has grown to a headcount of 43 and turnover in excess of £7,000,000, spread across its five specialist trading divisions of Specialist Mortgages & BTL, Second Charge Loans, Bridging Finance, Commercial Lending and Development Finance. During that time it has won a host of industry awards for its achievements and its CEO, Rob Jupp, is widely recognised as a leading figure in the UK mortgage industry.

Brightstar has had a relationship with OneSavings Bank since 2011, borne out of key relationships with senior members of the OSB team. That relationship has grown in breadth and depth as both businesses have grown, and now includes weekly sales visits and training for Brightstar staff at OSB's head office in Kent, to ensure that they are fully up to speed with the Bank's lending policies and products.

The nature of Brightstar's clients is never straightforward, and this makes OSB an ideal lender for them. CEO Rob Jupp believes that "OSB's open minded approach to lending has been mutually beneficial. Working with a lender who is prepared to take the time to hear the client's story can make all the difference. Their skilled underwriting has been a part of our own growth and success."

Such is the breadth of Brightstar's operations, it now has key relationships with Kent Reliance, InterBay Commercial and Prestige Finance, and recognises the advantages of dealing with such a diverse business. "It can be enormously helpful to deal with a lender with such a broad range of lending solutions available. We know that by approaching OSB with a case, we are going to a lender capable of providing a range of solutions for our clients".

Intermediary relationships

Our goals
We build long-term partnerships with a panel of selected specialist mortgage intermediaries that are leaders in their sub-sectors, making it easier for them to serve borrowers by providing swift decision making.

We provide access to specialist products and underwriting though our co-ordinated multi-brand approach and focus on listening and working with partners to develop new opportunities and bespoke solutions.

We delivered
We have deepened our relationships with these intermediaries and conservatively expanded the panel with whom we work. In 2015, we grew our sales force supporting more interaction, developing award-winning marketing and education campaigns, and making significant upgrades to broker websites. Combined with extending dedicated marketing support, these actions enhanced our Intermediary NPS to 59% in 2015.

What we will do
We will introduce a broker-friendly customer retention proposition to enhance long-term relationships. We will also use the broader reach of our cross-brand distribution strengths to extend our distribution reach.

Inorganic growth

Our goals
The Group is focused on organic origination as its core growth strategy. In addition, OSB has diversified into new lending markets through business acquisitions, including SME/Commercial, second charge, residential and Buy-to-Let. In addition the bank has acquired a number of mortgage portfolios and a personal loan book.

We delivered
In 2015, OSB completed the purchase of a £260m portfolio of UK second charge residential mortgages, which has been migrated securely on to our Prestige servicing platform.

OSB also provides funding lines to other lenders, secured against pools of loan collateral providing indirect access to certain high yielding, specialist sub-segments, such as residential bridge finance and leasing. As at the end of 2015, the Group had £126m of secured funding lines (2014: £70m).

What we will do
OSB will continue to actively consider inorganic opportunities as they arise to complement the core organic origination strategy.

Bespoke underwriting

Our goals
We adopt an expertise-based, manual approach to underwriting in each market sub-sector, specifically geared to each individual customer. We do not use automated or scorecard-based processes for underwriting new loans.

We differentiate our service proposition by responding quickly and flexibly to requests with direct access to decision-makers, and provide a service differential for more complex situations.

We delivered
We leveraged the expertise of our highly-skilled underwriting team, which has an average of 12 years' experience, to enhance the experience of our partners. Our Transactional Credit Committee met 103 times in 2015 to assess more complex or larger new mortgage applications that exceeded £1m of Group exposure.

Our own brand residential arrears level is testament to the success of this underwriting approach – as at December 2015, out of more than 21,500 loans totalling £4.2bn originated since the Bank's creation in February 2011, we only have 48 cases of arrears over three months in duration, with an aggregate balance of £5.1m and average LTV of 56%.

What we will do
We will continue to develop existing and new manual underwriting skills, through a training and coaching programme, ensuring that OSB staff have up-to-date skills and can continue to deliver a high-quality differentiated service.

Our business model in action continued

one fair place to save

New online service customers

2015:
32,500

Best Bank Savings Provider
Best Cash ISA Provider 2015

WINNER
THREE TIMES
Moneyfacts
Award 2013-2015
Best Cash ISA Provider

WINNER
Moneyfacts
Award 2015
Best Bank Savings Provider

Improved service with the same heart

Over 30 years ago, Raymond Short arrived in Kent to begin a new life. He was looking for a savings provider that could help him grow his money and provide for his family in the long-term. He chose Kent Reliance and quickly realised that the building society (as it was at the time) was about much more than just good rates.

Far from solely being motivated by interest rates and returns, Mr Short appreciates the friendly staff that treated him sympathetically when his son sadly passed away and who continue to offer a personable and accurate service. For Raymond, a branch-only customer, the “very new” and “very nice” Hempstead Valley Branch – which opened in October 2015 – represents an improvement on these established Kent Reliance values. The new private area enables him to talk face-to-face with a real person quicker and has built on the familial atmosphere he has come to expect.

Kent Reliance’s relationship with the Short family continues to flourish as Raymond’s daughter is now also a customer, with several Easy Access accounts between them.

Stable funding platform

Our goals
We focus on delivering a proposition to attract and retain a loyal customer base, providing a stable funding platform for OneSavings Bank to grow its loan book. Our proven retail savings performance ensures secure long-term funding.

We delivered
We continued to manage long-term relationships across all channels throughout 2015, offering a mixture of market competitive rates including maturing fixed rate bonds and ISAs. Where we target customer retention we achieve more than 90%. This year we have diversified our funding using the Funding for Lending Scheme (FLS) and have managed liquidity using a mixture of retention and FLS, averaging 89% retention throughout the year.

We attracted more than 23,000 new savings customers in 2015, and demonstrated the value of investing in our infrastructure by growing our online customer base by 35,000. The average balance of our savings customers is £22,900.

What we will do
In 2016, we will continue to develop our online savings proposition to new markets, using our proven and scalable platform, to meet a wider range of our customer savings needs.

Transparent savings products

Our goals
We deliver straightforward products that meet customer needs for cash savings. We offer good and consistent value, without having to price at the top of the best buy tables. We do not offer new customer-only products, and new customers are not offered rates better than those for existing customers.

We delivered
We continued to develop our core savings product range and in 2015 were recognised by Moneyfacts as the Best Bank Savings Provider and Best Cash ISA Provider for the third year running, as well as Best No Notice Account Provider.

We also introduced an enhanced children's savings proposition with the 2015 launch of a new Peter Pan account that supports Great Ormond Street Hospital for Children.

What we will do
In 2016, we will extend our savings expertise to SME customers, offering a new range of good value online savings accounts. We will also support people saving for their first home by introducing Help to Buy ISA accounts, offering a 25% government bonus.

Customer-focused philosophy

Our goals
By maintaining our strong customer-centric approach we are rewarded with a loyal customer base that recognises long-term good value.

We reward our people based on the quality of service they provide to customers, further protecting our retail savings franchise. We measure customer satisfaction and NPS through regular customer surveys using independent experts. These measures are aligned to our business strategy.

We delivered
We continue to deliver our brand values and in 2015 enhanced overall customer communications as well as individual interactions. Our customer panel and feedback programme identified ways of enhancing our online service and branch refurbishment programme. For example, our new, improved Hempstead Valley branch has been well received.

We measure customer satisfaction in several ways: NPS assesses customer advocacy – the likelihood of a customer recommending us to someone else. Our customer NPS is 55%. The industry recognised our success in 2015 and we won the customer experience category at the Financial Service Forum Awards for Marketing Effectiveness.

What we will do
We will continue to invest in enhancing our service in 2016, based on using technology and modern practices to support the brand traits customers have told us they prefer – heritage, trustworthy and traditional. We will also use our real-time customer feedback capability to identify and act on ideas for new products and service improvements.

Our business model in action continued

one unique operating model

Over
80%
of staff are graduates or hold higher degrees

Net Promoter Score
2015:
55%
2014: 39%

OSBIndia – award winning customer service

Improving award winning customer service whilst simultaneously reducing our cost:income ratio (see KPIs on page 20) takes a very particular approach to customer management.

The first step is listening. We ask for feedback from customers every time they call us, use our internet service or transact in a branch and during 2015 we received more than 43,000. We capture that information, analyse it and then undertake programmes of work to enhance our customer service; taking action.

- During 2015, customers told our wholly owned, off-shore customer service centre in Bangalore, India, that we could make their lives easier by improving some of our services. When a new customer opens an account we have made it easier for them to prove their address and to validate their primary bank account. This has made account opening quicker and smoother.
- They also wanted to be able to call us, rather than have to write to confirm their choice of product when fixed rate bonds and ISAs came to the end of term. A small thing, but we had to make sure that we could prove who we were talking to, and that the customer understood the choices being made, whilst not making it a lengthy and complicated process.
- Another thing we were asked for and made happen was a secure way to share confidential customer information online securely. As more of our customers elect to use our online service (35,000 new joiners in 2015) we are finding more ways of improving the service they receive.

These improvements amongst many others have meant that customers feel the benefits of our ongoing investment in OSBIndia and we were delighted when OneSavings Bank was awarded the The Financial Service Award for Marketing Effectiveness, for our customer feedback strategy. Listening and taking action.

Integrated multi-brand approach

Our goals
We will capitalise on our cross-company expertise, operating under a common operational framework that supports our key lending brands. Distribution, sales and risk processes operate under a simple, co-ordinated management structure giving us the ability to present our multiple-lending brands with great efficiency.

We delivered
We continued to work to a single risk appetite and a single lending policy in 2015, spanning all our brands and borrowing customers, using our experience in specialist lending to enhance policy. We ensured that risks were modelled and the comprehensive risk pricing model reflected latest market conditions and forecasts. This modelling ensures all product pricing goes through the same rigorous analysis, according to core principles set by our Group Pricing Committee, comprised of senior management.

What we will do
We will further develop the coordination and commonality of approach for our lending brands and customer and risk supporting operations in 2016, to maximise the expertise and goodwill we have built up in those customer-facing brands.

Cost-efficient operations

Our goals
We aim to ensure our administrative functions based in our wholly-owned subsidiary OSBIndia support the strategic intent of delivering excellent customer experience. We drive continuous customer-focused improvement through our flexible and cost-effective operating platforms, putting customer needs first.

We delivered
We benefited from our investment in continuously identifying and curing areas that cause customer dissatisfaction. In 2015 we established projects to improve customer experience by reviewing customer surveys, comments, complaints and calls. Customer-facing teams identified changes and resourced their implementation, prioritised by their overall impact. This has helped the improvement in our customer and intermediary NPS scores and improved training and new staff recruitment. It has also supported staff retention, helped transition additional roles to OSBIndia and is now a leading contributor to customer experience scores.

What we will do
We will continue to benchmark our processes against industry best, challenging what we do and eliminating customer pain points as they arise. We will also develop skills that enable highly efficient service management, matching those to business needs both in India and the UK.

Investment in infrastructure and systems

Our goals
We aim to deliver efficient, scalable and resilient infrastructure to support our business strategy objectives. We invest in complementary systems, both proprietary and industry standard, to deliver excellent service (measured against peers by industry experts), outstanding resilience and strong governance. OSB focuses on being a nimble bank with very few legacy issues.

We delivered
In 2015, we completed a scalable systems infrastructure upgrade and continued to integrate common infrastructure across the Group. This included new data and communications links throughout the Group; leveraging the OSBIndia call centre experience and commencing migration of new and existing business onto the newly-launched Phoebus mortgage servicing platform.

We also continued to invest in IT security, supported by market leading data security and resilience experts and opened our new head office building in Chatham, Kent, supporting our growth objectives.

What we will do
We will continue to leverage infrastructure investment across the Group in 2016, maximising customer and efficiency benefits. We will also ensure infrastructure and systems are regularly reviewed and tested, maximising their security and resilience using industry experts with particular focus on cyber security.

Operating and financial review

OneSavings Bank

Group overview

OneSavings Bank delivered strong loan book and earnings growth in 2015 and met or exceeded all of its stated financial objectives as set out at IPO. This strong performance reflects the continued successful delivery of our strategy to:

- be a leading specialist lender in our chosen sub-sectors;
- retain our focus on bespoke underwriting;
- further deepen our relationships and reputation for delivery with the intermediaries who distribute our mortgage products;
- leverage our efficient, scalable and cost effective operating model; and
- maintain and build on our stable retail savings franchise.

Business highlights

Gross new organic lending of £1.8bn in 2015 was up 20% compared with £1.5bn in 2014. We have continued to see strong opportunities for growth at risk-adjusted high returns, particularly in Buy-to-Let where the Group continues to target professional landlords with multiple properties. Buy-to-Let/SME is the Group's largest segment comprising 60% of the gross loan book with Residential Mortgages at 39% and Personal Loans at 1% as at 31 December 2015.

The Bank continued to grow its secured funding line business in 2015. Gross advances to other lenders, including bridge and asset finance businesses, were up 71% to £132m in 2015 (2014: £77m) with total loans outstanding as at 31 December 2015 up 80% to £126m (31 December 2014: £70m).

For all our lending segments, we manually underwrite all risks, providing us with competitive advantage over more automated lenders as we are able to identify and understand complex cases that others cannot.

Loans and advances grew by 31% in 2015 to £5.1bn (24% excluding the impact of a second charge residential portfolio purchase in the first half) reflecting the strong new organic origination, net of redemptions on the back book and acquired portfolios in run-off. This growth was achieved whilst improving the Bank's CET1 ratio to 11.6%, demonstrating the strength of the capital generation capability of the business through profitability.

The Group remains focused on organic origination as its core growth strategy, however, it continues to actively consider inorganic opportunities as they arise. To that end, the Bank acquired a portfolio of second charge mortgages in the first half of 2015 for £260m at a small premium (2014: a portfolio of SME mortgages for £20.4m with gross receivables of £25.6m). The Group conducts extensive due diligence when considering any portfolio acquisitions.

The Group reported very strong profit growth in 2015 with underlying profit before taxation increasing by 52% to £105.9m, reflecting the strong balance sheet growth, improved net interest margin and continued focus on cost discipline and efficiency. On a statutory basis, profit before taxation rose by 65% to £105.3m. Net Interest Margin improved by 18bps to 309bps in 2015 reflecting the positive impact of high margin new lending, the lack of price pressure in our core markets and a continued reduction in cost of funds. Underlying return on equity remained very strong increasing 1 percentage point to 32% for the year, as a result of the continued strength in profit margins, and underlying basic EPS strengthened to 34.8p (2014: 24.4p). On a statutory basis, basic EPS was 34.1p in 2015 (2013: 21.7p).

The Group remained predominantly retail funded during the year with a loan to deposit ratio of 93% as at 31 December 2015, excluding the impact of drawdowns under the Bank of England's Funding for Lending Scheme (FLS).

The Group joined the FLS in January 2014 and was subsequently accepted as a mortgage collateral counterparty later that year.

The Group's mortgage loans were first approved as eligible collateral by the BoE in February 2015 and placed in the FLS scheme in the following month to enable the Bank to draw funding under the scheme to support growth in the loan book.

Our customer-centric strategy of providing transparent savings products which offer long term value for money continues to deliver high levels of customer satisfaction and loyalty. We had a Net Promoter Score of 55% and a maturing fixed term bond and ISA balance retention rate of 89% in 2015 (2014: 39% and 92% respectively).

Financial objectives

The table opposite sets out the Group's stated financial objectives and our performance against them during the year.

The Group remains predominantly retail funded with a strong loan to deposit ratio of 93% as at 31 December 2015, excluding the impact of FLS drawdowns. The retail savings market has in the past demonstrated more stability across the economic cycle than wholesale funding markets providing a sustainable funding source to support the Group's growth.

Our focus on cost discipline and efficiency as we grow continued throughout 2015, helping to deliver a very strong cost:income ratio of 26% for the year, comfortably below our financial objective of 35% despite further investment in the Bank's infrastructure and operations during the year.

The Bank ended the year with a fully loaded CET1 Capital ratio of 11.6% (2014: 11.4%) demonstrating the Bank's ability to support significant growth through the organic capital generation capability of the business through profitability.

The Group delivered a very strong underlying RoE of 32% in 2015, reflecting the continued strength in profit margins and the ongoing impact of cost discipline and efficiency.

The Board is recommending a final dividend of 6.7 pence per share which together with the interim dividend paid of 2.0 pence per share, represents 25% of underlying profit after taxation for the year in line with the Bank's stated dividend policy.

Financial objectives 2014–2016[1]

		2015 result
Funding/liquidity strength	Maintain loan to deposit ratio of <100%[2]	93%
Cost discipline	Cost:income ratio of <35%	26%
Capital strength	CRD IV CET1 ratio >10%	11.6%
Shareholder returns	RoE of >25%	32%[3]
Dividend policy	Pay-out ratio of ≥25%[4]	25%

1 Objectives relate to the current financial planning cycle that lasts until the end of 2016. This does not represent any forecast, target or expectation as to future results or performance and there can be no assurance that the objective will be met.
2 Excluding the impact of any drawdown under the Funding for Lending Scheme (FLS).
3 For more information see Key performance indicator table on page 20.
4 Pay-out ratio of at least 25 per cent of underlying profit after taxation.

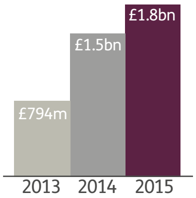
Operating and financial review continued

Key performance indicator table

Gross new lending

Performance

up 20%



Definition

This is defined as gross new organic lending before redemptions.

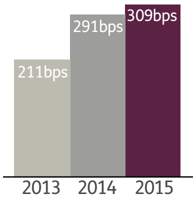
2015 Performance

Gross new lending in 2015 reflects strong growth in new origination, primarily in the Buy-to-Let/SME segment.

Net interest margin

Performance

up 18bps



Definition

This is defined as net interest income less coupons on perpetual subordinated bonds (PSBs) classified as equity, as a percentage of average interest bearing assets including off balance sheet FLS drawings. It represents the margin earned on loans and advances and liquid assets after swap expense/income and cost of funds.

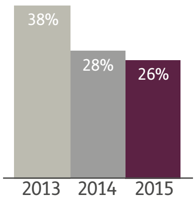
2015 Performance

The improvement in net interest margin reflects the positive impact of high margin organic origination and portfolio purchases and a continued reduction in the Bank's cost of funds.

Cost:income ratio

Performance

improved 2% points



Definition

This is defined as administrative expenses including depreciation and amortisation as a percentage of total income after deducting coupons on equity PSBs. It is a measure of operational efficiency.

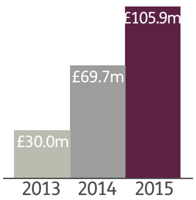
2015 Performance

The improvement in this ratio reflects the Bank's continued focus on lending in risk-adjusted high-margin sub-segments of the market and on cost control as it grows. The ratio continues to reflect the benefit of the Bank's efficient and scalable low cost back office based in Bangalore, India. The Bank targets a cost:income ratio of less than 35%.

Underlying profit before taxation

Performance

up 52%



Definition

This is defined as profit before taxation and before exceptional Initial Public Offering (IPO) expenses of £2.1m in 2015 (2014: £7.4m) and after deduction of coupons on equity PSBs of £1.5m in each period. It reflects the underlying profitability of the business.

2015 Performance

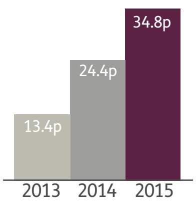
The significant increase reflects the strong balance sheet growth, improved net interest margin and continued focus on cost discipline and efficiency.

Statutory profit before taxation of £105.3m in 2015 increased by 65% compared to £63.7m in 2014.

Underlying basic EPS, pence per share

Performance

up 43%



Definition

This is defined as underlying profit after taxation (before exceptional IPO costs, including the tax effect, of £1.6m (2014: £6.4m) and after deducting, coupons on equity PSBs including the tax effect of £1.2m (2014: £1.1m) divided by the weighted average number of ordinary shares in issue. It is a measure of shareholder value.

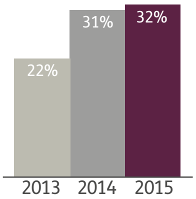
2015 Performance

The strong growth reflects the significant increase in underlying profitability of the Bank.

On a statutory basis basic EPS improved to 34.1 pence per share in 2015 from 21.7 pence per share in 2014.

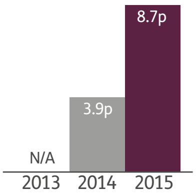
Underlying return on equity

Performance	Definition	2015 Performance
up 1% point	This is defined as underlying profit after taxation as a percentage of average shareholders' equity (excluding equity PSBs of £22m).	The underlying return on equity for 2015 of 32% is significantly ahead of the Bank's target of at least 25%.



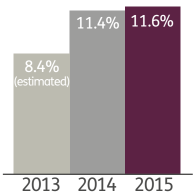
Dividend per share

Performance	Definition	2015 Performance
8.7p	This is defined as the sum of the recommended final dividend for 2015 plus the interim dividend divided by the number of ordinary shares in issue at the year end.	The Board will recommend a final dividend of 6.7p per share in respect of 2015 at the Bank's AGM on 11 May 2016. This together with the interim dividend of 2.0p per share represents 25% of underlying profit after tax for 2015, in line with the Bank's target dividend pay-out ratio (2014: final two-thirds dividend).



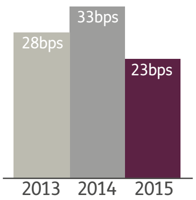
CRD IV fully-loaded Common equity tier 1 ratio

Performance	Definition	2015 Performance
Strengthened	This is defined as common equity tier 1 capital as a percentage of risk-weighted assets (calculated on a standardised basis) and is a measure of the capital strength of the Bank.	The capital ratio reflects the ability of the business to generate capital though profitability to support significant loan book growth.



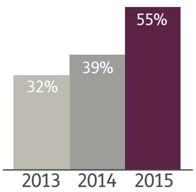
Loan loss ratio

Performance	Definition	2015 Performance
improved by 10bps	This is defined as impairment losses expressed as a percentage of average gross loans and advances. It is a measure of the credit performance of the loan book.	The improved ratio of 23bps for 2015 (2014: 33bps) reflects the continued strong performance from the front book of loans, originated by the Bank since its creation in 2011. From more than 21,500 loans totalling £4.2bn of new organic originations since the Bank's creation in February 2011, we only have 48 cases of arrears over three months in duration, with an aggregate balance of £5.1m and average LTV of 56%.



Customer satisfaction – Net Promoter Score

Performance	Definition	2015 Performance
up 16% points	The net promoter score measures our customers' satisfaction with our service and products. It is based on customer responses to the question of whether they would recommend us to a friend. The question scale is 0 for absolutely not to 10 for definitely yes. Based on the score a customer is defined as a detractor between 0 and 6, a passive between 7 and 8 and a promoter between 9 and 10. Subtracting the percentage of detractors from the percentage of promoters gives a net promoter score of between -100 and +100%.	The Bank's customer NPS for 2015 improved to 55% compared to 39% in 2014. This demonstrates that our customer-centric strategy of providing transparent savings products which offer long term value for money continues to deliver high levels of customer satisfaction.



Operating and financial review continued

Buy-to-Let/SME

We provide Buy-to-Let mortgages secured on residential property held for investment purposes by experienced and professional landlords and commercial mortgages secured on commercial and semi-commercial properties held for investment purposes or for owner occupation.

We also provide residential development finance to small and medium sized developers and secured funding lines to other lenders.

The Group increased its volume of new organic lending in this segment to £1.5bn, an increase of 25% on 2014 new lending of £1.2bn. This included strong growth in Buy-to-Let particularly in London and the South East where we saw strong growth opportunities at risk-adjusted high returns.

The Group was focused on organic origination as its core growth strategy during the year, however, we will continue to actively consider inorganic opportunities in this segment as they arise.

The total Buy-to-Let/SME net loan book grew by 51% in 2015 to £3.1bn (2014: £2.0bn) due to the gross new lending in the year, partially offset by back book redemptions, and is the Group's largest segment. Buy-to-Let/SME made a contribution to profit of £89.2m in 2015, up 100% compared to £44.6m in 2014, reflecting the positive impact of continued high margin organic origination and a continued reduction in the Bank's cost of funds.

The Group continued to see good opportunities in 2015 for risk-adjusted high return lending in each of its Buy-to-Let/SME sub-segments: Buy-to-Let, Commercial and Residential Development Finance.

The largest growth opportunity in 2015 remained, as it was in 2014, in Buy-to-Let lending to experienced and professional portfolio landlords through the Kent Reliance and InterBay brands. We distribute via a limited panel of intermediaries throughout England and Wales with a bias on properties in London and the South-East where the demand supply gap is widest and most sustainable.

The Buy-to-Let market grew strongly in 2015 with the CML reporting gross advances of £37.9bn (2014: £27.2bn), attracting political and regulatory interest: the Chancellor announced changes to the treatment of tax relief on interest for Buy-to-Let landlords in the Summer budget, followed by an increase in Stamp Duty Land Tax for Buy-to-Let and second homes in the Autumn Statement. The Financial Policy Committee (FPC) of the Bank of England were also granted macroprudential powers to intervene

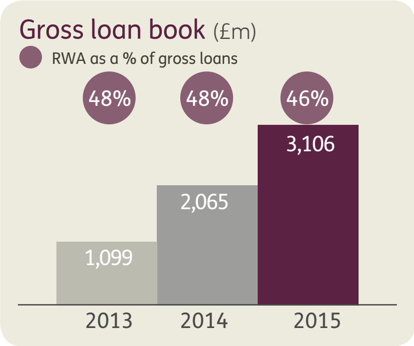
Lending to a specialised leading student accommodation provider

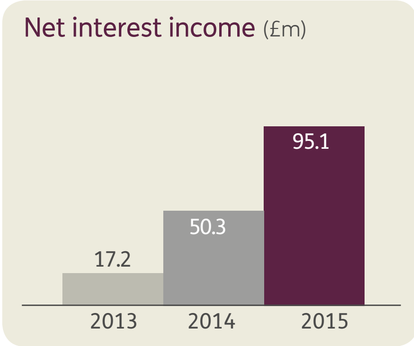
The Kexgill Group is the 2015 Estates Gazette 'Specialist Company of the Year'. Established in 1978 by Dr. Mike Lee, Kexgill is a returning student accommodation provider, and the only organisation offering both Halls and Houses in Multiple Occupation, in nine UK cities. Serving Preston, Salford, Liverpool, Middlesbrough, Stockton, Bradford, Leeds, Hull and Nottingham, Kexgill owns 2,800 student beds nationwide along with 430 multi-family apartments in Germany, and boasts a combined asset value in excess of £105m.

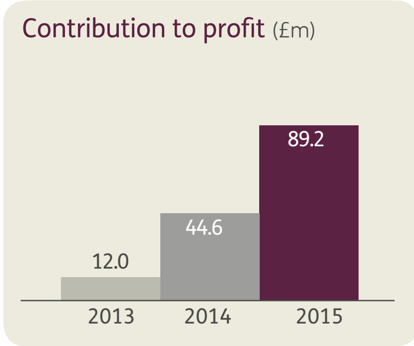
Richard Stott, Kexgill's Managing Director, was introduced to InterBay, the OneSavings Bank subsidiary, by Steve Williams of Bespoke Business Finance. After getting to know the business, a loan of £5.6m was initially provided by InterBay in 2012 to re-finance two halls of residence. Most recently, a loan of £3m was used to purchase a 108 bed studio development out of receivership. "This proved an easy straightforward purchase with no surprises, helped by a funding partner (InterBay) that understands the student market. I like the fact that both our retained broker Steve Williams and senior directors of OneSavings Bank take the trouble to get to know our business properly, including the operational side of the actual investments " said Richard.

Bespoke Business Finance have been an InterBay panel broker since their relaunch into the lending market. "The key to the success of this relationship has been InterBay's unrivalled grasp of the asset class and the desire throughout the organisation to support such a successful business from the very outset – a refreshing approach!" Steve Williams.

The Estates Gazette Awards are the commercial property industry's most prestigious event, and sees the likes of The Crown Estate, Land Securities and British Land go head to head to compete for some of the most sought after accolades in the business. "After the Award to Kexgill I was impressed that the senior directors of OneSavings Bank immediately got in touch to congratulate us. We see them as a key partner in our continued growth" said Richard.







in the market (with specific powers currently the subject of consultation) having identified the Buy-to-Let market as a potential risk to financial stability. Following these announcements the Group did not see an impact on Buy-to-Let application or completion levels, but did see an increase in the proportion of applications from limited companies after the Summer budget.

The Group also grew its commercial and semi-commercial lending through the InterBay brand in 2015. Through this brand we provide mortgages to limited companies and individuals secured on commercial and semi-commercial properties held for investment purposes or for owner occupation. InterBay's customers include professional landlords with investment portfolios holding both Buy-to-Let and commercial properties. The Bank launched its Heritable residential development finance business in early 2014. The business continues to gain momentum with a growing loan book and pipeline in spite of significant competition in the market. Total gross advances increased by 177% in 2015 to £86m (2014: £31m with the total loan book reaching £95m as at 31 December 2015, with further undrawn commitments (allowing for repayments) of £73m (2014: £31m and £38m respectively).

The Group also increased its secured funding to other lenders in this segment during the year, with gross new advances to bridge, asset finance and other lenders up 107% to £93m, with total loans at 2015 year end up 169% at £70m (2014: £45m and £26m respectively).

The quality of the pipeline remains strong with new applications from existing relationships, referrals and other new customers looking for funding from an experienced team, which continues to favour transacting with seasoned small and medium sized regional housebuilders.

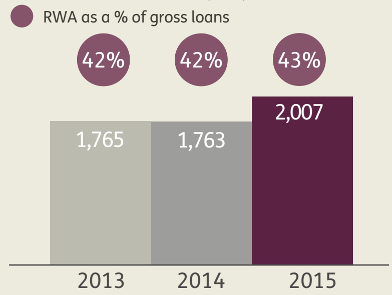
The Group remains highly focused on the credit quality of new lending as demonstrated by the average LTV in the Buy-to-Let/SME segment as at 31 December 2015 of 66% (31 December 2014 of 68%) with 1% of loans exceeding 90% LTV (31 December 2014: 2%). The average LTV for new Buy-to-Let/SME origination was 72% (2014: 72%).

Operating and financial review continued

Residential mortgages

Gross loan book (£m)

RWA as a % of gross loans



We lend to owner-occupiers with a geographical bias towards London and the South East.

OneSavings Bank offers bespoke residential first charge, second charge and shared ownership mortgages through specialist brokers. We also provide secured funding lines to other lenders.

During the year the Group increased its volume of gross organic residential lending to £334m (2014: £286m) as it continued to see opportunities to lend at risk-adjusted high returns.

Since 2011, the Group has purchased a number of residential mortgage portfolios. These were purchased on average at significant discounts and have generated high yields that have diluted the impact of the low yielding book inherited from Kent Reliance Building Society (KRBS). Organic growth remains the Group's core growth strategy however we continue to actively consider inorganic opportunities as they arise, particularly where we have in house servicing expertise. To that end the Group purchased a portfolio of second charge mortgages in the first half of 2015 for £260m at a small premium, which is serviced by the Group's second charge lender, Prestige Finance. There were no residential portfolio purchases during 2014.

The total net residential loan book increased by 14% to £2.0bn (31 December 2014: £1.8bn) due to the portfolio purchase as gross new organic origination was offset fully by redemptions on the back book and acquired mortgage books in run-off.

Residential Mortgages made a contribution to Group profit of £60.7m in 2015 up 22% compared to £49.9m in 2014, reflecting the positive impact of high margin organic origination and the portfolio purchase and a continued reduction in the Bank's cost of funds, partially offset by higher loan losses in acquired mortgage portfolios due to shortfalls on repossessions.

The Group continued to see good opportunities in 2015 for risk-adjusted high return lending in each of its Residential Mortgages sub-segments: bespoke first charge, second charge and shared-ownership.

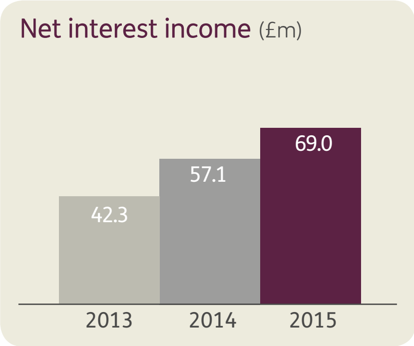
Our Kent Reliance brand provides bespoke first charge mortgages, typically to prime credit quality borrowers with more complex circumstances, for example high net worth borrowers with multiple income sources and self-employed borrowers. These circumstances often preclude them from the mainstream market, where most lenders favour automated decision-making over manual underwriting.

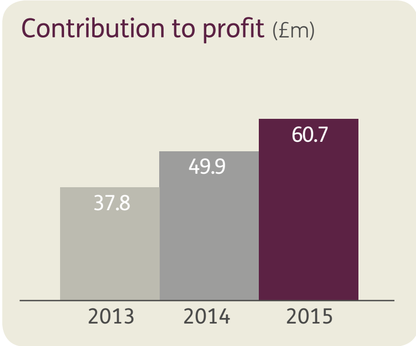
Knight Frank Finance – Residential purchase

Michael and Sophie Wilkinson are specialist residential mortgage customers of Kent Reliance. With complex mortgage requirements, when Michael and Sophie, who both work in marketing, wanted to move to their next home in South London, they realised that finding a mortgage would not be straightforward. They approached Knight Frank Finance, one of the UK's most respected specialist mortgage intermediaries and a specialist in finding a home for hard to place cases. "Our typical client will often find that the high volume lenders don't accommodate their requirements" said Alastair Keeling at Knight Frank Finance. "It's for this reason that we value our relationship with Kent Reliance, a lender who has demonstrated an ability to invest the time in understanding clients' personal circumstances and to write good quality business that others won't", he added.

Michael and Sophie's new home had a purchase price of £1.65m and they were looking to borrow £1.32m (81% LTV), with approximately £800k of the balance on an interest only basis and the remainder on a repayment mortgage. They were unable to sell their existing property in the short term so planned to let it for 6–12 months and then sell to free up capital and make a substantial reduction to their new mortgage. It was important therefore to find a lender that would not only accommodate their loan request, but that would also not penalise them for making a lump sum reduction.

A part interest only, part repayment loan is typical of the lending that Kent Reliance will undertake. Borrowers often have background assets that represent sound repayment vehicles for interest only loans, and the personal underwriting approach ensures that such circumstances are given full consideration. Michael and Sophie's requirements were met in full – they were able to make the purchase they wanted, without unnecessarily stretching their cashflow with a full repayment mortgage and with the flexibility to make a penalty free lump sum payment in the future.





Kent Reliance also operates in the shared ownership market, where borrowers buy a property in conjunction with a housing association. In the second half of the year we significantly enhanced our proposition in this market.

Our second charge mortgage brand, Prestige Finance, provides secured finance to good credit quality borrowers who are seeking a loan to raise funds rather than refinancing their first charge mortgage. This market was subject to high levels of competition during the year, however ongoing product innovation and leverage of wider OSB distribution relationships enabled Prestige to meet lending and return objectives. In addition, the business took over the servicing of two acquired portfolios.

The Group also increased its secured funding to other lenders in the year, with gross new advances to residential bridge finance lenders of £39m in 2015, with total loans as at 2015 year end up 27% at £56m (2014: £32m and £44m respectively).

The LTV of mortgages in this segment remained low at 56% as at 31 December 2015 (31 December 2014: 54%) with only 2% of loans exceeding 90% LTV (31 December 2014: 1%).

The average LTV of new residential origination in 2015 was 64% (2014: 59%).

Personal loans

OneSavings Bank acquired the performing former Northern Rock consumer loan portfolio from UKAR in July 2013 for £258m. This portfolio of high margin, seasoned, performing loans currently represents our only unsecured lending.

The book is in run-off with a short remaining weighted average life. The portfolio has a net carrying value of £42.1m, after collective provisions, as at 31 December 2015 (31 December 2014: £109.2m). Gross loans as at 31 December 2015 were £49.4m (31 December 2014: £117.1m). RWAs as a percentage of gross loans as at 31 December 2015 were 109% (31 December 2014: 86%). The portfolio made a contribution to profit of £1.3m in 2015 (2014: £10.4m) after impairment losses of £2.9m (2014: £5.9m) with net interest income of £5.6m (31 December 2014: £17.7m) reflecting the fast run-off of the book in advance of original expectation, and one-off adjustments to the EIR cashflow model as the portfolio nears maturity. Impairment losses in 2014 included the impact of a change in methodology to recognise losses earlier as arrears emerge. The pace of growth of arrears in the portfolio slowed in 2015 and remains significantly below expectations at the time of purchase.

Operating and financial review continued

Financial review

Strong growth in gross new organic lending up

20%

to

£1.8bn

2014: £1.5bn

	Group 31-Dec-15	Group 31-Dec-2014
Summary Profit or Loss	**£m**	£m
Net interest income	**169.8**	125.2
Losses on financial instruments	**(2.6)**	(2.1)
Net fees and commissions	**0.0**	0.4
External servicing fees	**(4.7)**	(4.6)
Administrative expenses[1]	**(41.2)**	(33.3)
FSCS and other provisions	**(3.4)**	(2.8)
Impairment losses	**(10.6)**	(11.7)
Exceptional IPO expenses	**(2.1)**	(7.4)
Profit before taxation	**105.3**	63.7
Profit after taxation	**84.1**	51.5
Underlying profit before taxation[2]	**105.9**	69.7
Underlying profit after taxation[3]	**84.5**	56.8
Key ratios		
Net interest margin[2]	**309 bps**	291bps
Cost:income ratio[2]	**26%**	28%
Management expense ratio[4]	**75bps**	77bps
Loan loss ratio	**0.23%**	0.33%
Basic EPS[2], pence per share	**34.1**	21.7
Underlying basic EPS[2], pence per share	**34.8**	24.4
Underlying return on equity[2]	**32%**	31%
Dividend per share, pence per share	**8.7**	3.9
Extracts from the Statement of Financial Position	**£m**	**£m**
Loans and advances	**5,134.8**	3,919.4
Retail deposits	**5,363.8**	4,331.6
Total assets	**5,970.4**	4,936.5
Key ratios		
Liquidity ratio[5]	**16.4%**	20.1%
Common equity tier 1 ratio[6]	**11.6%**	11.4%
Total capital ratio	**14.1%**	14.8%
Leverage ratio	**4.5%**	4.2%

1 Including depreciation and amortisation.
2 See definition in Key performance indicator table on page 20.
3 Underlying profit after taxation (before exceptional IPO costs, including the tax effect, of £1.6m (2014: £6.4m) and after deducting coupons on equity PSBs including the tax effect of £1.2m (2014: £1.1m).
4 Administrative expenses including depreciation and amortisation as a percentage of average total assets.
5 Liquid assets as a percentage of funding liabilities.
6 Fully-loaded under Basel III/CRD IV.

Strong profit growth

The Group reported very strong profit growth in 2015 with profit before taxation of £105.3m up 65% (2014: £63.7m). Underlying profit before taxation, before exceptional IPO expenses and after deducting coupons on equity PSBs, increased by 52% to £105.9m (2014: £69.7m), reflecting strong balance sheet growth, improved net interest margin and continued focus on cost discipline and efficiency.

Profit after taxation of £84.1m increased by 63% (2014: £51.5m). Underlying profit after taxation, before exceptional IPO costs, and after deducting coupons on equity PSBs, including the tax effects, was up 49% to £84.5m (2014: £56.8m).

Net interest margin

The Group delivered strong growth in net interest income in 2015, up 36% to £169.8m (2014: £125.2m), due to loan book growth and an improved net interest margin (NIM) which was up 18bps to 309bps. The improvement in NIM reflects the positive impact of high margin organic origination and portfolio purchases further diluting the low-yielding back book inherited from KRBS and offsetting the roll-off of the higher yielding personal loan portfolio, as well as a continued reduction in the Bank's cost of funds.

The lower cost of funds reflects the continued reduction in the cost of retail funds as maturing fixed term deposits rolled on to slightly lower prevailing rates and the positive impact of funding from the FLS.

The Group's mortgage loans were first approved as eligible collateral by the BoE in February 2015 and placed in the FLS scheme in the following month. Total drawdowns stood at £161m as at 31 December 2015, down from a peak of £0.4bn in September, as the Bank sought to spread the maturity profile and manage liquidity more efficiently (see Liquidity overleaf for more details). On 30 November 2015 the BoE announced a 2 year extension to the FLS to 31 January 2018 for unused drawing allowances. The total borrowing allowance available to the Bank is calculated from SME lending up to the end of 2015. The scheme is to be tapered over 2 years with the allowance reducing by 25% every 6 months from 1 February 2016 until the closure of the scheme.

The 25 basis point cost and 4 year term for drawings have been left unchanged.

Losses on financial instruments

Losses on financial instruments in 2015 of £2.6m (2014: £2.1m) includes cancelled swap amortisation costs of £3.1m (2014: £3.2m), gains on unmatched or ineffective hedges of £0.0m (2014: a loss of £1.2m) and a net gain of £0.6m from sales of treasury assets (2014: a net gain of £2.3m from the sale of the Bank's RMBS portfolio).

Net fees and commission

Net fees and commission income of £0.03m (2014: £0.37m) comprises fees and commission receivable of £1.1m (2014: £0.9m) including third-party servicing fee income in the Prestige Group and fees and commission payable of £1.1m (2014: £0.5m).

External servicing fees

External servicing fees remained broadly unchanged in 2015 at £4.7m (2014: £4.6m) as the portfolios purchased in 2014 and 2015 are being serviced in house.

Efficient and scalable operating platform

Administrative expenses including depreciation were up 24% to £41.2m in 2015 (2014: £33.3m) reflecting the continued build out of the Group's operations and infrastructure to support growth in the business, meet the demands of new regulations and improve operational efficiency.

The Group's cost:income ratio fell a further 2 percentage points to 26% in 2015 (2014: 28%) reflecting the Bank's continued focus on lending in risk-adjusted high margin sub-sectors of the market and on cost control and efficiency as it grows. The management expense ratio was 0.75% for 2015 (2014: 0.77%), reflecting the further build out of operations described above offset by further efficiencies and economies of scale. Both ratios reflect the benefit of the Bank's efficient and scalable low cost back office based in Bangalore, India.

FSCS and other provisions

These are primarily in respect of FSCS levies, which increased to £3.4m in 2015 (2014: £2.8m). This represents the full annual charge recognised on 1 April in each year, based on retail savings balances as at the previous 31 December, and reflects the increase in the Bank's share of UK protected deposits, partially offset by an overall decrease in the FSCS's expected capital losses.

Impairment losses

Impairment losses decreased to £10.6m in 2015 (2014: £11.7m) representing 23bps on average gross loans and advances (2014: 33bps) with lower loan losses on the personal loan portfolio, partially offset by higher loan losses on acquired mortgage portfolios.

Loan losses on the personal loan portfolio decreased to £2.9m (2014: £5.9m) following a change in methodology introduced in 2014. The pace of growth in arrears slowed in 2015, and levels remain well below the initial forecasts used to price the purchase.

Impairment losses on acquired mortgage portfolios in run-off totalled £2.8m in 2015 (2014: £1.0m) due to shortfalls on repossessions, but the books continue to perform in line with or better than forecast at the time of acquisition.

Operating and financial review continued

Financial review continued

Net loan book growth

31%

Strong loan book growth supported by internal capital generation from profitability

2014: 29%

Cost:income ratio

26%

Strong income growth and continued focus on cost discipline and efficiency

2014: 28%

The performance of the front book of mortgages remains extremely strong, reflecting the continued strength of the Bank's underwriting and lending criteria. From more than 21,500 loans totalling £4.2bn originated organically since the creation of the Bank in February 2011, there were only 48 cases three months or more in arrears as at 31 December 2015, with a total value of £5.1m and an average LTV of 56%.

Exceptional IPO expenses

Total IPO related costs of £2.1m in 2015 relate to nil price options over the Bank's shares granted to certain Directors, senior managers and other employees of the Bank at admission, with future vesting provisions. These options were granted by OSB Holdco Ltd, the Bank's major shareholder and as such the expense (with the exception of the associated employer's national insurance) is offset fully by an additional capital contribution.

Total IPO expenses of £7.4m charged to profit and loss in 2014, included £3.7m in respect of nil price options over the Bank's shares granted to certain Directors, senior managers and other employees of the Bank at admission (fully offset by an additional capital contribution) and £3.7m of other IPO related costs. A further £2.4m of costs attributable to the primary issuance were taken directly to equity in 2014.

Dividend

The Board recommends a final dividend for 2015 of 6.7 pence per share. Together with the 2015 interim dividend of 2.0 pence per share, this represents 25% of underlying profit after taxation for 2015 in line with the Bank's target dividend pay-out ratio. The proposed final dividend will be paid on 18 May 2016, subject to approval at the Annual General Meeting on 11 May 2016, with a record date of 29 March 2016.

Balance sheet growth

Loans and advances grew by 31% in 2015 to £5.1bn (31 December 2014: £3.9bn) (24% excluding the impact of a second charge residential portfolio purchase in the first half) reflecting strong new organic origination, particularly in the BTL/SME segment, net of redemptions on the back book and acquired portfolios in run-off.

Retail deposits grew by 24% as the growth in the loan book was in part funded by draw downs under the FLS of £161m as at 31 December 2015. Total assets grew by 21% due to the impact of the FLS draw downs as well as lower levels of liquidity. The FLS draw downs are in the form of T-bills which are held off balance sheet and replace cash deposits with the Bank of England in the Bank's liquidity portfolio which can then be used to fund loan book growth.

Liquidity

OneSavings Bank operates under the PRA's Individual Liquidity Adequacy Assessment (ILAA) regime. The Bank operates within a target range in excess of the minimum regulatory requirement. The Bank was able to manage its liquidity more efficiently in the fourth quarter of 2015 following approval by the Bank of England of a further pool of mortgage collateral which was pre-positioned for the FLS providing additional liquidity at short notice. In addition, the Bank continued to improve the spread of savings maturities over the year and maintain its strong retention track record on fixed term bond and ISA and ISA maturities. The Group's liquidity ratio as at 31 December 2015 was 16.4% (31 December 2014: 20.1% when the Bank built up additional liquidity in December in advance of pensioner bonds expected to launch at higher than market rates in January 2015).

Capital

The Bank's fully-loaded Common Equity Tier 1 Capital ratio (CET1 ratio) under CRD IV strengthened to 11.6% as at 31 December 2015 (31 December 2014: 11.4%), demonstrating the ability of the Bank to support significant loan book growth through capital generation from profitability.

The Bank had a Total Capital Ratio of 14.1% and a leverage ratio of 4.5% as at 31 December 2015 (31 December 2014: 14.8% and 4.2% respectively).

Chief Risk Officer's report

Strategic risk management framework

OneSavings Bank (OSB) continues to enhance and leverage its strategic risk management framework in support of its strategic and business growth. 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 shareholder value through the optimisation of the risk-reward profile which is framed within the wider strategy and risk appetite context. Specifically, OSB's risk management capabilities have made it possible to operate in distinct specialist market segments.

With the appointment of a new Chief Risk Officer (CRO), the focus has been on expanding the capabilities of the risk function through improved frameworks, analytics and architecture. The Group's risk strategy is based on creating value through enhanced risk based information and insights.

In 2015, the OSB Board has adopted an improved and comprehensive approach to discharging its risk oversight and control duties through the adoption of the Strategic Risk Management Framework (SRMF). The SRMF is designed to seamlessly align the bank's wider strategic and business objectives with the risk management principles, risk appetite, governance and controls. This structured and scalable approach is designed to meet OSB's medium to long-term strategic growth ambitions.

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.

Strategic Risk Management Framework (SRMF)

Key Elements

Risk Principles and Culture

Risk Strategy and Appetite

Risk Governance and Organisational Structure

Risk Definitions and Categorisation

Principal Risks

Financial Risks
- Credit Risk
- Market Risk
- Liquidity Risk
- Solvency

Non-Financial Risks
- Strategic and Business Risk
- Operational Risk
- Conduct Risk
- Reputational Risk
- Regulatory/Compliance Risk

Capabilities

Risk Framework and Policies

Risk Data and IT

Risk Analytics

Risk MI

Risk Regulatory Submissions

ICAAP

ILAA

RRP

Chief Risk Officer's report continued

Strategic risk management framework continued

Risk Principles and Culture

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

- **Customer Interests:** Customer outcomes and conduct risk are central to all aspects of OSB'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 is fully integrated into the Board and senior management decision processes.
- **Versatile:** Risk framework and underling capabilities are subject to ongoing review and are adaptive to the changing operating environment and OSBs business model.

OSB's corporate vision of being a leading specialist lender within its chosen markets 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 & 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 as to how risks are identified, assessed and managed;
- Risk management capability leveraged to create true information value.

Risk Appetite

OSB's risk appetite articulates the type and quantum of risk that OSB is able and willing to accept in pursuit of its strategy. Risk appetite is based on qualitative statements which articulate the risk taking intent of the Bank, and is supported by quantitative limits and controls.

The primary objective of the risk appetite is to protect the Bank from an unacceptable level of financial performance volatility, conduct and compliance failures and adverse reputational impact.

The risk appetite is reviewed and approved by the Board, and the Board Risk Committee recommends the risk appetite and monitors adherence to it. Management level committees review their respective risk profiles and operate within the defined limits, with operational support from the Chief Risk Officer and the Risk function.

Risk Appetite Statements

Overarching Risk Appetite Statement

The bank 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 bank.

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 has an appetite to take credit risk in the pursuit of risk adjusted high returns by leveraging market expertise, platforms and capabilities to deliver a desired return, while maintaining a prudent credit risk profile that ensures adherence to strategic and prudential objectives, under both normal and stressed conditions.

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 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.

Operational Risk Appetite Statement

The Group's operational processes, systems and controls are designed to minimise disruptions to customers, damage to reputation and detrimental impact on financial performance. The Group does not have an appetite for recurring or single event failures that may put at risk its financial performance, customer outcomes or reputation. However, the Group recognises that complete elimination of operational risk is unlikely and economically prohibitive. The Group actively manages its residual operational risks in the context of its wider risk appetite.

Conduct Risk Appetite Statement

The Group will not tolerate any systemic conduct related failure to deliver fair outcomes to all of its customers whilst recognising that isolated human and operational errors can lead to instances which result in customer detriment. If such instances occur, the Group policy requires that the specific issue should be rectified within a reasonable timeframe and root-cause analysis be performed to better understand the underlying reasons and appropriate remedial actions be taken.

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.

Chief Risk Officer's report continued

Strategic risk management framework continued

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.

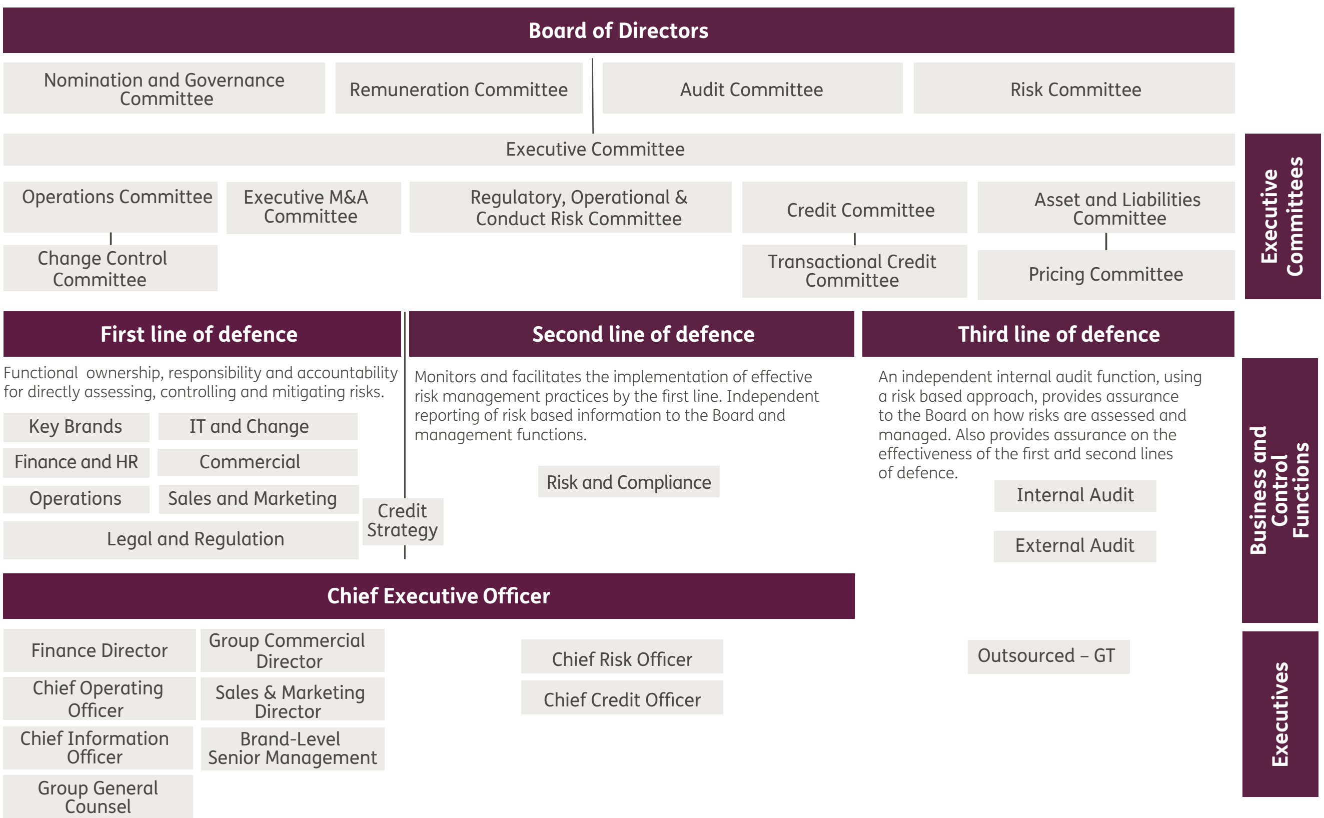
OSB has established a structural approach to risk governance, ensuring an effective level of alignment between oversight and management responsibility for risk. The risk governance structure has clearly defined roles and responsibilities for Board and Management committees, control functions and the 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.

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 bank within the defined risk appetite, with oversight and guidance provided by the Board and its risk committee. The CRO is the executive accountable for establishing an effective risk management and reporting framework. The CRO has dual reporting lines into the 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 discharge 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 which 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, meets twice a week to sanction individual lending cases that fall outside the mandates of the Underwriting team.

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">ALCO</td><td colspan="3">Regulatory, Operational, and Compliance Risk Committee (ROCC)</td></tr>
<tr><td colspan="4">Chief Risk Officer</td><td colspan="2">Group General Counsel and Company Secretary</td></tr>
<tr><td></td><td colspan="6">Strategic Risk Management Framework</td></tr>
<tr><td>Key policies</td><td>Lending Policy

Arrears, Repossession and Forbearance Policy</td><td>Interest Rate and Basis Risk Policy</td><td>Treasury Policy, ILAA</td><td colspan="2">Operational Risk Policy</td><td>Conduct Risk Policy</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>Regulatory/ Compliance MI</td><td>Conduct Risk MI</td></tr>
</table>

Chief Risk Officer's report continued

Strategic risk management framework continued

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 Bank's risk capabilities are vital to the successful achievement of the Bank's risk strategy.

Risk Frameworks and Policies

The Bank has adopted a hierarchial 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 Bank 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.

The Bank 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 Bank has invested 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 Bank's risk profile in the context of its risk appetite.

Risk MI is helping to assess risks in the wider context of business and economic drivers and the early warning indicators established by the Bank. 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 Bank has developed a suite of risk models and methodologies to quantify the various risks to which it is exposed. These models and methodologies are fit-for-purpose given the scale and complexity of the Bank's current business and risk profiles. The Bank 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 Bank 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 Bank 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 Bank's recovery triggers and options as part of the RRP process.

Credit Risk Modelling

The Bank 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 Bank 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

ALCO and the Board 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 Bank maintain liquidity within target levels.

2015 highlights

Credit Risk

As a mortgage lender, the Group is exposed to the macroeconomic environment in general and house prices in particular. Throughout 2015, house prices increased in the Bank's core geographic markets of London (12.4%) and the South-East (9.5%).

Throughout 2015, the credit portfolio has exhibited strong performance which is indicative of the deep market knowledge of the chosen sectors, prudent lending policies and supportive market conditions.

OSB continues to identify low-risk opportunities in areas of the market traditionally thought of as higher-risk, including originating second-charge loans to prime borrowers at conservative LTV levels, commercial loans against highly saleable properties, and niche residential development lending to borrowers with strong track records and solid projects. We offer secured funding lines to finance companies, maintaining substantial over collateralisation and cross-collateralisation.

The Bank 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 to manage within the approved credit risk appetite. Stress and scenario analysis are used to assess the potential impact on credit impairments, losses and capital requirements when subjected to a severe but plausible stress scenarios.

The credit limits are structured around the three primary product segments:

- Residential or owner occupied mortgages;
- Buy-to-Let mortgages and commercial mortgages; and
- Unsecured lending.

The limits are designed to ensure that the credit portfolio generates adequate and stable profits and does not put the Bank's dividend policy objectives at risk. Credit limits are also intended to ensure that lending is based on strong credit fundamentals, including strict focus on core markets, borrower affordability and recoverability.

The strength of credit portfolio performance is highlighted by the statistics below:

- average LTV increased from 59% to 64% for new residential mortgage lending and remained stable at 72% for new Buy-to-Let/SME lending;
- average loan to incomes (LTIs) for residential mortgage lending reduced with 3.3% of new loans having LTIs over 4.5 in 2015 compared to 9.2% in 2014;
- portfolio arrears rate[1] decreased from 2.3% to 2.1%; and
- legacy problem loans reduced from £31.1m to £17.8m.

OSB's credit risk profile remained within Board approved limits during the course of 2015.

1 Excluding legacy problem loans.

(See Risk Management and financial instruments, Note 33).

Solvency Risk

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

Solvency risk is a function of balance sheet growth, profitability, access to capital markets and regulatory changes. The Bank 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 Bank's business plans and in-organic growth opportunities.

During the course of 2015, the Bank strengthened its CET1 ratio despite significant organic and inorganic growth, demonstrating the strength of internal capital generation capabilities of its business through profitability.

(See Capital management, Note 35).

Forbearance measures undertaken 2015[1]

Forbearance Type	Number of Accounts	2015 Year End Balances £'000
Capitalisation	4	**227**
Temporary switch to interest only	106	**10,691**
Loan term extension	59	**3,474**
Payment holiday	21	**6,496**
Assistance with voluntary sale of property	11	**7,668**
Reduced monthly payments	70	**5,708**
	271	**34,264**

Loan Type	Number of Accounts	2015 Year End Balances £'000
First charge owner occupier[2]	200	**21,024**
Second charge owner occupier	38	**1,255**
Buy-to-Let	27	**11,521**
Commercial	6	**465**
	271	**34,264**

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

Chief Risk Officer's report continued

Strategic risk management framework continued

Liquidity & Funding
The Bank has a prudent approach to liquidity management through maintaining sufficient liquidity resources to cover cash flow imbalances and fluctuations in funding under both normal and stressed conditions arising from market wide and Bank specific events. The Bank's liquidity risk appetite has been calibrated to ensure that the Bank 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 Bank has successful utilised the FLS to manage its liquidity in 2015. The Bank prepositioned mortgage collateral with the Bank of England since February 2015 in order to use the FLS and to access the Bank of England's liquidity insurance facilities, should that become necessary. In conjunction with the FLS, the Bank has continued to attract new retail savers and retain existing retail savers through product offerings which meet customer saving requirements.

During the course of 2015 the Bank actively managed its liquidity and funding profile within the confines of its risk appetite.

(See Risk management and financial instruments, Note 33).

Market Risk
The Bank proactively manages its exposure to adverse movements in interest rates, foreign exchange rates and other market price movements. The primary driver of the market risk profile is interest rate risk. The Bank accepts interest rate risk and basis risk as a consequence of fixed rate mortgage lending, borrowing through fixed rate savings and purchases of fixed rate Treasury. Interest rate exposure is mitigated on a continuous basis through the use of derivatives within limits set by ALCO and approved by the Board.

Interest Rate Risk
The Bank does not actively assume interest rate risk and does not seek to take a significant 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 Bank 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. The Group sets a limit on 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.

Basis Risk
Basis risk arises from assets and liabilities re-pricing on different interest rate bases. Specifically, this may arise from assets and liabilities which re-price from different floating rate indices. The Bank has assets and liabilities which re-price from three different floating indices; Bank of England base, Libor and administered rates. As with interest rate risk, the Bank does not seek to take a significant basis risk position, but allows non-zero limits for operational flexibility.

The Group sets limits on net base and Libor positions by considering the impact on one-year net interest income of different interest rate scenarios specified in the Board-approved Interest rate and Basis Risk Policy. These scenarios assume that interest rates will converge within the one-year timeframe, making this the most appropriate measure of risk. As with interest rate risk, the capital allocation has been set to be proportional to common equity tier 1 capital. The Bank runs 7 basis risk scenarios monthly, including scenarios that consider both rising and falling interest rates.

Throughout the course of 2015, the Bank has remained within its appetite for market risk.

(See Risk management and financial instruments, Note 33).

Operational Risk
OSB continues to adopt a proactive approach to the management of operational risk. Through a combination of risk incident management, the regular capture and review of key risk indicators and a cyclical group-wide risk and control self-assessment exercise, a robust approach has been established for both monitoring and improving the risk environment.

There is a strong culture of transparency and escalation throughout the organisation, with the operational risk function having global reach and being inclusive of the entire Group.

The level of Operational Risk Appetite has been agreed by the Board and is defined and measured through a range of quantitative indicators that are continuously reviewed by the Board Risk Committee and Risk and Regulatory, Operational & Conduct Risk Management Committee.

The OSB definition of Operational Risk is underpinned by 9 typical causes; People, Processes, Systems, Premises/Physical Assets, External, Interpretation of Policy/Regulation, Change Implementation, Third Party Suppliers and Data Quality. The Bank's approach to Operational Risk incorporates both detective and preventative measures (the former represented by Risk Incidents and Risk Indicators and the latter represented through the cyclical Risk and Control Self-Assessment exercise). In all cases individual risks are uniquely mapped to the 9 causes, ensuring completeness of reporting and a rich source of data to support risk mitigating activities.

The current measures suggest that the Bank continues to operate within the risk appetite levels approved by the Board, however the recently completed Risk and Control Self-Assessment exercise has, as expected, identified a number of industry wide risks which, due to their nature, require a continuous evolution of the control framework. These typically include the likes of cyber risk, data management and operational resilience. In each case we have a series of ongoing deliverables intended to further mitigate the risk to the Bank.

Regulatory and Compliance Risk
The Bank 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 Bank's interpretation and response to new regulatory requirements reflects the Bank's specific circumstances and its desire to give the best customer outcomes.

The Bank 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 CML and BBA, seeks external advice from our auditors and/or other third parties. The Group also assesses the impact of upstream regulation on OSB and the wider market in which we operate, and undertakes robust assurance assessments from within the Risk and Compliance functions.

The key external regulatory and compliance changes to which the Bank has responded successfully include the Mortgage Market Review, EU Mortgage Credit Directive and Senior Managers Regime.

Conduct Risk
The Bank views its culture and behaviours in treating all its customers fairly as a fundamental part of its strategy and a key driver of sustainable profitability and growth. Customer awareness is ingrained across all aspects of the product life cycle, including product design, pricing, delivery and post-sale support. Conduct risk also forms the foundation upon which intermediary broker relationships are established and monitored.

OSB does not tolerate any systemic failure to deliver fair customer outcomes. On an isolated basis, incidents can result in customer detriment owing to human and operational error. Where such incidences occur they are quickly reviewed and remedial actions are taken to rectify them within a reasonable timeframe.

The importance placed on conduct risk and a truly customer centric culture is reflected in the very strong Net Promoter Scores and service quality awards the Bank has continued to receive during 2015.

Strategic & Business Risk
The Board has clearly articulated the Bank's strategic vision and business objectives supported by performance targets. The Bank does not intend to undertake any medium to long term strategic actions which would put at risk the Bank'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 Bank has adopted a sustainable business model based on a focused approach to core niche markets where its experience and capabilities give it a clear competitive advantage.

The Bank 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 Individual Liquidity Adequacy Assessment (ILAA). 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 (ICG) is set. The ILAA 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 Recovery and Resolution Plan (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 Bank actively engages with its key regulators to ensure that the supervisory teams are kept abreast of the Bank's strategic and business objectives, the risks to which it is exposed and the adequacy of risk controls and mitigants.

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	Risk	Mitigation	Direction
The risk to the Bank'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.	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.

Reputational risk

Definition	Risk	Mitigation	Direction
The potential risk of adverse effects that can arise from the Bank'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.	Potential loss of trust and confidence that our stakeholders place in us as a responsible and fair provider of financial services.	Culture and commitment to treating customers fairly and being open and transparent in communication with key stakeholders. Established processes to proactively identify and manage potential sources of reputational risk.	**Unchanged**

Credit risk

Definition	Risk	Mitigation	Direction
Potential for loss due to the failure of a counterparty to meet its contractual obligation to repay a debt in accordance with the agreed terms.	**Individual borrower defaults** Borrowers may encounter idiosyncratic problems in repaying their loans, for example due to the 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 p35. 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 the specific project and requires approval by a dedicated Development Finance Transactional Credit Committee.	**Unchanged** The Group's Lending Policy, underwriting standards, and approach to collections and recoveries have seen no material change over the past year.

Credit risk continued

Definition	Risk	Mitigation	Direction
	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.	**Unchanged** While the economic outlook remains uncertain, and particular concerns remain regarding contagion from China and geopolitical instability, the economic outlook for the UK has remained stable over the past year.
	Wholesale credit risk The Bank 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.	**Decreased** The Group established a reserve account with the Bank of England, enabling it to eliminate credit risk on most of its liquidity portfolio.

Market risk

Definition	Risk	Mitigation	Direction
Potential loss due to changes in market prices or values.	**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.	**Decreased** The Group has become more sophisticated in its assessment of interest rate risk, developing a better understanding 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 risk

Definition	Risk	Mitigation	Direction
The risk that the Group will be unable to meet its financial obligations as they fall due.	**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 provide diversification, and c. 94% of balances are 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	Risk	Mitigation	Direction
The potential inability of the Bank to ensure that it maintains sufficient capital levels for its business strategy and risk profile under both the base and stress case financial forecasts.	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 bank operates from a strong capital position and a consistent record of strong profitability. The bank 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 bank also holds prudent levels of capital buffers based on CRDIV requirements and expected balance sheet growth. The Group engages actively with regulators, industry bodies, and advisers to keep abreast of potential changes and provide feedback through the consultation process.	**Unchanged** Solvency risk is proactively monitored and where appropriate management actions are taken to ensure that the bank operates within its risk appetite. 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.

Principal risks and uncertainties continued

Operational risk

Definition	Risk	Mitigation	Direction
The risk of loss or negative impact to the Group resulting from inadequate or failed internal processes, people, or systems or from external events.	**Mortgage fraud** Applicants may provide false information or documentation to obtain a mortgage they might not otherwise be offered. In extreme cases, funds could be borrowed against an inflated valuation or even a non-existent property.	Experienced underwriters perform thorough checks on application information, including credit checks, ID checks, address checks, and Land Registry checks and checks against the National Hunter anti-fraud data sharing system. Brokers, valuers and solicitors are managed through panels and are subject to regular review.	**Unchanged** There has been no material change to the Group's approach to mortgage fraud risk.
	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.	An outsourced agency monitors the Bank's infrastructure for known threats and reports when they are being executed. This was extended to subsidiaries in 2015. Third-party tools are used regularly for penetration testing on the Bank's systems. Anti-virus software is installed to detect viruses and malware. An IT security governance forum regularly reviews activity.	**Unchanged** As the Group has increased its profile and developed its online offering, it has probably become more of a target for hackers. At the same time, its security measures have continued to improve and have performed very well under testing.
	Data risk Data risk arises from inappropriate usage, lack of data quality and security which can result in inaccurate reporting, customer detriment and reputational damage.	The Bank has established and 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.
	Model risk A small error in a model could be missed and lead the Group to overpay for a purchase or undercharge for a loan. If this were to happen on a large transaction, the absolute impact could be significant.	Models are subject to independent review and robust controls. Developers and users of the models have extensive industry experience and provide 'sanity checking' that will prevent any large errors.	**Unchanged** More models have been established in the business, meaning less new development and fewer chances to introduce errors. At the same time, the Group continues to pursue some relatively large transactions, particularly portfolio acquisitions, where a small model error could have a large absolute impact. The net impact of these changes is a broadly unchanged exposure.
	People risk The risk that the Bank 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 Bank 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 Bank is adopting a proactive approach to ensure future resource requirements can be met.
	Operational resilience Banks should have 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.	The Bank carries out scenario based business continuity planning (BCP), has crisis management procedures and recovery and contingency funding plans. The BCP is periodically tested to ensure operability.	**Increased** Increasing scale and globalisation of operations. The Bank is now reliant on systems and third party service providers. The sophistication of cyber crime continues to evolve.

Conduct risk

Definition	Risk	Mitigation	Direction
The risk that the Group's culture, organisation, behaviours, and actions result in unfair, unreasonable, or unexpected customer outcomes and detriment.	**Lending products** While the Group's products are simple, the size of a mortgage loan for a typical customer and the general lack of experience with such transactions means that customers may find themselves exposed to unfavourable outcomes.	The Group has a strategic dedication to simple, customer-friendly products. In addition, distribution is through intermediaries, who take on the role of advising customers, though the Group does review their performance. Finally, a robust conduct risk framework and product assessment tool is in place.	**Decreased** There has been little change in the Group's product offering from a conduct standpoint over the past year. A conduct risk framework and product risk tool have been introduced. A review of the product suite has confirmed that risk is low, and any risk in new product development has been further reduced.
	Back book The Group has a substantial back book of loans that were originated in a different conduct risk environment. The back book has not yet been reviewed in its entirety, and it is possible that there are some product features that could lead to customer detriment.	A thorough review of the back book is under way to identify conduct risk issues and remediate as appropriate.	**Unchanged** The issues highlighted through the back book review have so far been limited to a small number of cases, and, after investigation, the impact has proven to be limited.

Compliance/Regulatory risk

Definition	Risk	Mitigation	Direction
The risk that a change in legislation or regulation or an interpretation that differs from the Group's will adversely impact the Group.	Key compliance based regulatory changes that the bank is subject to include EMCD, Senior Managers Regime (SMR) and potential macro prudential controls of the BTL 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 bank has adopted the EMCD and SMR in an effective and timely manner. The adoption of MMR and the lending policy requirements around affordability mean that the bank should be well placed to respond to any macro prudential regulation of the BTL 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.	**Increased** The bank 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 BTL lending or tax changes such as the bank profits 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.

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Board of Directors have assessed the prospects and viability of the Group over a three-year period and have concluded they have a reasonable expectation that the Group will be able to continue to operate and meet its liabilities as they fall due over that period.

The three-year time period was selected for the following reasons:

- The Group's operating and financial plan covers a three-year period.
- The three-year operating and financial plan considers, among other matters: the Board's risk appetite; macro-economic outlook; market opportunity; the competitive landscape; and sensitivity of the financial plan to volumes, margin pressures and capital requirements.
- The Board believes that there is sufficient visibility over the economic and regulatory landscape and the market outlook offered by the three-year time horizon to make a reasonable assessment of viability.
- Significant uncertainty exists in the regulatory horizon beyond this point, with the Basel Committee currently in consultation on standardised approaches to credit and operational risk.

The Company is authorised by the PRA, and regulated by the FCA and PRA, and undertakes regular analysis of its risk profile and assumptions. It has a robust set of policies, procedures and systems to undertake a comprehensive assessment of all the principal risks and uncertainties to which it is exposed on a current and forward-looking basis (as described in Principal Risks and Uncertainties on pages 38 to 41).

The Group manages and monitors its risk profile through its strategic risk management framework, in particular through its risk appetite statement and risk limits (as described in the Chief Risk Officer's Report on pages 29 to 41). Potential changes in its risk profile are assessed across the business planning horizon by subjecting the operating and financial plan to severe but plausible macro-economic and idiosyncratic scenarios.

Stress testing is a vital discipline, which underpins the Company's Individual Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAA). The stress scenarios are identified based on the severity of underlying assumptions, relevance to the Company's business model and alignment with the Bank of England's prescribed stress scenario. In addition, the Company identifies a suite of credible management actions that would mitigate the impact of the stress scenarios. The Board and executive management use the outcome of the stress test analysis to evaluate the Company's management options and adequacy of the Company's capital and liquidity resources to withstand an extreme but plausible stress scenario. The Company holds sufficient capital to withstand such a stress scenario.

In addition, the Group identifies a range of catastrophic stress scenarios, which could result in the failure of its current business model. Business model failure scenarios (reverse stress tests) are primarily used to inform the Board and executive management of the outer limits of the Group's risk profile. Reverse stress tests play an important role in helping the Board and its executives to identify potential recovery options under a business model failure scenario, and form an important aspect of the Company's Recovery and Resolution Plans prescribed by the regulator.

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

Sustainability report

Operating sustainably and responsibly is integral to our business model and strategy, and builds on OneSavings Bank's long tradition of putting the customer at the heart of everything we do.

Our Core Values: Specialist, Personal and Flexible reflect our commitment to interact ethically, responsibly, and with integrity with all our stakeholders and the wider community in which we operate:

- We take a SPECIALIST approach to everything we do – we ensure we understand our stakeholders' requirements and use our creativity, skill and expertise to fulfil their requirements with honesty and integrity.
- We take a PERSONAL approach to everything we do – we treat everyone with respect and take accountability for our actions.
- We take a FLEXIBLE approach to everything we do – we ensure that we work collaboratively with our colleagues, customers and other stakeholders to achieve our goals.

Overview for 2015

During 2015, we achieved some important milestones developing our approach to sustainability:

Achievements for 2015

- Customers – Consistently High Consumer Net Promoter Score – 55%
- Employee Engagement survey – 78% response
- Great Ormond Street – £74,000 donation

In early 2016, the Board broadened the scope of the Nomination Committee to include Governance. Its terms of reference include the oversight of all Corporate Responsibility related matters for the Group, reflecting the importance we attribute to sustainability.

Responsibility to our Customers

OneSavings Bank encourages a culture that aims to:

- communicate and deal with each customer on an individual basis;
- act with consistency across all channels;
- be a confident, open and trustworthy workforce;
- offer simplicity and ease of business;
- offer long-term value for money; and
- offer products without the use of short-term bonus rates, and to offer the same rates to both existing and potential customers.

This strong focus on being a responsible financial services provider is underpinned by a suite of policies at Group level that establish a framework for consistent best practice across the Group, and ensure there are robust procedures to minimise the risk of failure to deliver the service our customers have come to expect from us.

The relevant policies include:

- Conduct Risk policy, including treating customers fairly to ensure the Group conducts its business fairly and without causing customer detriment.
- Responsible Lending Policy to ensure that the Group lends money responsibly.
- Vulnerable Customer and Suicide Awareness Policy to ensure that employees can identify vulnerability and potential suicide risks in our customers and put in place appropriate actions to deal with such issues as effectively as possible.
- Anti-money laundering Policy to ensure the Group is not used to further criminal activities.
- Anti-Bribery and Corruption Policy to ensure the Group carries out its business honestly.
- A Conflicts of Interest Policy to ensure the Group can identify and if possible avoid conflicts, and where this is not possible to manage conflicts fairly.
- Data Protection Policy to ensure the Group protects its customer data and manages it fairly.
- Whistleblowing policy to ensure that any employee who raises concerns around misconduct is protected.

Employees have mandatory training on all the key policies, with completion rates generally at 100%.

Improving customer engagement

We take a personal approach to our customers, treating each customer as an individual and listening to their needs. Many of our customers are also Members of the Kent Reliance Provident Society, the Society that took over the management of the membership of the former Kent Reliance Building Society. We provide Member engagement forums and an AGM at which members can engage with senior management and discuss their ideas for improving our customer experience. Topics have included development of the branch network, the launch of the revamped online savings products and working in partnership with the Bank, the Society also commenced the development of an online 'portal' enabling input from a geographically broader range of members.

Sustainability report continued

Our commitment to our customers is evidenced in the strong net promoter scores (a measure of how likely a customer is to recommend a business on a scale of -100 to +100) we achieve across our lending and saving franchises. In addition, we have won numerous awards for being the best provider for a range of services from Cash ISAs to Buy-to-Let mortgages.

Kent Reliance Savings:

Winner: Best Bank Savings Provider, Moneyfacts Awards 2015

Winner: Best Cash ISA Provider, Moneyfacts Awards 2015 (for the third year running)

Winner: Best No Notice Account Provider, Moneyfacts Awards 2015

Highly Commended ISA Provider: Moneyfacts Consumer Awards 2015

Kent Reliance for Intermediaries:

Winner: Best Buy-to-Let Mortgage Provider, The Personal Finance Awards 2014/2015

Winner: Best Buy-to-Let Mortgage Provider, What Mortgage Awards 2015

Highly Commended: Community Services – Large lenders, Mortgage Finance Gazette 2015

Digital banking

We aim to make banking easier for our customers and as such we have significantly invested in digital banking over the past two years and have upgraded our infrastructure. This includes security, internet capability and handling services.

Customer complaints

While we aim to provide an excellent service, when things have gone wrong we aim to put this right and learn from any mistakes made. We have a comprehensive, Group-wide complaints handling system and our staff complete rigorous training programmes to ensure a compliant and fair process is followed.

Responsibility to Our Employees

Our employees are our key asset. Their skills, expertise and enthusiasm are central to achieving our strategic goals, and we continue to develop our training and development and employee engagement activities to support our employees.

At the end of 2015, we employed 395 people in the UK and 210 people in India over a broad range of occupations. Our largest employment groups are our customer facing team: customer advisors, supported by internal managerial, clerical, back office and professional staff.

Building, developing and retaining talent

Diversity and inclusion

We recognise the benefits of diversity, including gender diversity, throughout the Group and work to ensure that there is an appropriate balance of skills and experience across the Group.

During 2015 we carried out our first review of gender diversity across the Group. Over 60% of our workforce is female, we have two female directors (18% of Board) and two female members of the Executive Team (22%).

	Male	Female
Number of Board Directors	9	2
Number of Directors[1] of subsidiaries	73	12
Number of senior managers (not directors)	32	8
All other employees	118	225

1 This is the total number of directorships held by gender. There are 18 male Directors and 3 female Directors holding these directorships.

We also carried out a review to identify if there were any impediments to ensuring gender balance across the business and looked at recruitment, retention and promotions policy and procedure. Although no specific barriers were identified, maternity and paternity benefits have been improved and training in relation to unconscious bias is to be introduced across all management grades, as a result of this review.

The Bank will be tracking the take up of flexible working arrangements and other gender related metrics going forwards, and will assess whether any further measures or measurable objectives need to be put in place.

Human Rights

We want all our workforce and wider stakeholders to be treated with dignity and respect. OneSavings Bank endorses the UN Declaration of Human Rights and supports the UN Guiding Principles of Business and Human Rights. The Group adheres to the International Labour Organisation Fundamental Conventions. We seek to engage with stakeholders with fairness, dignity and respect. The Company does not tolerate child labour and forced labour. OneSavings Bank respects freedom of association and the rights of employees to be represented by trade unions or works councils. OneSavings Bank is a fair employer and does not discriminate on the basis of gender, religion, age, disability or ethnicity. Our policy applies throughout the group and is communicated to our employees during their induction training. We encourage suppliers and business partners to adhere to the same principles.

Talent Development and Training

We encourage employees to carry out their work to the best of their ability. We promote learning and skills development opportunities across the organisation. This is delivered through e-learning courses, in-house courses, coaching and external programmes. We have a very high completion rate (100% in 2015) for mandatory compliance training, and this is linked to each employees annual objectives to emphasis the importance we place on ensuring our employees are suitably skilled.

While we are still a relatively small business in terms of employee numbers, we actively promote group wide vacancies internally to support career development for existing employees and we filled 31% of vacancies (58 of 185) with internal candidates during 2015.

We also identify high potential individuals for development and promotion in the Group. In 2016 we will launch a talent development programme to develop competence, build confidence, gain commitment, reduce attrition and acquire and retain talent.

Employee Engagement
Having reached a material size in terms of employee numbers, we carried out our first employee engagement survey in 2015, using the Sunday Times Best Companies to Work For. Take up of the opportunity to give feedback to the business was strong at 78%. Overall the results of the survey show that employees are strongly aligned with the company and their teams. We have established an employee engagement forum consisting of representatives across all departments and subsidiaries to help us identify and build solutions to issues that matter to our employees.

Health and safety
Keeping our employees healthy and safe is important to OneSavings Bank. We are committed to fostering and maintaining a healthy working environment in which our employees can flourish, and our customers can safely transact with us.

We operate a Group Health and Safety Policy and we review our employee and customer environments regularly.

Activities in 2015:
- We assessed and responded to Group health and safety risks and workplace hazards. These included: display screen equipment for staff, pregnancy and health in the workplace, fire safety, water treatment, asbestos, staff welfare, provision and use of work equipment and electrical safety. As part of this process, we also conducted general risk assessments on hazards.
- We continued to measure health and safety performance against a range of key performance indicators in line with health and safety statutory requirements and our internal risk management system. All scheduled risk assessments were completed as planned.
- We worked on our safety and security systems, improving areas of access control and also the systems that manage our contractors.

Remuneration and benefits
We believe in rewarding our employees fairly and transparently, enabling them to share in the success of the business. Details of the Group's remuneration policies can be found in the Remuneration Report on pages 75 to 81.

We offer our employees a comprehensive range of benefits, and continue to review these to ensure they are in line with market practice. In addition to pension contributions, we offer a childcare voucher scheme, interest free season ticket loan, and a cycle to work scheme offering discounts on bicycles.

We also encourage our employees to hold shares in the Bank for the long term, and offer a Save as You Earn scheme which has had very strong take up across the Group with 46% of employees participating as at the end of the year across the 2014 and 2015 Schemes.

Responsibility for the Environment
As an office based financial services provider, we have a relatively low environmental impact.

Despite this, we remain committed to reducing our environmental impact, and during 2016 the Board will look to put in place a formal Environmental Policy.

OneSavings Bank Environmental Policy
Will aim to:
- Respect the environment.
- Reduce our environmental impacts: minimising energy and water consumption.
- Monitor and assess our environmental impact.
- Communicate our policy to all employees, business partners and make it assessable to customers and any interested shareholders.
- Commit to continual improvement and developing objectives and targets for reducing our environmental impacts.
- Periodically conduct environmental audits in line with the Energy Saving Opportunities Scheme.
- Promote environmental awareness with our stakeholders and engage with our customers to develop green solutions, such as promoting the use of online statements.

Activities in 2015
During 2015, we made good progress in our programme of environmental initiatives to reduce our impacts throughout Group operations. Activities during the year included:
- Conducting environmental audits on energy and gas consumption at eight offices; usage was 655,368 KWh – energy and 299,388 KWh gas;
- Campaigns to reduce business travel by facilitating the use of conference calls;
- Energy efficiency initiatives encouraging better use of office machinery, including introduction of secure and duplex printing; and
- Promotion of greener vehicles.

As part of our processes, we conduct regular environmental audits at all our operations. Audits form part of our approach to Energy Savings Opportunities Scheme (ESOS) assessment.

Our goals for 2016 are to:
- Establish a formal Environmental Policy.
- Set up a task force for establishing and monitoring the Environmental Policy.
- Regularly review our environmental impacts.
- Apply environmental principles within our procurement supplier policy, especially in regards to paper and heating.
- Promptly integrate feedback provided by audits.

Sustainability report continued

Responsibility towards our Community

OneSavings Bank has traditionally had very strong links with the community in which it operates, through its Building Society heritage, and this is continued through its Kent Reliance brand.

We have a well-established Community Services programme that does not simply take the form of donations and fundraising, but also includes staff volunteering and involvement.

As one of the largest employers in the region, many of our staff live in the local area – they are a part of the local and regional community and therefore local causes and campaigns particularly resonate with our workforce. Staff feedback is crucial to informing where our support can be best placed within the community, from an in-office collection to our major charity partners.

Our diverse Community Services programme includes being a major sponsor of Demelza Hospice Care for Children, donating to local Kent-based charitable causes through our Kent Reliance Community Fund, sponsorship of Kent FA's 20 County Cup competitions and development centre, the Kent Reliance 'Kent Heroes' and 'Make Someone's Christmas' campaigns that we undertook with a local media partner.

However, our charitable endeavours cannot simply take place on our front doorstep; we also support both national and international charities too. Through our savings arm of Kent Reliance we fundraise for Great Ormond Street Hospital and also donate to global crises via Y Care International through in-office and branch initiatives.

Overall the Bank has contributed through sponsorship and donations a total of over £170,000 to community and charitable causes in 2015.

Feedback from our 2015 Staff Engagement survey suggests that staff would like more visibility of community activities within the Group and greater engagement. This will be a key deliverable of the new Employee Engagement Forum for 2016.

Demelza Hospice Care for Children

Local charity, Demelza, provides vital care and support for life-limited and life-threatened children, young people and their families.

Supporting Demelza by fundraising through a combination of sponsorship and donations is hugely important to Kent Reliance. The significance of the support Demelza provides to families cannot be over-estimated and our staff takes huge pride in their annual fundraising event, 'Go Dotty'. Aside from straightforward fundraising, we also engage with the local community by gifting our branch network as collection and promotion outlets for the charity.

Engagement with the charity doesn't end with our sponsorship. Our staff embrace the opportunity to get involved with Demelza, with many of our employees visiting the hospice throughout the year on Volunteer Days to help clear and maintain the gardens, build new outdoor activity centres for the children and help with building maintenance. Staff have also made Demelza their charity of choice when taking part in sponsored marathons.

Andy Golding comments on our support for Demelza: "Although we do have fun whilst raising money for Demelza, we take our work in the local community very seriously. We fully support the remarkable work performed by the charity and the crucial care they provide for life-limited and life-threatened children, young people, and their families. We know that the charity wouldn't be able to function without the help and support of those in the community, and we are proud to support Demelza as one of our key charity partners so they can continue providing the best possible care."

Fundraising donation: in excess of £4,000

Kent County Football Association

The Kent FA's mission is to establish safe and structured football opportunities for the benefit of all. Football remains the most popular sport in Kent with 4,500 teams and 45,000 players competing each week across the County. Adult participation in grassroots football is declining due to modern lifestyles; however, its contribution to building stronger communities, reducing crime, improving health, and tackling obesity is undisputed.

Our relationship with Kent FA is well-established and in 2015 we furthered our commitment to the organisation by sponsoring all 20 of their County Cup competitions. Through our sponsorship we provide funding for over 1,000 teams competing across the county, from grassroots to professional clubs, funding for Kent FA Girls and Kent FA Disability Player Development Centres, football equipment to all County Cup finalists and prize funds for the Senior Cup and Senior Trophy winners to help celebrate their success.

Our support of grassroots football continues with the launch of the #MagicOfTheCup competition; this initiative provides further opportunity for competing clubs to celebrate their successes, community inclusiveness and love of the game.

Paul Dolan, Chief Executive of the Kent FA: "Throughout our relationship with Kent Reliance, they have shown their commitment to the grassroots football community. Kent Reliance has supported us with a variety of projects to develop and improve the game for people in Kent. Our 20 County Cups Competitions play an integral role in our engagement with clubs in Kent. Our partnership with Kent Reliance will ensure that we lead the way in creating competitions that uphold the highest standards."

Barry W. Bright, Chairman & Managing Director, Kent FA and Leader of FA Council: "This sponsorship has been openly held up as good practice by The Football Association on a national basis as guidance to other parts of England as to what can be professionally achieved respecting mutual activities but in the best traditional interests of all. Long may it continue to appeal and for all to prosper".

Sponsorship donation: £20,000

Kent Heroes

In 2015, we launched the 'Kent Heroes' campaign in conjunction with Kent Messenger; this was a community initiative where we asked the public to nominate who they thought should receive the following awards:

- Carer of the Year
- Teacher of the Year
- Young Person of the Year
- 999 Person of the Year
- Unsung Kent Hero

This campaign gave the local community an opportunity to celebrate local, unsung heroes who otherwise may not have been thanked for their selfless acts. The most appealing part of the undertaking was the real sense of inclusiveness these awards promoted – every sector of the local community could be represented regardless of age or ability. Each award recipient was publicly recognised with an exclusive story in the Kent Messenger and a £500 cheque from Kent Reliance.

The success of the inaugural 'Kent Heroes' campaign and the positive impact it has on the local community means it has informed our decision to make it an annual event.

Sponsorship donation: £17,500

Great Ormond Street Hospital

As a business, we like to think of our staff as extended family – a cliché, perhaps, but one that certainly rings true with Kent Reliance. It is perhaps because of this family-focused ethos that we naturally feel drawn to charities that support families at their time of need.

Great Ormond Street Hospital's (GOSH) mission is simple, as a charity their aim is to raise enough money to enable the hospital to continue to provide the very best care for its young patients and their families. In 2011, we launched our Peter Pan savings account with a commitment to raise funds for GOSH with a minimum yearly donation of £25,000. To date, we have donated in excess of £169,000 to the children's hospital.

Fundraising donations for 2015: in excess of £74,000

KEiBA, Medway Business Awards and Kent Charity Awards

The Kent Excellence in Business Awards is an annual award scheme staged in conjunction with Kent County Council and the KM Media Group to recognise and reward excellence in Kent and Medway's businesses.

The awards have a high profile and winning a KEiBA is indicative of the quality of an organisation and the strength of their management team. These awards attract a wide range of entries from across a variety of sectors.

Sponsoring the Employer of the Year award at KEiBA gave Kent Reliance the opportunity to showcase regional companies who are thriving due to their employee centric focus. As a major Kent employer and a company which has grown rapidly, we understand the importance of being a good employer and, crucially, how an organisation needs to be supportive of its workforce to create success.

The Medway Business Awards celebrate successful businesses in the Medway region. As a leading employer with a rich Medway history, it is a natural fit for us to support the awards via our dedicated sponsorship.

The Kent Charity Awards showcase the hard work that charities and voluntary groups from around the county undertake to make the lives of others better. Celebrating and supporting the county at a grassroots level is key to Kent Reliance's charitable endeavours and our sponsorship of KCA reflects that.

Sponsorship donation: £11,500

Kent Reliance Community Fund and Medway 100 Club

On a monthly basis the Kent Reliance Community Fund donates £1,000 to charitable causes across Kent. Kent Reliance is also a member of the Medway 100 Club, a group of Medway businesses who proactively support community initiatives. The group meets regularly to hear directly from people and groups working at grassroots levels to make a difference in the community, the group then decides how funds should be split across Medway.

Sponsorship donation: £12,000

Kent County Cricket Club

In 2015, Kent Reliance signed a three-year sponsorship contract with Kent County Cricket Club (KCCC), specifically supporting the Club's community programme. As with our commitment to Kent FA, this relationship is another opportunity to really support grassroots activity within the county and encourage people of all abilities to get involved and enjoy sport.

Our sponsorship activity includes support for the Special Educational Needs school cricket programme, a Disability Fun Day at the county ground, the Disability Softball Competition for primary and secondary schools and specific sponsorship of the Learning Disability, Physical Disability and Visually Impaired squads.

Kent Cricket Community Director, Andy Griffiths: "The Club is thrilled to have Kent Reliance on board as a supporter of the Community game. It is very encouraging to see a leading Kent business supporting grassroots activity and giving people across Kent the opportunity to participate. The disability sector in particular is an area we have ambitious plans to develop so, to secure funding and genuine support is very heartening."

In addition to our sponsorship relationship, within the savings area of our business we also donate 1% of the average monthly balances of our Kent Spitfires savings account holders to KCCC.

Sponsorship donations: £10,000

Make Someone's Christmas

While Kent Heroes celebrated the unsung heroes of the county, for our Christmas campaign we wanted to bring some festive cheer to the everyman. Our 2015 Christmas campaign was our most ambitious to date, with prizes being given out every day in December, up to and including Christmas Eve. The campaign's aim was to celebrate both the small moments of Christmas kindness and larger gestures of goodwill – 18 bespoke prizes were created for the winners and ranged from a new front door to a theme park being closed for a private visit from a bereaved family.

Make Someone's Christmas has been our most successful campaign to date, with eight times the nominations of our previous campaigns.

Sponsorship donation: £25,000

Board of Directors (biogs)






	Mike Fairey Non-Executive Chairman	Andy Golding Chief Executive Officer	April Talintyre Chief Financial Officer	Malcolm McCaig Non-Executive Director	Tim Hanford Non-Executive Director	Dr David Morgan Non-Executive Director
Appointment	Mike was appointed to the Board of OneSavings Bank as Chairman in April 2014.	Andy was appointed to the Board of OneSavings Bank as Chief Executive Officer in December 2011.	April was appointed to the Board of OneSavings Bank as Chief Financial Officer in May 2012.	Malcolm joined Kent Reliance Building Society in 2009 and was appointed to the Board of OneSavings Bank in August 2010.	Tim was appointed to the Board of OneSavings Bank in February 2011.	David was appointed to the Board of OneSavings Bank in February 2011.
Committee membership	Chairman of the Nomination and Governance Committee.	None.	Member of the Risk Committee.	Member of the Remuneration and Audit Committees.	None.	Member of Nomination and Governance Committee.
Key skills	Mike is an extremely experienced banking executive. In a career spanning more than 40 years, he has held a range of senior positions.	Andy has over 29 years' experience in financial services.	April has broad financial services experience.	Malcolm has experience in finance and has worked extensively in the financial services sector.	Tim has over 25 years' experience in banking and investment, including in credit strategies, risk management, mergers and acquisitions.	Dr Morgan has extensive experience in corporate finance, particularly in the banking sector.
Experience & qualifications	Mike was previously Deputy Chief Executive of Lloyds Banking Group for 10 years, until 2008. Currently, he holds a number of Non-Executive positions with the Energy Saving Trust, Retirement Advantage, Stonehaven UK and Hastings Group Holdings plc. He is also the Chairman of the Trustees of the Lloyds TSB Pension Funds. Mike spent the first 25 years of his banking career with Barclays.	Andy was previously CEO of Saffron Building Society, where he had been since 2004. Prior to that he held senior positions at NatWest, John Charcol and Bradford & Bingley. He currently holds a number of posts with industry institutions including membership of the Council of Mortgage Lenders Executive Committee. He is also a Director of the Building Societies Trust and has also served as a Non-Executive Director for Northamptonshire NHS.	April was previously an Executive Director in the Rothesay Life pensions insurance business of Goldman Sachs. Prior to that she worked for Goldman Sachs International for over 16 years, including as an Executive Director in the Controllers division in London and New York. April began her career at KPMG in a general audit department. She has been a member of the Institute of Chartered Accountants in England and Wales since 1992.	Malcolm was previously Chairman of the Kent Reliance Building Society and later Kent Reliance Provident Society. He was a Partner at both Ernst & Young and Deloitte, and has held senior management positions at Prudential, National Australia Bank and CIGNA. Currently he holds a number of Non-Executive positions including Unum, Punjab National Bank (International) Ltd, Tradition (UK), CMC Markets plc and QBE Europe.	Tim is Managing Director of J.C. Flowers & Co. UK Ltd. Previously, he was Head of Private Equity at Dresdner Bank and a member of the Institutional Restructuring Unit's Executive Committee. Tim has also served as a Board Director of Schroders, based in Hong Kong and Tokyo, where he was responsible for structured finance.	David is Managing Director of J.C. Flowers & Co for Europe and Asia Pacific. Prior to that, he served as Chief Executive Officer of Westpac Banking Corporation. Prior to joining Westpac, David was the Senior Deputy Secretary of the Australian Federal Treasury. David was Chairman of the Australian Bankers Association from 2006 to 2007. In 2009, David was awarded an Order of Australia in the Australia Day Honours by the Federal Government for his service to the finance sector.

					
Rod Duke Senior Independent Director	**Stephan Wilcke** Non-Executive Director	**Mary McNamara** Non-Executive Director	**Graham Allatt** Non-Executive Director	**Nathan Moss** Non-Executive Director	**Eric Anstee** Non-Executive Director
Rod was appointed to the Board of OneSavings Bank in July 2012 and was appointed Senior Independent Director in 2014.	Stephan was appointed to the Board of OneSavings Bank in February 2011.	Mary was appointed to the Board of OneSavings Bank in May 2014.	Graham was appointed to the Board of OneSavings Bank in May 2014.	Nathan was appointed to the Board of OneSavings Bank in May 2014.	Eric was appointed to the Board of OneSavings Bank in December 2015.
Member of the Audit, Risk, and Nomination and Governance Committees.	Member of the Risk Committee.	Chairman of Remuneration and member of Risk and Nomination and Governance Committees.	Chairman of Risk and member of Audit Committees.	Member of Remuneration and Nomination and Governance Committees.	Chairman of Audit Committee and member of Risk Committee.
Rod has extensive experience in operations, investments, risk management and corporate finance across retail and commercial banking.	Stephan has extensive operating, investing, risk management and corporate finance experience, particularly in financial services.	Mary has broad Senior management experience in the Banking and finance sectors.	Graham has significant banking and credit risk experience and financial services experience.	Nathan is a business development and marketing specialist and has worked extensively in the banking sector.	Eric has extensive corporate finance and M&A experience over a broad range of business sectors.
Rod was previously Group General Manager, HSBC with responsibility for UK distribution – branches, call centres and internet banking – for both personal and commercial customers. Rod was with HSBC for 33 years. Previous directorships include VISA (UK), HFC Bank plc and HSBC Life. He also served on the Board of Alliance & Leicester plc until its takeover by Santander. Rod is a Fellow of the Institute of Financial Services.	Stephan was previously the Chief Executive Officer of the Asset Protection Agency, an executive arm of HM Treasury, and a Partner and the Head of European Financial Services at Apax Partners. Stephan is a Member of the Financial Services Commission of Jersey and a Member of the Board and Investment Committee of EMF Capital Partners Ltd and a Non Executive Director and Chairman of the Audit Committee of Milvik AB and a director of Rozes P2P Investment Partners and Chairman of Amigo Loans Ltd.	Mary was previously CEO of the Commercial Division and Board Director of the Banking Division at Close Brothers Group PLC. Prior to that Mary was COO of Skandia, the European arm of Old Mutual Group and prior to that, 17 years at GE Capital, running a number of businesses including GE Fleet Services Europe and GE Equipment Finance. Mary is Chair of Governors of the Leasing Foundation.	Graham was previously Acting Group Credit Director at Lloyds TSB and Chief Credit Officer at Abbey National. Prior to this he spent 18 years in the NatWest Group culminating in the role of Managing Director, Credit Risk at NatWest Markets. A Fellow of the Institute of Chartered Accountants, Graham is on the Finance Committee of the Friends of the British Library and was involved in housing associations for nearly 30 years as Treasurer and Board member in the North of England and in London.	Nathan was previously Group Strategy Director at Friends Life from 2010 to 2013 and Prior to that Nathan was Managing Director of Wealth Management at Lloyds TSB Group having joined Scottish Widows in 2002 as Managing Director, Marketing & Distribution Prior to this he spent 18 years with HSBC Group including four years as General Manager, Personal Financial Services and culminating as COO of Merrill Lynch HSBC. Nathan is a Non-Executive Director of Homeserve Membership Ltd.	Eric was Chairman of CPPGroup plc from 2014 to 2015. Prior to this he was Chief Executive of the City of London Group plc, the first Chief Executive of the Institute of Chartered Accountants in England and Wales and Group Finance Director of Old Mutual plc. Eric was also Group Finance Director at The Energy Group plc and advisor to Lord Hanson on the Demerger of Hanson plc. Prior to this Eric spent 17 years at Ernst & Young Management Consultants. Eric is also a Non-Executive director of Sun Life Financial of Canada Limited, Insight Asset Management, a member of the Takeover Panel Appeals Board and Visiting Professor, London Metropolitan University Business School.

Corporate Governance report

UK Corporate Governance Code ('the Code') – Compliance Statement

During this, the Company's first full financial year since listing on the Main Market of the London Stock Exchange in 2014, the Company has applied all of the main principles of the Code and has complied with all Code provisions, including provision A.4.2 (which requires that the Chairman should hold meetings with the Non-Executive Directors without the executives present (on which the Company reported in its 2014 Annual Report that it had been non-compliant last year)).

Dear Shareholder,

I am pleased to present to you the Company's Corporate Governance Report for 2015, and to report our full compliance throughout the year with the UK Corporate Governance Code as updated in 2014. This includes the new provisions as now required in Section C of the Code regarding risk management and internal control and viability statements.

The Board continues to be committed to the highest standards of corporate governance and considers that good corporate governance is essential to provide the executive team with the environment and culture in which to drive the success of the business. The sound governance structures which were in place since prior to the IPO have been developed further leading to the Company's full compliance with the Code throughout 2015.

We welcomed Eric Anstee to the Board in December 2015 as an independent Non-Executive Director. His extensive financial skills and knowledge of the Financial Services industry are extremely valuable to the continued development of the Bank. Stephan Wilcke will step down from the Board at the AGM this year. I would like to thank him for the enormous contribution he has made to the success of the Bank over the past five years, and wish him well in all his future ventures. The Board and its Committees established following the IPO in 2014 are now well bedded in and operating effectively, as identified in the formal performance review exercise carried out during 2015, details of which are set out in the Report below.

The Investor Relations function established at the time of the IPO continues to assist the Board in developing a programme of meetings and presentations to both institutional and private shareholders, details of which are also set out in the Report. We also held the Company's first Annual General Meeting as a listed entity in June 2015, and welcome shareholders to attend the second AGM of the Company, which will be held at the Lincoln Centre, 18 Lincoln's Inn Fields, London on 11 May 2016.

Mike Fairey
Non-Executive Chairman

The Board
Leadership, Strategic Aims, Risk, Values and Standards

Operating Committee
Chairman
Mike Fairey

Members
Andy Golding
April Talintyre

Key responsibilities
To approve limited matters relating to subsidiary companies and banking arrangements.

Disclosure Committee
Chairman
Mike Fairey

Members
Andy Golding
April Talintyre

Key responsibilities
Approving regulatory disclosures.

Audit Committee[1]
Chairman
Eric Anstee

Members
Graham Allatt
Rod Duke
Malcolm McCaig

Key responsibilities
Monitoring the integrity of financial statements.
Ensuring that an effective system of internal controls is maintained and monitoring accounting policies.

More information
Audit Committee report – page 62

Remuneration Committee[1]
Chairman
Mary McNamara

Members
Malcolm McCaig
Nathan Moss

Key responsibilities
Determination of specific remuneration packages for all Executive Directors and certain senior executives of the Group.

More information
Directors' Remuneration report – page 69

Nomination and Governance Committee[1]
Chairman
Mike Fairey

Members
Rod Duke
Dr David Morgan
Nathan Moss
Mary McNamara

Key responsibilities
Consider and make recommendations to the Board in respect of appointments and ensuring that the structure, size and composition of the Board is kept under review. Oversight of corporate governance arrangements and sustainability.

More information
Nomination and Governance Committee report – page 58

Risk Committee[1]
Chairman
Graham Allatt

Members
Rod Duke
Mary McNamara
April Talintyre
Eric Anstee

Key responsibilities
Oversight of the Group's risk appetite, risk monitoring and capital management.

Oversight and advice to the Board on current risk exposures and future risk strategy.

Executive Committee
Members
Chief Executive, Chief Financial Officer, Chief Operating Officer, Chief Risk Officer General Counsel & Company Secretary, Chief Credit Officer, Sales & Marketing Director, Commercial Director and the Chief Technology Officer

Key responsibilities
Assist the Chief Executive in the performance of his duties, including development & implementation of the strategic plan, strong operating model to support the strategic plan and systems and controls to support the strategic plan.

Operations Committee
Key responsibilities
Oversee operational management of the business and provide operational inputs into larger projects.

Change Control Committee

Regulatory, Operational & Conduct Risk Committee
Key responsibilities
Monitors the Regulatory, Operational and Conduct Risk within the Group, ensures there are appropriate control frameworks in place and effective mitigants to ensure the Group remains within the Board approved Risk Appetite.

Executive M & A Committee
Key responsibilities
Assists the Executive Committee in overseeing the bid activity associated with the inorganic growth agenda.

Credit Committee
Key responsibilities
Review, assess and recommend to the Risk Committee proposed changes to Lending Policy, Arrears and possession Policy and Forbearance Policy.

Transactional Credit Committee

Asset and Liabilities Committee
Key responsibilities
To ensure the Treasury is operating effectively and assess the exposure of the Group to movements in interest rates.

Pricing Committee

1 Terms of reference of the Audit, Remuneration, Nomination and Governance, and Risk Committees are available on the Company's website.

The role and structure of the Board

The Board is responsible for the long term success of 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 and its own written terms of reference. The Board has established a number of Committees as indicated in the chart on page 50. 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 Bank's strategic aims and policies and other matters, which must be approved by it under legislation or the Company's Articles of Association. These powers are set out in the Board's written 'Terms of Reference' and 'Matters Reserved for the Board' which were approved by the Board in July 2015. 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 CAPEX 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, SID and Company Secretary

The Board currently consists of the Chairman, two Executive Directors, six independent Non-Executive Directors and three Non-Executive Directors who are not regarded as being independent. The Board meets formally at least ten times a year, with ad hoc meetings called as and when circumstances require. There is an annual calendar of agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the regulatory and financial cycle. During 2015 there were 14 Board meetings held. The Board has established a number of Committees as shown on the chart on page 50. Each Committee has its own terms of reference (available on our website: www.osb.co.uk), reviewed at least annually. A summary of these, along with details of each Committee's activities during 2015, are shown in the Audit Committee, Remuneration Committee, Nomination and Governance Committee and Risk Committee Chairmen's' reports on pages 58 to 68. The table below shows each Director's attendance at the Board and Committee meetings they were eligible to attend in 2015:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Risk Committee
Mike Fairey (Chairman)	13/14	–	–	4/4	–
Graham Allatt[1]	13/14	4/4	–	–	9/10
Rod Duke[2]	13/14	3/4	–	4/4	9/10
Andy Golding	14/14	–	–	–	–
Tim Hanford[3]	11/14	–	–	–	–
Malcolm McCaig[4]	14/14	4/4	4/5	–	–
Mary McNamara[5]	13/14	–	5/5	1/1	10/10
Nathan Moss	14/14	–	5/5	4/4	–
Dr. David Morgan[6]	13/14	–	–	4/4	–
April Talintyre[7]	14/14	–	–	–	9/10
Stephan Wilcke[8]	11/14	–	–	–	5/10
Eric Anstee (appointed 21 December 2015)	–	–	–	–	–

1 Unable to attend ad hoc Risk Committee due to scheduling clash.
2 Unable to attend Board, Audit and Risk Committee due to scheduling clashes.
3 Unable to attend Boards due to scheduling clashes.
4 Unable to attend Remuneration Committee due to scheduling clash.
5 Unable to attend Board due to scheduling clash.
6 Unable to attend Board due to scheduling clash.
7 Unable to attend Risk Committee due to IR Roadshow.
8 Unable to attend meetings due to scheduling clashes.

Corporate Governance report continued

At least once a year, the Board undertakes a full strategic review of the business operations, usually over the course of a day.

All Directors are expected to attend all meetings of the Board and any Committees of which they are members, and to devote sufficient time to the Company's affairs to fulfil their duties as Directors. Where Directors are unable to attend a meeting, they are encouraged to submit any comments on papers to be considered at the meeting to the Chairman in advance to ensure that their views are recorded and taken into account during the meeting.

Key Board activities during the year included:

- Strategy
- Risk monitoring and review
- Governance and compliance
- External affairs and competitor analysis
- Talent review
- Annual and quarterly reporting
- Customer/brand/product review
- Policy review and update
- Investment proposals

Role of the Chairman and Chief Executive

The roles of Chairman and Chief Executive are held by different people. There is a clear division of responsibilities, which has been agreed by the Board and is formalised in a schedule of responsibilities for each.

Chairman Mike Fairey is responsible setting the 'tone at the top' and ensuring that the Board has the right mix of skills, experience and development so that it can focus on the key issues affecting the business; and he is responsible for leading the Board and ensuring it acts effectively. Chief Executive Andy Golding has overall responsibility for managing the Group and implementing the strategies and policies agreed by the Board. A summary of the key areas of responsibility of the Chairman and Chief Executive, and how these have been discharged during the year, are set out below:

Chairman's Responsibilities	Activities carried out in 2015
Chairing the Board and general meetings of the Company	The Chairman chaired almost all of the Board meetings held in 2015 and the 2015 AGM.
Setting Board agenda and ensuring that adequate time is available for discussion of all agenda items	The Chairman, in liaison with the Company Secretary, sets the annual calendar of Board business and the agendas for the individual meetings. A time is allocated for each item of business at meetings.
Promoting the highest standards of integrity, probity and corporate governance throughout the Company	The Board has received regular updates from its committees and reviewed its corporate governance policies and procedures at its meeting in July.
Ensuring that the Board receives accurate, timely and clear information in advance of meetings	The Chairman, in liaison with the Company Secretary, agrees the information to be circulated to the Board in advance of each meeting.
Promoting a culture of openness and debate by facilitating the effective contribution of all Non-Executive Directors	The Chairman runs the meetings in an open and constructive way, encouraging the contribution from all Directors. He met formally with the Non-Executive Directors without management present in July so that any concerns could be expressed. Informal meetings are held throughout the year.
Ensuring constructive relations between Executive and Non-Executive Directors and the Chief Executive in particular	
Regularly considering succession planning and the composition of the Board	The Chairman chairs the Nomination and Governance Committee. Details of the Committees activities were explained in the Nomination and Governance Committee report on page 59.
Ensuring training and development needs of all Directors are met, and that all new Directors receive a full induction	The Chairman, in liaison with the Company Secretary, has reviewed Directors Training requirements. Details of Induction and Training held during the year are given on pages 54 to 55.
Ensuring effective communication with shareholders and stakeholders	The Chairman, with the Board, assisted by the CEO, FD and Investor Relations Manager, agrees a programme of Investor Relations meetings. Details of those carried out during the year are shown on page 57.

Chief Executive Andy Golding's responsibilities are to ensure that the Company operates effectively at strategic, operational and administrative levels. He is responsible for all Bank activities; provides leadership and direction to encourage others to effect strategies agreed by the Board; channels expertise, energy and enthusiasm; builds individuals' capabilities within the team; develops and encourages talent within the business; identifies commercial and business opportunities for the Company, building on strengths in key areas; and is responsible for all commercial activities of the Company, liaising with regulatory authorities where appropriate. He is responsible for the quality and financial wellbeing of the Bank, represents the Company to external organisations and builds awareness of the Company externally.

To assist Andy in carrying out these responsibilities, he has an experienced senior executive team comprising of specialists in finance, banking, risk, legal, and IT matters, details of whom can be found on the OSB website at www.osb.co.uk.

Senior Independent Director

Rod Duke is the Senior Independent Director (SID). His role is to act as a sounding board for the Chairman and to support him in the delivery of his objectives. This includes ensuring that the views of all other Directors are communicated to, and given due consideration by, the Chairman. In addition, the SID is responsible for leading the annual appraisal of the Chairman's performance.

The SID is also available to shareholders should they wish to discuss concerns about the Company other than through the Chairman and CEO. There have been no meetings with the SID requested by shareholders during 2015.

Company Secretary

Company Secretary Zoe Bucknell plays a key role within the Company, not only assisting the Directors with their pursuit of profit and growth, but also acting with integrity and independence to protect the interests of the Company, its shareholders and employees, and ensuring that the Company complies with all statutory and regulatory requirements.

Zoe works closely with the Chairman, Chief Executive and Chairmen of the Board Committees to ensure that Board procedures (including setting agendas and the timely distribution of papers) are complied with, and that there are good communication flows between the Board and its Committees, and between senior management and Non-Executive Directors. The Company Secretary is also available to all Directors to provide advice and support, including facilitating induction programmes and training.

Executive Committees

Chief Executive Andy Golding chairs the Bank's Executive Committee (ExCo), whose members are the Chief Financial Officer, the Chief Operating Officer, Chief Risk Officer, General Counsel and Company Secretary, Commercial Director, Chief Technology Officer, Chief Credit Officer and Sales and Marketing Director. There are five other committees reporting to the Executive Committee (See the Governance Structure Chart on page 50).

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

- the development and implementation of the strategic plan;
- the development and implementation of a strong operating model that supports the strategic plan;
- the development and implementation of 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.
- Monitoring target operating model progress.

Effectiveness

Balance and independence

The effectiveness of the Board and its Committees in discharging their duties is essential for the success of the Company. In order to operate effectively, the Board and its Committees comprise of a balance of skills, experience, independence and knowledge to encourage constructive debate and challenge to the decision making process. The size and composition of the Company's Board is kept under review by the Nomination and Governance Committee and the Board to ensure an appropriate balance of skills and experience is represented.

The Board comprises the Chairman (who was considered independent on appointment), two Executive Directors and nine Non-Executive Directors. Six of the Non-Executive Directors are considered by the Board to be independent. Tim Hanford and Dr David Morgan are not considered to be independent due to their position as representatives of the Group's major shareholder. Stephan Wilcke was, until April 2014, the Executive Chairman of the Group and is therefore not considered to be independent in his current role as a Non-Executive Director. Stephan will step down from the Board with effect from the 2016 AGM.

The Code recommends, in the case of a FTSE 350 company, that at least half the Board of Directors (excluding the Chairman) should comprise 'independent' Non-Executive Directors, being individuals determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the relevant individual's judgement.

Corporate Governance report continued

During the year the Company entered the FTSE 350, and complies with the recommendations of the Code applicable to FTSE 350 companies.

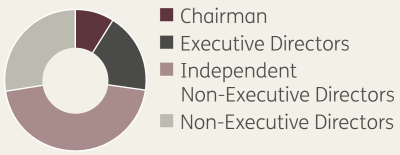
The composition of the Board, and the balance of Independent Directors are indicated by the charts below:

Chairman: Mike Fairey (considered Independent on appointment)

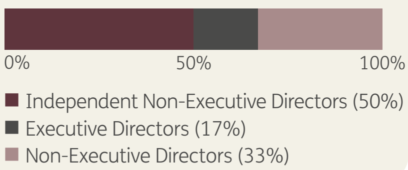
Not Independent	Independent
Andy Golding (CEO)	Graham Allatt
April Talintyre (CFO)	Rod Duke (SID)
Stephan Wilcke*	Malcolm McCaig
Tim Hanford	Mary McNamara
Dr David Morgan	Nathan Moss
	Eric Anstee (appointed 21 December 2015)

* Stephan Wilcke will retire from the Board at the 2016 AGM.

Board composition



Independence



Directors' biographies can be found on pages 48 to 49.

The Board is satisfied that its current composition allows it to operate effectively and that all Directors are able to bring specific insights and make valuable contributions to the Board due to their varied commercial backgrounds. The Non-Executive Directors, and in particular the Independent Non-Executive Directors, provide constructive challenge to the executive management and the Chairman ensures that the views of all Directors are taken into consideration in the Board's deliberations.

Non-Executive Directors are appointed for terms of three years which may be renewed, subject to the particular Director being re-elected by shareholders, for up to a normal maximum of three terms (nine years). The continuing independence of the Non-Executive Directors is reviewed annually.

Commitment

The terms of appointment of the Non-Executive Directors specify the amount of time they are expected to devote to the Company's business. They are currently required to commit to a minimum of five days per month, which is calculated based on the time required to prepare for and attend Board and Committee meetings, the AGM, meetings with shareholders and training. Their commitment also extends to working such additional hours as may be required in exceptional circumstances. Non-Executive Directors are required to confirm annually that they continue to have sufficient time to devote to the role.

Relationship Agreement

On admission of its shares following the IPO in June 2014, the Company entered into a relationship agreement (the 'Relationship Agreement') with its major shareholder OSB Holdco Limited (the Major Shareholder). Pursuant to the Relationship Agreement, the Major Shareholder has been granted the right to appoint one Non-Executive Director to the Board for so long as it holds at least ten per cent of the Company's ordinary shares and a further Non-Executive Director for so long as it holds at least 30 per cent of the Company's ordinary shares. Dr David Morgan and Tim Hanford are the Major Shareholder appointed Non-Executive Directors. The Directors believe that the terms of the Relationship Agreement enable the Group to carry on its business independently of the Major Shareholder and ensure that all agreements and transactions between the Group, on the one hand, and the Major Shareholder and its associates and/or persons acting in concert with the Major Shareholder or its associates, on the other hand, are at arm's length and on a normal commercial basis.

Conflicts of interest

The Company's Articles of Association set out the policy for dealing with Directors' conflicts of interest and are in line with the Companies Act 2006. The Articles permit the Board to authorise conflicts and potential conflicts, as long as the potentially conflicted Director is not counted in the quorum and does not vote on the resolution to authorise the conflict.

Directors are required to complete an annual return and an annual fitness and propriety questionnaire, which requires declarations of external interests and potential conflicts. In addition, all Directors are required to declare their interests in the business to be discussed at each Board meeting.

The Board has also adopted an Ethics Policy which includes a procedure for identifying potential conflicts of interest at all levels of the business. Under this procedure, all potential conflicts of interest must be disclosed to the Company Secretary, who advises on proportionate controls to address the ethical conduct risks associated with them and who maintains and reviews a Group wide register of potential conflicts of interest.

Training and development

The Chairman ensures that all Directors receive a tailored induction on joining the Board, with the aim of providing a new Director with the information required to allow him or her to contribute to the running of the Company as soon as possible. The induction programme is monitored by the Company Secretary to ensure that all information provided is fully understood by the new Director and that any queries are dealt with. Typically, the induction programme will include a combination of the provision of information in respect of the Company and face-to-face sessions as illustrated below.

Typical induction programme

Materials include:
- Group and organisational structure charts
- Details of Board Committees, including terms of reference and copies of minutes
- Contact details for all Directors, Company Secretary and key staff
- Current business plan
- Articles of Association
- Minutes of recent Board meetings and dates of future meetings
- Guide for approved persons
- Current budget and last annual accounts
- Current ICAAP and ILAA

Meetings with:
- Chairman
- Other Directors
- Company Secretary
- Executive team
- Senior management

Visits to:
- Head Office
- Agencies/Branches
- Indian subsidiary sites (if appropriate)

As approved persons, under the approved persons regime operated by the PRA and FCA under the FSMA, all Directors have had to maintain the competence and skills required to meet the demands of their positions of 'significant influence' with the Bank. As part of the Annual Fitness and Propriety Questionnaire, Directors are required to complete a self-certification that they have undertaken sufficient training during the year to maintain their skills, knowledge and experience. The Company Secretary supports the Directors to identify relevant internal and external courses to ensure Directors are kept up-to-date with key regulatory changes, their responsibilities as approved persons and Company Directors and other matters impacting on the business, and due to the significant changes being introduced through the Senior Managers Regime, arranged two separate sessions of training for the Board by an external firm.

Information and support

The Company Secretary agrees with the Chairman an annual calendar of matters to be discussed at each Board meeting to ensure that all key Board responsibilities are discharged over the year. Board agendas are then circulated with accompanying detailed papers to the Board well in advance of each Board meeting. These include reports from Executive Directors and other members of senior management, and all Directors have direct access to senior management should they require additional information on any of the items to be discussed. The Board and Audit Committee also receive further regular and specific reports to allow the monitoring of the adequacy of the Company's systems and controls.

The information supplied to the Board and its Committees is kept under review and formally assessed on an annual basis as part of the Board evaluation exercise to ensure it is fit and proper for purpose and that it enables sound decision making.

The Company has adopted a formal procedure through which Directors may obtain independent professional advice at the Company's expense. The Directors also have access to the services of the Company Secretary as described above.

Performance evaluation

The Board will undertake an evaluation of its performance and that of its committees and individual directors annually, with a formal evaluation process being externally facilitated at least every three years. The first such externally facilitated evaluation was carried out in 2015, facilitated by Prism Cosec, which provides statutory and regulatory compliance support to the Company. The main points arising from the evaluation were:
- Greater focus on strategic input.
- Training structured to meet the needs of the individual Board members.
- Visibility of the succession planning for the Board and the Executive.

An action plan has been developed to address the points raised and adjustments made to the Board calendar to accommodate this.

Corporate Governance report continued

Accountability
In line with the UK Corporate Governance Code provisions, the Board ensures that a fair, balanced and understandable assessment of the Company's position and prospects is presented in all financial and business reporting. The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives and maintains sound risk management and internal control systems. The Board has established formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the Company's auditors.

Financial and business reporting
The Board is committed to ensuring that all external financial reporting presents a fair, balanced and understandable assessment of the Group's position and prospects. Matters considered in establishing this include whether there is a consistency between the front and back ends of the accounts; there is a balanced review of the competitive landscape; the language used is sufficiently simple; there is an appropriate analysis of risks facing the business; and there is equal prominence given to actual and overall profit. Under the Schedule of Reserved Matters, the Board has responsibility for the approval of all externally-published information including, but not limited to, annual and half-yearly financial statements, regulatory news announcements and publications required by regulators or to satisfy statutory requirements.

The Company has established a Disclosure and Communications Policy to assist the Board in ensuring the quality of its reporting. The Policy applies to all communications made by and relating to the Group including written statements in periodic financial reports, news releases, letters and circulars to shareholders and speeches and presentations given by Executive and senior management.

Review of effectiveness of financial controls
The Directors confirm that they have reviewed the effectiveness of the system of internal controls for the year under review and to the date of approval of the Annual Report and Accounts. The Board receives regular reports from the Audit Committee on its activities, including the Audit Committee's review of reports prepared by Internal Audit on the operation and efficacy of internal controls systems.

Treasury operations
The Board has approved a Board Treasury Policy setting out the Group's approach to the management of risks from treasury operations. Day-to-day responsibility for management of the Group's Treasury function is delegated to the Assets and Liabilities Committee which reports to the Risk Committee.

Risk management and internal control
The Board retains ultimate responsibility for setting the Bank's risk appetite and ensuring that there is an effective risk management framework to maintain levels of risk within the risk appetite. The Board regularly reviews its procedures for identifying, evaluating and managing risk, acknowledging that a sound system of internal control should be designed to manage rather than eliminate the risk of failure to achieve business objectives.

The Board has carried out a robust assessment of the principal risks facing the business, including those that would threaten its business model, future performance, solvency or liquidity. Further details are contained in the viability statement on page 42.

The Board has established a Risk Committee to which it has delegated responsibility for oversight of the Group's risk appetite, risk monitoring and capital management. The Risk Committee provides oversight and advice to the Board on current risk exposures and future risk strategy, assists the Board in fostering a culture within the Group which emphasises and demonstrates the benefits of a risk-based approach to internal control and management. Further details of the Group's risk management approach, structure and principal risks are set out in the risk management report on pages 29 to 41.

The Board has delegated to the Audit Committee responsibility for reviewing the effectiveness of the Company's internal control systems. The Audit Committee is supported by the Internal Audit function in discharging this responsibility, and receives regular reports from Internal Audit as to the overall effectiveness of the control system within the Group. Details of the Group's review of the effectiveness of the Company's internal control systems are set out in the Audit Committee report on page 64.

Control environment
The Company is organised along the 'three lines of protection' model to ensure at least three stages of independent oversight to protect the customer and the Company from undue influence, conflict of interest and poor controls.

The first line of protection is provided by the operational business lines which measure, assess and control risks through the day-to-day activities of the business within the frameworks set by the second line of protection. The second line of protection is provided by the Risk, Compliance and Governance functions which include the Board and Executive Committee. As noted above, the Board sets the Company's risk appetite and is ultimately responsible for ensuring an effective risk management framework is in place. The Compliance Function maintains the 'Key Controls Framework' which tracks and reports on key controls within the business to ensure compliance with the main provisions of the FCA and PRA handbooks. Policy documents also include key controls that map back to the Key Controls Framework.

The third line of protection is the Internal Audit function.

The Board is committed to consistent application of appropriate ethical standards, and the Ethics policy sets out the basic principles to be followed to ensure ethical considerations are embedded in all business processes and decision making forums. The Group also maintains detailed policies and procedures in relation to the prevention of bribery and corruption, and a Whistleblowing Policy (see below).

Whistleblowing

The Company has well established procedures by which employees may, in confidence, raise concerns relating to possible improprieties in matters of financial reporting, financial control or any other matter. The Whistleblowing Policy and procedure applies to all employees of the Group. The Audit Committee is responsible for monitoring the Group's whistleblowing arrangements and the policy is reviewed periodically by the Board. The Chair of the Audit Committee has overall responsibility for Whistleblowing arrangements under the Senior Managers Regime.

The Group is confident that the arrangements are effective, facilitate the proportionate and independent investigation of reported matters, and allow appropriate follow up action to be taken.

Relations with shareholders

Dialogue with shareholders

Since the Company gained a wider shareholder base following the IPO in June 2014, it has established a dedicated Investor Relations function to liaise with institutional investors and analysts. Investor Relations activity and a review of the share register are regular items included in the monthly Board information pack.

Over the year the Group has engaged in active discussion with shareholders and investors, both on an individual basis and through attendance at investor conferences and roadshow events, and held its first Annual General Meeting during the year. There has been ongoing dialogue with its key stakeholders, including institutional investors, to discuss issues relating to the performance of the Group including strategy and new developments. During 2015 more than 80 investors and potential investors met with senior OSB representatives face to face. Following full year and interim results presentations, senior management undertake roadshows and meet with investors. A comprehensive plan of Investor Relations activity is in place for the coming year. The Non-Executive Directors are available to discuss any matter stakeholders might wish to raise, and the Chairman and Independent Non-Executive Directors attend meetings with investors and analysts.

The Company has an investor website, which is publicly available and provides relevant information to both institutional and private shareholders, including performance updates and the presentations made to analysts and investors. In addition, private shareholders are able to question the Company through the Investor Relations function or the Company Secretarial function.

Relationship with major shareholder

As explained earlier in the report, on admission of its shares following the IPO in June 2014, the Company entered into a relationship agreement (the Relationship Agreement) with its major shareholder OSB Holdco Limited (the Major Shareholder).

Annual General Meeting

The Company's second Annual General Meeting since listing will take place on 11 May 2016 at The Lincoln Centre, 18 Lincoln's Inn Fields, London. The Chairmen of each of the Board's committees will be present to answer questions put to them by shareholders. The Annual Report and Accounts and notice of the Annual General Meeting will be sent to shareholders at least 20 working days prior to the date of the meeting.

Shareholders are encouraged to participate in the AGM process, and all resolutions will be proposed and voted on at the meeting on an individual basis by shareholders or their proxies. Voting results will be announced through the Regulatory News Service and made available on the Company's website (www.osb.co.uk).

Nomination and Governance Committee report

Dear Shareholder

I am pleased to present the report of the Nomination and Governance Committee.

2015 has been our first full financial year as a Board following the IPO mid 2014. During the year we have kept the requirements of the UK Corporate Governance Code, both in terms of specific rules and the underlying principles, under review. As such we have expanded the role of the Nomination Committee to incorporate responsibility for oversight of Governance arrangements for the Board. This includes oversight of Board Effectiveness, compliance with Governance focused regulations, and sustainability. A table showing the key responsibilities is shown below, and the full Terms of Reference are available on our website.

We also reviewed the composition of the Board's Committees in the context of both the UK Corporate Governance Code requirements around independence, and the skills and experience needed to ensure the Committees can discharge their duties effectively. This review led to the appointment of Mary McNamara to the Nomination and Governance Committee.

The Committee has also carried out a deep dive into diversity within the business. At this stage of our development, the diversity review has been limited to gender diversity, however some of the major recommendations coming out of the review will be applicable to all diversity issues, such as the introduction of unconscious bias training to all managers across the business.

We are satisfied that the composition structures we have established are operating well, and we will continue to monitor Board and Committee membership in 2016, as well as undertaking the new areas of responsibility.

Mike Fairey
Non-Executive Chairman

Membership and meetings

Director	Number of meetings attended
Chairman	
Mike Fairey	4/4
Current members	
Rod Duke	4/4
Dr David Morgan	4/4
Nathan Moss	4/4
Mary McNamara[1]	1/1

1 Appointed 8 December 2015.

The Nomination and Governance Committee meets at least twice annually and at such other times during the year as is necessary to discharge its duties. Only members of the Committee have the right to attend meetings, however other individuals, such as the Chief Executive and external advisers, may be invited to attend for all or part of any meeting.

Membership of the Committee was reviewed during the year, and following the requirements of the UK Corporate Governance Code around diversity, Mary McNamara was appointed to the committee. Mary is Chairman of the Remuneration Committee and has previous experience in implementing diversity policy. All Committee members are Non-Executive Directors, although Dr David Morgan is not independent due to his connections with our major shareholder, J.C. Flowers.

The specific responsibilities and duties of the Committee are set out in its terms of reference which were significantly expanded in February 2016 to include conflicts responsibility for Board evaluation, corporate governance and sustainability. This has led to the committee changing its name to the Nomination and Governance Committee. The terms of reference are available to download from the Company's website. The key responsibilities of the Committee are shown opposite.

Nomination and Governance Committee Responsibilities

Board Composition and Succession Planning

- Regularly review structure, size and composition of the Board, and assess the knowledge skills, experience and diversity on the Board.
- Recommend changes to membership of Audit, Risk and Remuneration Committees.
- Recommend suitable candidates for the role of the Senior Independent Director.
- Prepare role description for Board appointments following an evaluation of the balance of skills, knowledge and experience on the Board.
- Identify and nominate to the Board candidates to fill Board vacancies.
- Make recommendations to the Board regarding the reappointment of NEDs at the end of their term of office.
- Make recommendations to the Board regarding the annual re-election of Directors by shareholders.
- Review annually whether Directors continue to meet independence criteria.
- Review annually the time required from NEDs.
- Keep under review the leadership needs of the organisation.
- Give full consideration to succession planning for Directors and other senior executives.
- Formulate succession plans for both Executive and Non Executive Directors and in particular the Chairman and Chief Executive.
- Consider rotation of Committee Membership.

Board Evaluation

- Oversees the annual evaluation of the Board and its committees, making recommendations around any remedial actions required.
- Every three years, instructs an external board evaluator, setting the scope of the review.

Conflicts

- Will consider and authorise if appropriate any conflict of interest of the Directors, with ratification at the next Board meeting, having consideration to among other factors, time commitments.
- Will annually review the Conflicts Register.

Corporate Governance

- To review and approve the internal Governance Manual annually.
- To keep up to date with corporate governance developments and advise the Board.
- To approve the Corporate Governance Report in the annual report and accounts.

Sustainability

- To review and approve policies related to the sustainability of the business, including Environmental policies, Health and Safety and Diversity.
- Advise the Board on any Values Statements and Business Principles or Group Standards for reputational and environmental risks and the adoption of appropriate Corporate Sustainability targets and measures.
- To review and advise the Board on the Group's Corporate Sustainability reporting.

Activity during 2015

The Committee identified four key priorities for 2015, under its former terms of reference.

A summary of actions taken and outcomes are set out in the table below:

Objective	Action taken	Outcomes
Evaluation of the skills, knowledge and experience required for a balanced Board.	Skills assessed using skills matrix, results to be discussed at meeting.	
Consider succession planning for directors and other senior executives.	Full review of succession planning undertaken.	Identified gap between executive management and senior managers, which has led to the introduction of a Talent Management programme.
Review the structure, size, composition and diversity of the Board, including potential recruitment of an additional independent Non-Executive Director.	Review carried out.	Identified the need for additional recent and relevant financial experience, and led to the recruitment of a new independent director who will chair Audit Committee in due course. Broader review of diversity across the Group led to gap analysis – resulting in improvement to maternity and paternity pay and unconscious bias training.
Consider composition of Board Committees.	Review carried out.	Recommendation that a female director be appointed to Nomination and Governance Committee in line with UK Corporate Governance Code.

Nomination and Governance Committee report continued

Chair of the Audit Committee appointment

Following the annual review of Board and Committee composition and the skills and experience available, the need for an additional independent Non-Executive Director with recent and relevant financial experience to chair the Audit Committee was identified.

In June 2015, the Committee agreed to appoint Lomond Consulting, a specialist board level headhunter, to conduct a search, with the specific direction to include at least one female candidate in the shortlist. The Committee discussed in detail the skills, experience and other commitments of each candidate and agreed a shortlist of three. As the Committee felt that it was important that the new Chair of the Audit Committee had prior experience of acting on a listed company Audit Committee, and preferably prior experience of chairing such a committee, no suitable female candidates were identified for the Committee's shortlist. Interviews between the shortlisted individuals and the Committee and Executive Directors were then arranged. Having received interview feedback from all parties, the Committee unanimously recommended to the Board that Eric Anstee should be appointed as the new Chair of the Audit Committee.

Committee composition

The Committee conducted a review of the composition of the Audit, Remuneration, Risk and its own composition during 2015. The review, which included consideration of the role of the Chairman of each of the Committees, was framed in the context of the relevant requirements of the UK Corporate Governance Code and the Walker review.

Following the review, the Committee recommended that a highly experienced female Non-Executive was appointed to the Nomination Committee, and Mary McNamara was duly appointed by the Board. The Committee is satisfied that the implemented structure will allow the effective discharge of duties by each Committee, and will continue to monitor Board and Committee performance and structure going forward, including a consideration of rotation of Board committee membership to support succession planning on committees.

Succession Planning

The Committee considered both Executive and Board level succession planning during 2015. The Executive succession planning review highlighted the need for a formal Talent Development Programme and this has been initiated in the second half of 2015, with full roll out during 2016.

The Committee has put in place a formal succession plan for the Chairman and Chairs of the Board Committees during 2015.

Diversity

OneSavings Bank recognises and embraces the benefits of having a diverse Board, and sees diversity at Board level as an essential element in maintaining a competitive advantage.

A truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other distinctions between Directors and the Board recognises that diversity is the key to avoiding the perils of 'Group Think'.

These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

The Nomination and Governance Committee is responsible for reviewing on an annual basis the Company's Board Diversity Policy; in particular whether introducing measurable objectives is appropriate for the Company.

The Nomination and Governance Committee has considered whether it should recommend that the Board set any measurable objectives in relation to diversity. While the Nomination and Governance Committee fully supports the objectives of the Davies Report, it does not feel that setting specific objectives around the proportion of female directors on the Board is appropriate for the Bank at this time as the Bank will focus on ensuring that the Director with the right skills and expertise is appointed, having considered the balance of the Board as a whole.

The Nomination and Governance Committee did carry out a review of gender diversity across the business in 2015, including at Board, Senior Management and non-managerial levels. At the same time, the Committee also considered whether there were any impediments to ensuring gender balance across the business and looked at recruitment, retention and promotions policy and procedure. Although no specific barriers were identified, Maternity and Paternity benefits have been improved and training in relation to unconscious bias is to be introduced across all management grades. The Bank will be tracking take up of flexible working arrangements and other gender related metrics going forwards, and will assess whether any further measures or measurable objectives need to be put in place in the future.

Priorities for 2016

The Nomination and Governance Committee's priorities for 2016 are:

- Continued evaluation of the skills, knowledge and experience required for a balanced Board.
- Consider succession planning for Directors and other senior executives.
- Review the structure, size, composition and diversity of the Board.
- Consider the composition of the Board Committees.
- Oversee compliance with Corporate Governance best practice and the UK Corporate Governance Code.
- Oversee sustainability matters such as environmental, diversity and equal opportunities and advising on business principles, values and purpose.

Mike Fairey
Non-Executive Chairman
16 March 2016

Audit Committee report

Dear Shareholder

I am pleased to present the report of the Audit Committee for my first full year as Chairman, having assumed the role on 14 August 2014, following the Company's IPO in June 2014.

The Committee has continued to spend a significant amount of time in 2015 considering significant issues and areas of judgement as set out in the report below.

The Committee has also considered the additional requirements in respect of external audit rotation, tender and non-audit services as a result of the Company's inclusion in the FTSE 350 from June of this year.

Further details on the activities of the Committee during the year and how it discharged its responsibilities are provided in the report below.

I stepped down as Chairman of the Audit Committee on 31 December 2015 to become the Chairman of the Company's Risk Committee. Eric Anstee joined the Company's Board on 21 December 2015 and assumed the role of Chairman of the Audit Committee. Eric brings a wealth of recent and relevant financial experience to the Committee. I am pleased to remain on the Committee to support Eric in his new role and to ensure a smooth handover.

Graham Allatt
Audit Committee Chairman
(as at 31 December 2015)

Membership and meetings

The Audit Committee currently comprises three Independent Non-Executive Directors.

Director	Number of meetings attended
Chairman	
Graham Allatt (until 1 January 2016)	4/4
Eric Anstee (joined and assumed Chairman role 1 January 2016)	N/A
Current members	
Rod Duke	3/4
Malcolm McCaig	4/4

The Audit Committee is required to meet at least three times a year, with meetings scheduled at appropriate intervals in the reporting and audit cycle. Additional meetings are held as required. In 2015 there were a total of four meetings, reflecting the workload of the Committee during the year.

Only members of the Committee have the right to attend meetings, however standing invitations are extended to the Executive Directors, Chief Risk Officer and Head of Compliance, all of whom attend meetings as a matter of practice. Other non-members may be invited to attend all or part of any meeting as and when appropriate. The Company Secretary acts as secretary to the Committee. The internal and external auditors attend all meetings and also meet in private with the Committee on each occasion. In addition, the Chairman of the Audit Committee has regular contact with the external and internal auditors throughout the year. The Chairman meets with the Chief Financial Officer in advance of each meeting to agree the agenda and receives a full briefing on the key agenda items.

Membership of the Committee was reviewed by the Nomination Committee during the year. Taken as a whole, the Committee has an appropriate balance of skills including recent and relevant financial experience. The Nomination Committee recommended to the Board that Graham Allatt assume the role of Chairman of the Risk Committee in 2016 and Eric Anstee, who has a wealth of recent and relevant financial and accounting experience in the financial services assumes the role of Chairman of the Audit Committee. He is a qualified accountant with over 40 years' experience, including senior positions at Ernst & Young and Old Mutual Plc. Eric was the first Chief Executive of the Institute of Chartered Accountants in England and Wales and is a current member of the Takeover Panel Appeals Board and a former member of the Board of the Financial Reporting Council was appointed to the Board on 21 December 2015 and joined the Audit Committee and assumed the role of Chairman on 1 January 2016.

Role of the Audit Committee

The primary role of the Audit Committee is to assist the Board in overseeing the systems of internal control and external financial reporting across the Group. The Committee's specific responsibilities are set out in its terms of reference, which were updated in December 2015. These are available on the Company's website and cover external and Internal Audit, financial and narrative reporting, compliance, whistleblowing and fraud and internal controls and risk management.

Audit Committee – Key Responsibilities

External Audit
- Recommend the appointment, reappointment or removal
- Oversee the relationship, approve terms of engagement and review independence and objectivity
- Meet regularly without management present
- Develop policy on the supply of non-audit services
- Ensure the audit contract is tendered at least every ten years

Internal Audit
- Approve appointment or termination of the head of Internal Audit/ Internal Audit function
- Monitor and review effectiveness
- Review and approve the Internal Audit charter
- Review and assess the Internal Audit plan
- Ensure access to the Board and Committee Chairmen
- Review management's responsiveness to findings

Financial and narrative reporting
- Monitor the integrity of the financial statements
- Review and report to the Board on significant financial issues and judgements
- Review and challenge accounting policies, methods used to account for significant or unusual transactions, clarity and completeness of disclosure
- Where requested by the Board, advise whether the annual report is fair, balanced and understandable

Compliance, whistleblowing and fraud
- Review the adequacy and security of whistleblowing arrangements
- Review procedures for detecting fraud and preventing bribery
- Review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of anti-money laundering systems and controls
- Review the adequacy and effectiveness of the compliance function and Conduct Risk Framework

Internal controls and risk management
- Monitor and review the adequacy and effectiveness of the company's internal financial controls and risk management systems
- Review and approve the statements in the Annual Report concerning internal controls and risk management

Activity during 2015

The principal activities undertaken by the Committee during the year are described below.

Significant issues and areas of judgement considered by the Committee

The following significant issues and accounting judgements were considered by the Committee in relation to the 2015 Annual Report and financial statements. In its assessment, the Committee considered and challenged reports from management prior to both the interim and full-year results, explaining each area of judgement and management's recommended approach. The Committee also received reports from the external auditor setting out its views on the accounting treatment and judgements underpinning the financial statements.

Loan book impairments

Specific provision assessments for individually significant loans or portfolios of loans involve significant judgement in relation to estimating future cash flows, including the cost of obtaining and selling collateral, the likely sale proceeds and any rental income prior to sale.

All assets without a specific provision are assessed collectively. Collective provisions are calculated using 12-month delinquency roll rates and one-year probability of defaults on different segments of the loan book. These rates, along with forced sale discounts and the level of house prices, are applied to calculate expected losses. Judgement needs to be exercised in deciding how to apply historic experience to current market conditions.

The Committee received and challenged reports from management prior to each reporting date, explaining the approach taken to provisioning and the resulting changes in provision levels during the period. The Committee requested additional information by loan book during the year including provision coverage ratios, assumed probability of default, loss given default and loan-to-value ratios for loans three months or more in arrears to help with their assessment of the reasonableness of provisions. In addition, the Committee asked the Risk Committee to review specific provisions for top 20 impaired loans. Two of the three current members of the Committee are also members of the Risk Committee and as such were privy to additional detailed credit information on the loan book throughout the year.

The Committee is satisfied that the approach taken and judgements made were reasonable.

Loan book acquisition accounting and income recognition

Acquired loan books are initially recognised at cost. Significant judgement is required in calculating their effective interest rate (EIR), using cash flow models which include assumptions on the likely macroeconomic environment, including HPI, unemployment levels and interest rates, as well as loan level and portfolio attributes and history used to derive prepayment rates, the probability and timing of defaults and the amount of incurred losses. The Committee reviewed and challenged reports from management before each reporting date on the approach taken. Particular focus was given to loan books purchased at deep discounts, including sensitivity analysis on the impact of estimated future prepayment rates and other assumptions on carrying value and the timing of the release of discounts to profit and loss. The Committee requested a comparison of actual cash flows to those assumed in the cash flow models by book to challenge management's assessment of the need to update cash flow projections and adjust carrying values accordingly. Based on this work, the Committee is satisfied that the approach taken and judgments made were reasonable.

Effective interest rate

A number of assumptions are made when calculating the effective interest rate for newly-originated loan assets. These include their expected lives, likely redemption profiles and the anticipated level of any early redemption charges. Net fee income is a significant element of the effective interest rate of the Company's Buy-to-Let products and is recognised in profit and loss over the expected life of the loans. Judgement is required in assessing the expected life of products with an initial discounted or fixed period, which then revert to the Company's standard variable rate. The Committee reviewed and challenged the assumptions used in EIR calculations, in particular the period over which net fee income is spread, and also received sensitivity analysis for different product lives including a period on the Company's standard variable rate. Based on this work, the Committee is satisfied that the approach taken and judgements made were reasonable.

Audit Committee report continued

Fair, balanced and understandable
The Committee considered on behalf of the Board whether the 2015 Annual Report and financial statements taken as a whole are fair, balanced and understandable, and whether the disclosures are appropriate. The Committee reviewed the Group's procedures around the preparation, review and challenge of the Report and the consistency of the narrative sections with the financial statements.

Following its review, the Committee is satisfied that the Annual Report is fair, balanced and understandable, and provides the information necessary for shareholders and other stakeholders to assess the Company's position and performance, business model and strategy, and has advised the Board accordingly.

Internal Audit
The Company continued to outsource the Internal Audit function in 2015. Grant Thornton LLP was appointed as Internal Auditor effective 1 January 2014 after a robust tender process. The role of the Internal Audit function is to determine whether the Group's network of risk management, control and governance processes is adequate and functioning appropriately.

The terms of the Internal Audit function's appointment are set out in the Internal Audit Charter which was approved by the Audit Committee in March 2014. The Committee approved the annual Internal Audit plan, which identified areas of focus for the year. Outcomes of the work of Internal Audit are reported to the Audit Committee and the Group's management, with responsibility for any improvement or remedial action allocated appropriately. The Internal Audit function carries out follow up reviews to ensure that any control weaknesses are addressed.

The Committee also monitored the relationship between the Internal Audit function and the Group's management throughout the year.

The Committee carries out an annual review of the effectiveness of the Internal Audit function. This was facilitated in December 2015 by a survey completed by Committee members, the Executive Directors, other Executives and senior managers who had interacted with the Internal Audit function during the year. Following the review the Committee was satisfied that the Internal Audit function operated effectively during the year. The review identified that it would be helpful to wider audiences if Internal Audit reports included more detail on what was tested in addition to the exceptions found. The Group intends to move to a co-sourced arrangement for Internal Audit in 2016.

Systems of internal control and risk management
The Audit Committee received regular reports from the Internal Audit function during 2015, which included progress updates against the Internal Audit Plan, the results of audits undertaken and any outstanding audit action points. The Committee used these reports and the results of reviews carried out by the Group's Compliance function as the basis for its assessment of the effectiveness of the Group's system of internal controls and risk management. The Committee also received a report on the effectiveness of the Group's system of controls from the Chief Executive, which was based on a self-certification process completed by senior managers and executives in the Company.

The Committee also received a report from management on the results of an internal review of loan book acquisition accounting and the governance and control procedures in place. The review identified the need to prioritise the completion of detailed process documentation, including those at third-party servicers in early 2016.

The Group has continued to develop its governance arrangements during the year, including the review and update of various policies and procedures to support internal control and risk management systems. The Audit Committee has been central to this process in particular, in the review and approval of a number of updated policies covering; anti-bribery and corruption, data retention, approved persons, fraud prevention and arrangements, data protection and conduct risk.

External auditor
The Committee is responsible for overseeing the Group's relationship with its external auditor, KPMG LLP ('KPMG'). This includes the ongoing assessment of the auditor's independence and the effectiveness of the external audit process, the results of which inform the Committee's recommendation to the Board as to the auditor's appointment (subject to shareholder approval) or otherwise.

Appointment and Tenure
KPMG was appointed as the first external auditor of the Bank for the period ended 31 December 2011. Prior to that date it fulfilled the external audit function for KRBS, whereby following a tender process it was first appointed for the 31 December 2010 period-end. The current lead audit partner, Richard Gabbertas, has been in place during this time and 2015, therefore, represents the sixth year that he has led the audit. The Audit Committee confirms that the Group is in compliance with the Statutory Audit Services for Large Companies Market Investigation (mandatory use of competitive tender processes and Audit Committee Responsibilities) Order 2014.

KPMG generally requires the rotation of the lead audit partner every five years for a listed client. In light of the Bank's IPO and the resulting degree of change and demands facing the Group, the Committee requested to extend Richard's tenure for an additional year. KPMG considered this arrangement in line with its risk and independence policies and agreed, recognising the guidance published by the FRC in APB Ethical Standard for Auditors ES 3 (Revised) – 'Long Association with the Audit Engagement'. Therefore, a new lead audit partner has been selected for the 2016 audit. The Code requires that FTSE 350 companies should put the external audit contract out to tender at least every ten years. The Company was included in the FTSE 350 from June 2015. The Committee intends to next put the external audit contract out to tender in not more than five years from the date of the report, to allow a reasonable period for the tender process, and sufficient time to benefit from the change in audit partner.

The Committee has noted the adoption during 2014 of new EU legislation relating to the statutory audit market, and will monitor the development of legislation in the UK to implement the new regime. The new legislation requires auditor rotation every 10 years, with member state discretion to extend this to 20 years if there is a public tender every 10 years. Transitional arrangements are also available.

Effectiveness
The Committee assesses the effectiveness of the external audit function on an annual basis. The review was facilitated in 2015 through a survey completed by members of the Committee, the Executive Directors, other Executives and other key staff who had significant interaction with the external audit team during the year. The survey assessed the effectiveness of the lead partner and audit team, the audit approach and execution, the role of management in the audit process, communication, reporting and support to the Committee as well as the independence and objectivity of the external auditor. The assessment concluded that the external audit process was effective with no material areas requiring significant improvement, although the Committee requested further discussion

Prohibited Services	Permitted Services
Book-keeping or other services related to the accounting records or financial statements.	General accounting advice on the application of IFRS and training support.
Financial information systems design and implementation.	Tax compliance and advice.
Appraisal or valuation services, fairness opinions or contribution-in-kind reports.	Transaction related services, including acquisition due diligence and tax and accounting advice.
Actuarial services.	Other audit-related services; interim profit verification; half year review, comfort letters.
Management functions or human resources.	Such other activities as may be agreed by the Committee from time to time.
Broker, dealer, investment adviser or investment banking services.	
Legal services and expert services unrelated to the audit.	
Executive selection and recruitment.	
Seconding employees to key management positions.	
Tax assignments where fees are contingent and material and/or dependent on uncertain tax law and audit judgement.	

on principal risks and the risks to audit quality, particularly those specific to the Company. Subsequently, the committee has also asked the external auditor to carry out additional testing on model validation for acquired books.

Non-audit services

The engagement of the external auditor to provide non-audit services to the Group could impact the assessment of its independence and objectivity. The Group has therefore established a policy governing the use of the external auditor for non-audit services. The policy specifies prohibited and permitted services (as detailed in the table above) and sets the framework within which permitted non-audit services may be provided. Prohibited services comprise activities that are generally perceived to involve the auditor making judgments or decisions that are the responsibility of management.

The Group maintains active relationships with several other large firms and any decision to appoint the external auditor is taken in the context of whether their understanding of the Group places them in a better position than other firms to undertake the work and includes an assessment of the cost effectiveness and practicality of using an alternative firm.

The Committee pre-approved a number of permitted services in 2015: interim profit verifications, the half year review and tax compliance for the Group. The Committee also pre-approved other permitted non-audit services subject to an overall threshold of 70% of the approved cost of 2015 Group annual audit services and subject to any single item above £100,000 being pre-agreed with the Committee Chairman. The Committee reviews a schedule of year-to-date non-audit services at each meeting.

The fees paid to the external auditor in respect of non-audit services during 2015 totalled £171k, representing 44% of 2015 Group audit services of £390k (2014: £1,050k representing 313% of 2014 Group audit services of £335k or £195k and 58% excluding IPO related services) and are detailed in the table below.

During 2014, the external auditor was engaged, with the approval of the Audit Committee, to provide certain non-audit services in respect of the Company's IPO. These included the preparation of reports on the Company's financial position and prospects, working capital and a report to the Company's sponsors regarding the Company's business and operations. In approving the use of KPMG to provide these services, the Committee took the view that its knowledge of the Company and its operations meant that it was best-placed to provide the services, and was comfortable that its independence would not be compromised.

Nature of service	**2015 £'000**	2014 £'000
IPO related services	**–**	855
Audit-related assurance services including half year review and interim profit verifications	**71**	53
Tax compliance and advice	**59**	44
Regulatory advice and support	**8**	41
Other	**33**	57
Total non-audit services	**171**	1,050

Under the new EU statutory audit market legislation, certain non-audit service prohibitions and fee caps are introduced and are expected to be effective from 17 June 2016. The new prohibitions include tax advice and compliance and cap non-audit services to 70% of the average of audit services paid in the preceding 3 years. The cap is subject to transitional arrangements and is expected to apply to the Company from 17 June 2019. The prohibition on tax advice and compliance is subject to individual member state discretion. The new legislation has not yet been endorsed in the UK.

The Committee's assessment of the external auditor's independence in 2015 took into account the non-audit services provided during the year, and confirmations given by KPMG as to its continued independence at various stages in the year.

Training

The Committee undertook a significant amount of training during the year, including making extensive use of the Audit Committee Institute and training programmes run by the major accountancy firms. In addition, Committee members attended a number of executive level committee meetings and met with key staff during the year to increase their knowledge and understanding of the business.

Effectiveness

The Committee formally considers its effectiveness annually. The assessment was facilitated in December 2015 using a survey completed by members of the Committee, the Executive Directors, and other executives and senior managers that had significant interaction with the Committee during the year. The review concluded that the Committee was operating effectively and efficiently, but noted that the number and frequency of meetings might need to increase in 2016, given the growing volume of agenda items.

Risk Committee report

Dear Shareholder

I am pleased to present the report of the Risk Committee.

The Committee reviewed and commented on various reports, including the ICAAP, ILAA and RRP, before recommending the documents to the Board for approval or noting. The Committee spent an appropriate proportion of its time reviewing a number of inorganic transactions, as well as its other advisory and oversight responsibilities.

Further information on the wide range of the role and activities of the Committee is provided in the following report.

Rod Duke
Risk Committee Chairman

Membership and meetings

Director	Number of meetings attended
Chairman	
Rod Duke	9/10
Current members	
Graham Allatt	9/10
Mary McNamara	10/10
April Talintyre	9/10
Stephan Wilcke	5/10

The Risk Committee meets at least six times a year, with additional meetings scheduled as required depending on the activity of the Group.

Only members of the Committee are entitled to attend meetings, however the Chief Risk Officer (CRO), Chief Executive Officer (CEO) and Chief Credit Officer (CCO) have standing invitations to the Committee, unless the Chairman of the Committee informs any that they should not attend a particular meeting or discussion.

Role of the Committee

The Board has delegated to the Committee the responsibility for oversight of the Group's risk appetite, risk monitoring and capital management. The Committee's primary objectives are therefore to provide oversight and advice to the Board on current risk exposures and future risk strategy, and to 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.

The Committee's specific responsibilities are set out in its terms of reference, which are available on the Company's website, and are summarised opposite.

Risk Committee – Key Responsibilities

Risk appetite and assessment

- Advise the Board on overall risk appetite, tolerance and strategy.
- Review risk assessment processes that inform the Board's decision making.
- Review the Group's capability to identify and manage new risks.
- Advise the Board on proposed strategic transactions, including acquisitions or disposals, ensuring risk aspects and implications for risk appetite and tolerance are considered.

Risk monitoring and framework

- Review credit risk, interest rate risk, liquidity risk, legal and regulatory risks and operation risk exposures by reference to risk appetite and capital adequacy.
- Review ICAAP framework.
- Monitor actual and forecast risk and regulatory capital positions.
- Recommend changes to capital utilisation.
- Review ILAA framework.
- Monitor actual and forecast liquidity position.
- Review reports on material breaches of risk limits and the adequacy of proposed action.
- Review RRP framework.

CRO and risk governance structure

- Consider and approve the remit of the risk management function.
- Recommend to the Board the appointment and removal of the CRO.
- Review promptly all reports of the CRO.
- Review and monitor management's responsiveness to the findings of the CRO.
- Receive reports from the Credit Committee, Assets & Liabilities Committee and Regulatory, Operational, Conduct and risk committee.

Activity during 2015

In 2015 the Group set out an updated strategic risk management framework, which represents the overarching framework established to manage its risk profile in line with its business strategy and objectives. The strategic risk management framework of the Group is set out in detail on pages 29 to 37.

In order to discharge its duties and responsibilities, the Committee receives reports from those responsible for specific areas of risk within that framework. The Group's compliance function reports on conduct risk and regulatory risk to the committee and the CRO on all other risks. Examples of how the Committee has discharged its responsibilities during the year are as follows:

Credit risk

The Committee received and reviewed regular detailed credit reports during the year identifying large exposures, LTVs and arrears within various categories (e.g. residential loans, Buy-to-Let, consumer lending). The reports also highlight early warning indicators, which allow the Committee and the risk function to address potential credit issues before they develop into significant risk areas.

The Committee reviewed individual cases from the legacy problem loans population, making recommendations, where appropriate, to ensure the best outcomes are reached. The Committee also reviewed and commented on updates to the Group Lending Policy and the Loan Loss Provisioning Policy prior to their submission to the Board for approval.

Market risk and liquidity risk

Market risk and liquidity risk are continually monitored by the Assets and Liability Committee (ALCO) which reports to the Risk Committee. The Committee reviewed ALCO's regular assessments of the UK macroeconomic environment and potential impacts on the Group's assets and liquidity.

The Committee also reviewed and commented on updates to the Treasury Policy, Interest Rate and Basis Risk Policy, Asset Encumbrance Policy and the Funds Transfer Pricing Policy prior to submission to the Board for approval.

Operational risks

The Committee received reports on operational risks at each of its meetings. The reports cover risk incidents that have arisen to allow the Committee to assess management's response and remedial action proposed. The reports also cover key risk indicators (KRI) which can be quantitative or qualitative and provide insights regarding changes in the Group's operational risk profile.

Although there were operational incidents during the course of 2015, the Committee was satisfied that the action taken was appropriate and that the control of operational incidents continued to improve.

The Committee reviewed and commented on an updated operational risk management framework (ORMF) as part of the review of the Group's overall strategic risk management framework. The key components of the ORMF are the risk and control self assessment, the KRIs, loss data and scenario analysis.

ICAAP

The Committee reviewed and commented on the proposed Internal Capital Adequacy Assessment Process (ICAAP) prior to its submission to the Board for approval. This process engages the Board in the ongoing assessment of risks and demonstrates how the Group would manage its business and capital during adverse macroeconomic and idiosyncratic stresses. In particular, the Committee provided feedback on the Pillar 2A assessments, which are intended to ensure that the Group possesses adequate capital to support the risks it faces.

ILAA

The Committee reviewed and commented on the proposed Individual Liquidity Adequacy Assessment Process (ILAA) prior to its submission to the Board for approval. This process sets out the Group's approach to liquidity and funding, including the assessment and quantification of liquidity risk, how the Group intends to mitigate those risks, and how much current and future liquidity is required.

RRP

The Committee reviewed and commented on the proposed Recovery and Resolution Plan (RRP) prior to its submission to the Board for approval. The recovery plan process is designed to ensure that in a time of stress the Group has a credible recovery plan that can be implemented in a timely manner.

In addition to the specific examples given above, the Committee reviewed various transaction proposals, assessing their potential impact on the risk profile of the Group. It also approved the Group's Pillar III disclosure and various policies and policy updates.

Annual statement by the Chairman of the Remuneration Committee

Dear Shareholder

I am pleased to present the Committee's report for 2015.

As set out in the Chairman's statement at the beginning of this report, OneSavings Bank has had an excellent year with strong performance against all of our key measures.

At the beginning of the year the Committee set stretching but realistic targets for the Executive Bonus Scheme using our balanced scorecard approach – the measures chosen are metrics that the Committee believe reflect the holistic performance of the Group. Non-financial measures represent 65% of the total bonus targets demonstrating our commitment to growing the Group in a sustainable, prudent way and encouraging a focus on long-term success. This includes staff, customer and quality objectives, measures we believe are 'lead' indicators of the future performance of OneSavings Bank.

Performance against both the financial and non-financial performance measures has been strong resulting in bonus payments of 93% and 89.6% of maximum for the CEO and CFO respectively. 50% of this award will be deferred into shares under the Deferred Share Bonus Plan. These shares will be held for a three-year period and are subject to strict clawback and malus provisions.

The first awards were granted under the Performance Share Plan (PSP)

In 2015 the first awards were granted under the PSP. These awards will only vest if challenging performance conditions are met – the Group must achieve EPS growth of 18% per annum and upper quartile growth in Total shareholder return (TSR) over the performance period for the awards to vest in full. The Committee must also be satisfied that the Group has adhered to the Board's risk appetite framework, taking into account, capital, liquidity, credit, operational and conduct & compliance risk over the performance period. Further awards will be made under this Plan in 2016.

OSB received high support for its remuneration arrangements at the 2015 Annual General Meeting

June 2015 was also the first Annual General Meeting for OneSavings Bank as a listed company. At this meeting our remuneration policy, annual report on remuneration and a resolution to increase the cap on variable pay to two times fixed pay were submitted to shareholders. I was delighted with the support from shareholder for our arrangements with votes for the proposals of 97.21%, 99.89% and 97.31% respectively. We continue to have an open dialogue with shareholders and to consult with them prior to making major changes to remuneration structures or quantum.

Changes to structures as a result of Financial Services regulation

The Committee stays up to date with developments in financial services regulation and market trends and is cognisant of the current discussions on proportionality taking place in Europe. The Committee will continue to monitor developments in this sector and will make any changes necessary to comply with the regulations. This may mean that we will need to present a revised Remuneration Policy to shareholders in 2017 to reflect the final requirements.

Mary McNamara
Chairman of the Remuneration Committee
16 March 2016

Remuneration Policy report

This policy report was approved at the 2015 AGM and took effect from the date of approval. It is reported here for information only. It is currently intended that the Policy will apply for the three-year period following approval, subject to any change which may occur in the external regulatory framework within the sector in which OSB operates.

Policy overview

This part of the Directors' remuneration report sets out the Remuneration Policy for OneSavings Bank and has been prepared in accordance with the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended.

The Policy has been developed taking into account a number of regulatory and governance principles, including:

- The UK Corporate Governance Code 2014.
- The Listing Rules.
- The regulatory framework applying to the Financial Services Sector (including the PRA Remuneration Code and provisions of CRD IV).
- The executive remuneration guidelines of the main institutional investors and their representative bodies.

Objectives of the Remuneration Policy

The overriding principles of the Remuneration Policy for employees across the Group are as follows:

- Attract, motivate and retain high performing employees.
- Adhere to and respond to the regulatory framework for the financial services sector and UK Listed companies more generally.
- Strike an appropriate balance between risk taking and reward.
- Encourage and support a strong sales and service culture.
- Reward the achievement of the overall business objectives of the Group.
- Align employees' interests with those of shareholders and customers.
- Be consistent with the Group's risk policies and systems to guard against inappropriate risk taking.

In respect of the Executive Directors and senior management, performance-related pay will form a significant but appropriate part of remuneration packages and there will be an appropriate balance between short and longer-term performance targets linked to the delivery of the Group's objectives. The policy is intended to be delivered via a remuneration framework with the flexibility of being able to combine base salary, benefits, commission, annual bonuses and employee share plans. The specific policy applying to Executive Directors is set out in the table and accompanying notes on page 70.

How we take account of risk in the Remuneration Policy

Risk management is at the heart of our business, and underpins all business decisions. In the context of remuneration, the Committee takes account of risk in a number of ways, including:

- Ensuring that the balance of remuneration (i.e. absolute pay levels and the balance between fixed and performance-related pay) is appropriate to our business and risk appetite.
- In the choice of performance metrics and time horizons applying to incentives, whereby a broad balance of measures is used across our plans.
- The use of appropriate underpins and discretions to our incentive plans, allowing the Committee to take account of the wider risk management framework when judgeing the out-turn under incentive plans.
- Having a significant proportion of performance-related pay deferred and paid in shares.
- The inclusion of clawback and malus provisions on incentive pay, which may apply for a period of up to seven years following the end of the performance period.

As a Level 3 PRA regulated firm, we also take seriously the requirements of the Remuneration Code. In the design of our Remuneration Policy, we have therefore responded to the evolving regulation in this area, including the application of the EBA cap on variable remuneration to Level 3 Code Banks. As a result, we sought shareholder approval to increase the cap on our variable pay to up 200% of fixed pay (i.e. a 2:1 ratio), and our Remuneration Policy is designed to operate within this cap.

How the views of shareholders and employees are taken into account

The Committee does not formally consult directly with employees on executive pay but receives periodic updates from the General Manager, Human Resources in relation to salary and bonus reviews across the Company. As set out in the policy table overleaf, in setting remuneration for the Executive Directors, the Committee takes note of the overall approach to reward for employees in the Company and salary increases will ordinarily be (in percentage of salary terms) in line with those of the wider workforce. Thus, the Committee is satisfied that the decisions made in relation to Executive Directors' pay are made with an appropriate understanding of the wider workforce.

The Committee will seek to engage with shareholders and their representative bodies when it is proposed that any material changes are to be made to the Remuneration Policy. In addition, we will consider any shareholder feedback received in relation to the AGM.

This, plus any additional feedback received from time to time, will be considered as part of the Committee's annual review of Remuneration Policy.

Remuneration Policy report continued

The Remuneration Policy for Executive Directors

The table below and accompanying notes summarise the key aspects of OneSavings Bank's Remuneration Policy for Executive Directors.

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
Salary	To recruit and reward executives of a suitable calibre for the role and duties required. Recognises individual's experience, responsibility and performance.	Paid monthly. Base salaries are reviewed annually, with any changes effective from 1 April. No performance conditions apply to the payment of salary. However, when setting salaries, account is taken of an individual's specific role, duties, experience and contribution to the organisation. As part of the salary review process, the Committee takes account of the external market for UK listed companies both in the Financial Services sector and across all sectors, in order to ensure that salary positioning is appropriate. Whilst this is not the key driver of salary increases, it provides important background context.	Average annual increases will generally be broadly in line with the average of the workforce. Higher increases may be awarded in response to acute retention issues, an increase in the scope of the role, following the appointment of a new executive (which could also include internal promotions) to bring that executive's package in line with market over a number of years or in response to market factors.
Benefits	To provide market competitive benefits to ensure the well-being of employees.	The Company provides: • car allowance (£13,000 and £9,000 for the CEO and CFO respectively); • life assurance; • income protection; and • private medical insurance.	There is no maximum cap on benefits, as the cost of benefits may vary according to the external market but the nature of the benefits themselves will not change.
Pension	To provide retirement planning to employees.	Directors may participate in a defined contribution plan, or, if they are in excess of the HMRC annual or lifetime allowances for contributions, may elect to receive cash in lieu of all or some of such benefit.	Up to 13% of salary, subject to employee matching.
Annual bonus	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 annual bonus targets will have at least a 75% weighting based on performance under an agreed balanced scorecard which includes an element of risk appraisal. The remaining balance will be based on personal performance targets. The objectives in the scorecard, and the weightings on each element will be set annually, and may be flexed according to role. Each element will be assessed independently, but with Committee discretion to reduce the resulting outcome. Details of the performance targets set for the year under review and a summary of performance against them will normally be provided in the annual report on remuneration. 50% of any bonus paid will be made in shares under the OneSavings Bank Deferred Share Bonus Plan 2014 (the DSBP). These deferred shares will vest after three years, provided that the executive remains in employment at the end of the three year period. Clawback/malus provisions apply, as described in note 1 on page 71.	The maximum bonus opportunity is 100% of salary.

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
Performance Share Plan (PSP)	To incentivise and recognise execution of the business strategy over the longer term. Rewards strong financial performance over a sustained period.	PSP Awards will be made annually at the discretion of the Committee, usually following the announcement of full-year results. Normally, policy awards will be made to Executive Directors and the senior leadership team, based on a mixture of internal financial performance targets and relative total shareholder return. Any vesting will be subject to an underpin, whereby the Remuneration Committee must be satisfied that the business has operated within the Board's risk appetite framework. This takes into account capital adequacy, liquidity, credit risk, operational risk and conduct and compliance risk. The performance targets will be measured over three financial years. Clawback and malus provisions apply and are structured as for the annual bonus.	The PSP has a grant limit of 200% of salary. Actual awards may be lower than this, and will comply with any overall regulation over the permitted level of variable pay.
All-employee share incentive plan (Sharesave Plan)	All employees including Executive Directors are encouraged to become shareholders through the operation of an all-employee share plan.	Tax favoured plan under which regular monthly savings may be made over a three or five year period and can be used to fund the exercise of an option, where the exercise price is discounted by up to 20%. Provides tax advantages to UK employees, with Executive Directors eligible to participate on a similar basis to other employees.	Maximum permitted savings based on HMRC limits from time to time.
Share ownership guidelines	To increase alignment between executives and shareholders. Executive Directors are expected to build and maintain a minimum holding of shares.	Executives must retain at least 50% of the shares acquired on vesting of share awards (net of tax) until the required holding is attained.	At least 200% of salary for the Chief Executive Officer and at least 150% of salary for the Chief Financial Officer or such higher level as the Committee may determine from time to time.

Note:
1 Clawback and malus provisions apply to both the annual bonus and 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 effect any such clawback, the Committee may use a variety of methods, with-hold deferred bonus shares, future PSP awards or cash bonuses, or seek to recoup cash already paid.

A description of how the Company implemented the policy set out in this table in 2015, and how it intends to implement it in 2016, is set out in the annual report on remuneration.

Choice of performance measures for Executive Directors' awards

The use of a balanced scorecard for the annual bonus reflects the balance of financial and non-financial business drivers across the Company. The combination of performance measures ties the bonus plan to both the delivery of financial targets and strategic/personal objectives. This ensures there is an appropriate focus on the balance between financial and non-financial targets, with the scorecard composition being set by the Committee from year to year depending on the corporate plan.

The PSP is based on a mixture of financial measures and relative total shareholder return, in line with our key objectives of sustained growth in earnings leading to the creation of shareholder value over the long term. Total Shareholder Return provides a close alignment between the relative returns experienced by our shareholders and the rewards to executives. There is an underpin in place to address risk in the business, taking into account capital adequacy, liquidity, credit risk, operational risk and conduct and compliance risk.

In line with HMRC regulations for such schemes, the SAYE does not operate performance conditions.

Remuneration Policy report continued

How the Remuneration Committee operates the variable pay policy
The Committee operates the share plans in accordance with their respective rules, the Listing Rules and HMRC requirements where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of certain plans, including:
- Who participates in the plans.
- When to make awards and payments.
- How to determine the size of an award, a payment, or when and how much of an award should vest.
- The testing of a performance condition over a shortened performance period.
- How to deal with a change of control or restructuring of the Group.
- Whether a participant is a good/bad leaver for incentive plan purposes, what proportion of an award vests at the original vesting date or whether and what proportion of an award may vest at the time of leaving.
- How and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends).
- What the weighting measures and targets should be for the annual bonus plan and PSP from year to year.

The Committee also retains the discretion within the policy to adjust existing targets and/or set different measures for the annual bonus and for the PSP if events happen that cause it to determine that the targets are no longer appropriate and amendment is required so they can achieve their original intended purpose and provided the new targets are not materially less difficult to satisfy.

Any use of the above discretions would, where relevant, be explained in the annual report on remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

Awards granted prior to the effective date
Authority has been given to the Company to honour any commitments entered into with Directors that were entered into prior to the effective date of this policy. Details of any such payments will be set out in the annual report on remuneration as they arise.

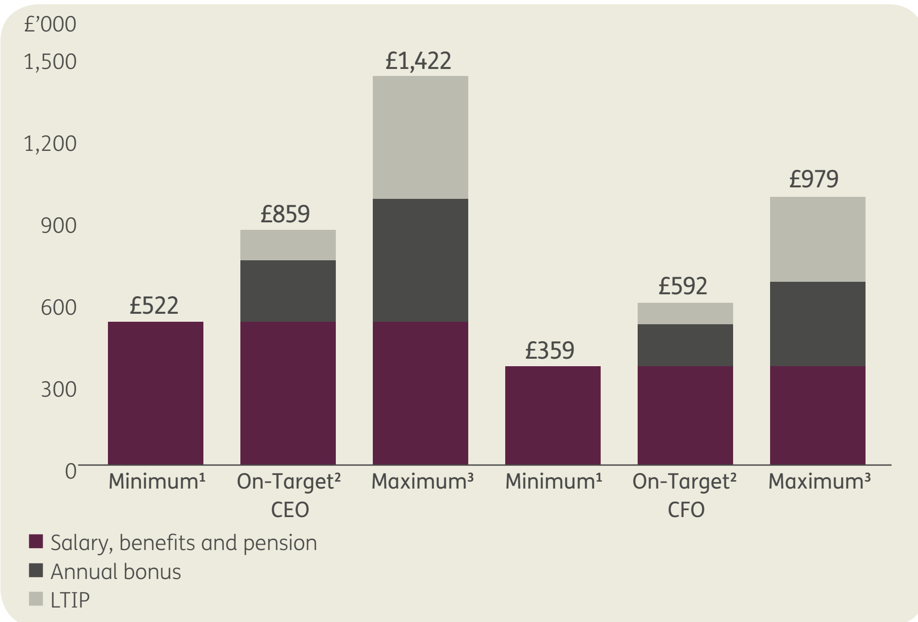
Remuneration Policy for other employees
The Committee has regard to pay structures across the wider Group when setting the Remuneration Policy for Executive Directors and ensures that policies at and below the executive level form a coherent whole. There are no significant differences in the overall remuneration philosophy, although pay is generally more variable and linked more to the long term for those at more senior levels. The Committee's primary reference point for the salary reviews for the Executive Directors is the average salary increase for the broader workforce.

A highly collegiate approach is followed in the assessment of annual bonus, with our corporate scorecard being used to assess bonus outcomes throughout the organisation, with measures weighted according to role, where relevant.

Overall, the Remuneration Policy for the Executive Directors is more heavily weighted towards performance-related pay than for other employees. In particular, performance-related long term incentives are not provided outside of the most senior executive population as they are reserved for those considered to have the greatest potential to influence overall levels of performance.

Although PSP is awarded only to the most senior managers in the Group, the Company is committed to widespread equity ownership. Accordingly, in 2014, our Sharesave Plan offer was launched for all employees. Executive Directors are eligible to participate in this plan on the same basis as other employees.

Illustrations of application of Remuneration Policy
The chart below illustrates how the composition of the Executive Directors' remuneration packages, as it is intended the policy will be implemented in 2016, would vary under various performance scenarios.



Notes:
1. Minimum performance assumes no award is earned under the annual bonus plan and no vesting is achieved under the LTIP – thus only fixed pay (salary, benefits and pension) are payable.
2. At on-target, half of the annual bonus is earned (i.e. 50% of salary) and 25% of salary is achieved under the LTIP (i.e. 25% of maximum).
3. At maximum full vesting is achieved under both plans (i.e. 100% of salary). Share price growth is ignored.
4. All-employee share plan participation is ignored.

Service contracts

The terms and provisions that relate to remuneration in the Executive Director service agreements are set out below:

Provision	Policy
Notice period	Twelve months on either side.
Termination payments	A payment in lieu of notice may be made on termination to the value of their basic salary at the time of termination. Such payments may be made in instalments and in such circumstances can be reduced to the extent that the Executive Directors mitigate their loss. Rights to DSBP and PSP awards on termination are shown below. The employment of each Executive Director is terminable with immediate effect without notice in certain circumstances, including gross misconduct, fraud or financial dishonesty, bankruptcy or material breach of obligations under their service agreements.
Remuneration	Salary, pension and core benefits are specified in the agreements. There is no contractual right to participate in the annual bonus plan or to receive long term incentive awards.
Post-termination restrictions	These include six month post termination restrictive covenants against competing with the Company; nine month restrictive covenants against dealing with clients or suppliers of the Company. Nine month restrictive covenant against soliciting clients, suppliers and key employees.
Contract date	Andy Golding 19 May 2014, April Talintyre 19 May 2014.
Unexpired term	Rolling contracts.

Payments for loss of office

Annual bonus on termination

On termination, executives will be contractually entitled to salary over their notice period. Payments may be phased and subject to mitigation. There is no automatic/contractual right to bonus payments. For good leavers, the Remuneration Committee may elect to pay a pro-rata bonus for the period of employment at its discretion and based on full year performance.

PSP on termination

Share-based awards normally lapse on termination. In certain good leaver situations, awards would normally be time pro-rated taking into account the extent to which the performance conditions have been met if the executive is a good leaver. In the event that any departure is made from this default treatment of good leavers, the Committee's rationale would be set out in the annual report on remuneration.

The Company may also pay reasonable legal costs in respect of any compromise settlement.

In determining 'good leaver' status, best practice would be to stay within definitions of scheme rules i.e. death, ill health, injury, disability, retirement, redundancy, or his employing business being sold out of the Group. However, as is permitted under the rules, the Remuneration Committee will need to retain flexibility for the range of potential different circumstances, taking into account the individual's performance and the reasons for their departure. Where an executive is determined as a 'good leaver' by the Committee, this discretion and a rationale for the determination will be set out in the remuneration report.

Service contracts are available for inspection at the Company's registered office.

Approach to recruitment and promotions

The remuneration package for a new Director would be set in accordance with the terms of the Company's approved Remuneration Policy and subject to any prevailing limits imposed by the PRA Code. Currently, this would facilitate annual bonus of 100% of salary and PSP award of up to 200% of salary (lower if the regulatory framework prescribes this).

On recruitment, salary policy may (but need not necessarily) be set below the normal market rate, with phased increases as the executive gains experience. The rate of salary should be set so as to reflect the individual's experience and skills.

In addition on recruitment, the company may compensate for amounts foregone from a previous employer (using cash awards, the Company's share plans or awards under Listing Rule 9.4.2 as may be required) taking into account the quantum foregone; the extent to which performance conditions apply; form of award; and the time left to vesting.

For an internal appointment, any variable pay element awarded in respect of their prior role should be allowed to pay out broadly according to its terms. Any other on-going remuneration obligations existing prior to appointment may continue, provided that they are put to shareholders for approval at the earliest opportunity.

For all appointments, the Committee may agree that the company will meet certain appropriate relocation costs.

Remuneration Policy report continued

For the appointment of a new Chairman or Non-Executive Director, the fee arrangement would be in accordance with the approved Remuneration Policy in force at that time.

External appointments

Executive Directors may accept directorships of other quoted and non-quoted companies with the consent of the Board who will consider in particular the time commitment required. It is also at the discretion of the Board as to whether the Executive Director will be able to retain any fees from such an appointment.

Chairman and Non-Executive Directors' remuneration

The Company has a Non-Executive Chairman and eight Non-Executive Directors. Five are Independent Non-Executive Directors. Two of the Non-Executive Directors, Dr David Morgan and Tim Hanford, (the JCF Directors) are Directors nominated by the major shareholder OSB Holdco Limited in accordance with the terms of the Relationship Agreement, further details of which are given on page 54.

The remuneration policy for the Chairman and Non-Executive Directors

The table summarises the key aspects of the remuneration policy for the Chairman and Non-Executive Directors.

Element	Purpose and link to strategy	Operation	Maximum opportunity
Fees	To attract and retain a high-calibre Chairman and Non-Executive Directors by offering a market competitive fee level.	The Chairman and Non-Executive Directors are entitled to an annual fee, with supplementary fees payable to the Chair of the Audit, Remuneration, Nomination and Risk Committees and for acting as the Senior Independent Director. Fees are reviewed annually. The Chairman and Non-Executive Directors are entitled to reimbursement of travel and other reasonable expenses incurred in the performance of their duties The level of these fees will be reviewed annually by the Board.	There is no prescribed maximum annual increase. The Committee is guided by the general increase in the Non-Executive market but on occasions may need to recognise, for example, change in responsibility and/or time commitments.

Letters of appointment

The Non-Executive Directors, (apart from the JCF Directors) are appointed by letters of appointment that set out their duties and responsibilities. The key terms are:

Provision	Policy
Period of appointment	Initial three year term.
Notice periods	Three months on either side. The appointments are also terminable with immediate effect and without compensation or payment in lieu of notice if the Chairman or Non-Executive Director (apart from the JCF Directors) is not re-elected to their position as a director of the Company by shareholders.
Payment in lieu of notice	The Company is entitled to make a payment in lieu of notice on termination.

Letters of appointment are available for inspection at the Company's registered office.

JCF Directors

Tim Hanford and Dr David Morgan are nominated by the major shareholder. Their appointments will terminate in accordance with the terms of the Relationship Agreement. Under the Relationship Agreement, the major shareholder will receive an annual fee of £60,000 from the Company in respect of each JCF Director that it appoints to the Board, in consideration for the provision of the Director's time and expertise. Where the Relationship Agreement allows, the fees for each of the JCF Directors may be increased in line with other Non-Executive Director fee increases. Neither Tim Hanford nor Dr David Morgan receives fees for the provision of their services.

Annual report on remuneration

Introduction

This section sets out details of the remuneration which the Executive and Non-Executive Directors (including the Chairman) received in respect of the financial year ended 31 December 2015 together with the operation of the Remuneration Committee over the same period. The annual report on remuneration will, in conjunction with the annual statement of the Remuneration Committee Chairman on page 68, be proposed for an advisory vote by shareholders at the forthcoming Annual General Meeting to be held on 11 May 2016. Where required, data has been audited by KPMG LLP and this is indicated where appropriate. In preparing this report consideration has been given to the GC100 and Investor Group Directors' Remuneration Reporting Guidance.

Remuneration Committee

Membership

The Remuneration Committee held five Committee meetings during the year. Membership of the Remuneration Committee in the year, and attendance at meetings by individual Committee members, is set out in the Corporate Governance Report.

The Board considers each of the members of the Committee to be independent in accordance with the Code.

Role of the Remuneration Committee

The Remuneration Committee's responsibilities are set out in its terms of reference which are available on the Company's website or on request by shareholders. In summary, the duties of the Committee include:

- Setting the Remuneration Policy for all Executive Directors of the Company and the Chairman of the Board, the Company Secretary and all employees that are identified as Code Staff for the purposes of the Prudential Regulation Authority's Remuneration Code ('Code Staff' and 'the PRA Code' respectively).
- Within the terms of the Remuneration Policy and in consultation with the Chairman of the Board and/or Chief Executive, as appropriate, determine the total individual remuneration package of each Executive Director and the Chairman and other designated senior executives including bonuses, incentive payments and share option or other share awards.
- Approve the design of, and determine targets for, any performance related pay schemes operated by the Company and approve total annual payments made under such schemes. The Committee will seek input from the Chief Risk Officer to ensure that awards reflect the Company's risk appetite and profile and takes into account current and potential future risks.
- Ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

In carrying out its duties the Remuneration Committee takes into account any legal requirements, the PRA Code, UK Corporate Governance Code and UK Listing Rules. Determining the fees of the Non-Executive Directors is a matter for the Board as a whole.

Key matters considered by the Remuneration Committee

Key issues reviewed and discussed by the Remuneration Committee during the year included:

- consider and approve the 2015 Directors' remuneration report;
- consider shareholder feedback on remuneration proposals;
- review and approve 2015 Executive bonus awards;
- review and approve 2015 Executive salary increases;
- review and approve salary increases and bonus awards for Code Staff;
- agree 2015 awards size and targets for grants under the PSP; and
- consider remuneration policy in light of EBA proposals.

Advisers to the Committee

New Bridge Street (part of Aon plc) served as remuneration consultants to the Committee during the year. Aon provided advice on all aspects of executive remuneration including development of remuneration policy, guidance on performance metrics and benchmarking exercises. The total fees paid to New Bridge Street in 2015 were £57,618

New Bridge Street was appointed by the Committee as its adviser in 2014. Neither New Bridge Street nor Aon plc have any other connection with the Group and therefore the Committee is satisfied that it provides objective and independent advice. New Bridge Street is a member of the Remuneration Consultants Group and abides by the voluntary code of conduct of that body, which is designed to ensure objective and independent advice is given to remuneration committees.

The Committee also takes input on senior executive remuneration from the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and General Manager, Human Resources. The Group General Counsel and Company Secretary advises the Committee in respect of the UK Corporate Governance Code, share schemes and also acts as secretary to the Committee, ensuring that the Remuneration Committee fulfils its duties under its terms of reference and provides regular updates to the Remuneration Committee on relevant regulatory developments in the UK. No individual is present in discussions directly relating to their own pay.

Annual report on remuneration continued

Single total figures of remuneration – Executive Directors (audited information)

The table below sets out a single figure for the total remuneration received by each Executive Director for the year ended 31 December 2015 and 31 December 2014. The remuneration paid in respect of 2014 is for service and performance both pre and post the IPO:

Executive Directors £000	Year	Basic Salary	Taxable Benefits	Pension	Annual Bonus Paid	Amount Bonus Deferred	Vested LTIP	Total
Andy Golding	2015	401	13	52	191	191	0	848
	2014	349	12	45	174	174	23	777
April Talintyre	2015	284	9	37	130	130	0	590
	2014	252	8	33	120	120	9	543

2015 Salary (audited information)

Early in 2015, the Remuneration Committee carried out a full year review of base salaries for the Executive Directors. This was the first salary review since our admission to the London Stock Exchange in June 2014. Our review took into account pay positioning and practice in other public quoted companies of a similar size to OneSavings Bank, both within the financial services sector and within the wider market along with the performance of the Company and the Directors following IPO. The Committee determined that the base salaries should be increased to £410,000 for the Chief Executive and £290,000 for the Group Finance Director in order to align with market rates within comparable UK listed companies. As a result, the salaries for the Executive Directors during 2015 were:

Executive £	Salary as at 1 January 2015	Salary from 1 April 2015	Total salary paid in 2015
Andy Golding	375,000	410,000	401,250
April Talintyre	265,000	290,000	283,750

Executive Directors' Pension (audited information)

Executives received pension payments (into defined contribution scheme and cash allowance) totalling 13% of salary:

Executive Director	Contributions paid in 2015 £000
Andy Golding	52
April Talintyre	37

Executive Bonus Scheme: 2015 performance against targets (audited)

In 2015 the Executive Directors participated in the Executive Bonus Scheme; their maximum opportunity under the scheme was 75% of salary with the actual payment dependant on company performance versus stretching objectives. Each Executive Director has a further discretionary bonus opportunity of 25% of salary, with awards linking to individual performance versus appraisal objectives and behaviours demonstrated as per the Company's Behavioural Competency Framework. The actual performance over the year relative to these targets is shown below:

			Performance achieved (% of bonus earned)		
Measure	Weighting	Measure	Andy Golding	April Talintyre	Commentary
Financial	35%	Various measures including Profitability, Growth, Capital Return on Equity and Cost:Income Ratio	34.5	34.5	All financial Key Performance Indicators were set at a stretch level at the start of 2015. During a year of significant change, performance versus all but one of these measures was significantly in excess of target, hence the bonus awarded for both individuals being close to the maximum available. For example: • Cost:income ratio – 2015 target <35% vs actual 26%. • Return on equity – 2015 target >25% vs actual 32%. • Underlying profit after tax – 2015 target £71m vs actual £84.5m.
Non-financial	10%	Staff: Various measures including Headcount & Attrition	7	7	The Company set a number of stretching targets for meeting headcount plans and minimising employee attrition. Whilst headcount targets were achieved, the UK attrition fell below target; hence the bonus earned not being at the maximum.
	15%	Customer Service: Various measures including Satisfaction, Complaints and Retention	15	15	All customer related targets were exceeded, resulting in bonus earned in this area being at the maximum level.

Executive Bonus Scheme: 2015 performance against targets (audited) continued

Measure	Weighting	Measure	Performance achieved (% of bonus earned) Andy Golding	April Talintyre	Commentary
	15%	Quality: Various measures including Compliance, Credit Risk and Operational	11.5	9	Targets were set on areas including audits, training, regulatory returns, book arrears, IT system up-time and operational incidents. The Company outperformed on the majority of targets. April Talintyre's bonus earned was less than Andy Golding's, due to the individual weightings applied to the KPIs in this area.
Personal	25%	Personal performance subject to year-end appraisal	25	24.1	Both individuals achieved very strong Year End Appraisal ratings (Andy Golding achieved 'Outstanding' and April Talintyre achieved 'Highly Effective'). These ratings take into account their overall performance versus objectives which were set at the beginning of 2015, and achieved in a year of considerable change and growth. The pay-outs have been calculated in accordance with the pay-out ranges applied to all employees.
Annual bonus (% of salary)	100%		93	89.6	

Notes:
The weightings are considered by the Remuneration Committee each year to ensure they reflect an appropriate balance of priorities for management. Where a change of emphasis is considered to be necessary, the weightings will be amended in future years.

This performance resulted in a bonus of £381,300 for the CEO and a payment of £259,950 to the CFO. 50% of the bonus will be paid in cash in April 2016 with the remaining 50% deferred into shares under the Deferred Share Bonus Plan. These shares will be held for a three-year period – there are no further performance conditions attached to this award however it is subject to clawback or malus in the circumstances set out in the Policy Report. If the Executive Director leaves prior to vesting any entitlement to the deferred shares is forfeited unless for a good leaver reason such as redundancy, retirement or ill health.

Scheme interests awarded during the financial year

The table below shows the awards made to executive directors in 2015 under the performance share plans and the performance conditions attached to these awards[1]:

Executive	Face value of award (% of salary)	Face value of award £	Percentage of awards released for achieving threshold targets	End of performance period	Performance conditions
Andy Golding[2]	100%	375,000	25%	31-Dec-17	EPS & TSR
April Talintyre[2]	100%	265,000	25%	31-Dec-17	EPS & TSR

Notes:
1 The number of shares awarded was calculated using a share price of £2.19 (the average mid-market quotation for the preceding 5 days before grant).
2 Andy Golding and April Talintyre have no other outstanding LTIP awards.

The performance conditions that applied to the 2015 awards was a combination of Earnings per Share (EPS) and total shareholder return (TSR); an equal weighting applied to both, and they will be assessed independently. For the EPS element, growth targets were linked to the Company's three year growth plan, measuring growth from the base figure of 2014. For the TSR element, OneSavings Bank's relative performance is measured against the FTSE All Share index excluding Investment Trusts. The payout schedules for each element are set out below:

Performance level	EPS element (50% of total award)	TSR element (50% of total award)	% of that part of the award vesting
Below 'threshold'	<12%	Below median	0%
'Threshold'	12%	Median	25%
'Stretch'	18%	Upper quartile	100%
	Pro-rata vesting in between the above points		

Once the provisional out-turn has been calculated, the Remuneration Committee will review the operation of the business against the Board's risk appetite framework, taking into account, capital, liquidity, credit, operational and conduct and compliance risk and may exercise its discretion to reduce the awards, potentially to zero, in the event of a breach of this risk appetite.

Annual report on remuneration continued

Percentage change in the remuneration of the Chief Executive Officer

The table below sets out the percentage change in base salary, value of taxable benefits and bonus for the CEO compared with the average percentage change for employees. For these purposes UK employees who have been employed for over a year (and therefore eligible for a salary increase) have been used as a comparator group as they are the analogous population (based on service and location). In 2015, this group formed the majority of OneSavings Bank's employees. The benefit offering for this group remained the same in 2015 with costs per employee flat as the Group negotiated a two-year deal on private medical cover in 2013.

	Average Percentage Change 2014–2015		
	Salary	Taxable Benefits	Annual Bonus
Chief Executive Officer	14.9%	8%	9.8%
UK Employees	6.99%	0%	32.6%

Comparison of Company performance and CEO remuneration

The following table summarises the CEO single figure for total remuneration and annual bonus pay-out as a percentage of maximum opportunity in 2013 to 2015.

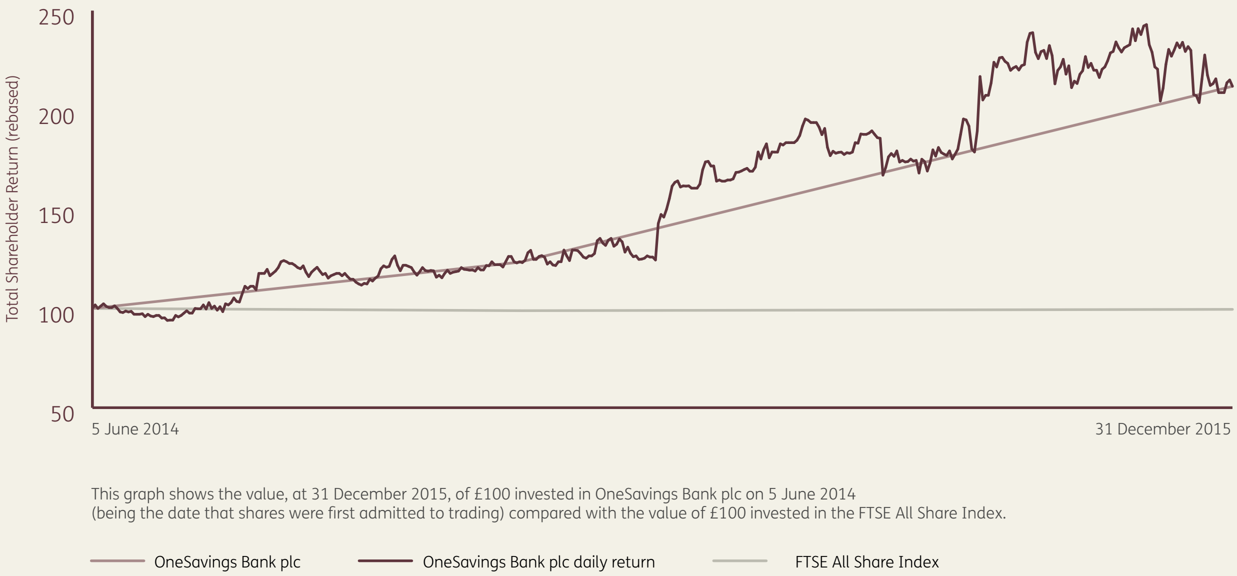
	2013	2014	2015
Chief Executive Officer	Andy Golding	Andy Golding	Andy Golding
Annual bonus (as a % of maximum opportunity)	92.5%	92.63%	93.00%
CEO single figure of remuneration (£'000)	518	777	848

Total shareholder return

The graph below shows the Total shareholder return performance of the Company over the period from Listing to 31 December 2015 to the performance of the FTSE All Share Index. This index is considered to be the most appropriate index against which to measure performance as the Company is a member of this index. As OneSavings Bank has only been listed for a short period (1.5 years) the entire historical performance to date as well as the statutory requirement to show movement in performance between listing and financial year ends has been shown.

Total shareholder return

Source: Datastream (Thomson Reuters)



This graph shows the value, at 31 December 2015, of £100 invested in OneSavings Bank plc on 5 June 2014 (being the date that shares were first admitted to trading) compared with the value of £100 invested in the FTSE All Share Index.

Relative importance of the spend on pay

The chart below shows the Company's total employee remuneration (including the Directors) compared to distributions to shareholders and operating profit before tax for the year under review and the prior year. In order to provide context for these figures, underlying operating profit as a key financial metric used for remuneration purposes has been shown.

	2014	**2015**
Total employee costs	£18.7m	**£21.7m**
Distributions to shareholders	£9.5m	**£21.1m**
Underlying Profit Before Tax	£69.7m	**£105.9m**
Total Employee Costs vs PBT	26.80%	**20.50%**
Average Headcount	419	**544**
Average PBT Per Employee	£166,348	**£194,669**

Notes:
2014 distributions to shareholders have been updated from the number shown in the 2014 Annual Report on Remuneration (nil) following the approval of the final dividend by shareholders at the 2015 AGM.

Statement of voting at general meeting

At the 2015 Annual General Meeting, shareholders were asked to vote on the following remuneration items:

- To approve the Remuneration Implementation Report
- To approve the Remuneration Policy; and
- To approve the variation of the remuneration ratio.

Each of these resolutions received a significant vote in favour by shareholders; the Committee is grateful for this support and endorsement by our shareholders. The votes received were:

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Total votes cast	Votes withheld
To approve the Remuneration Implementation Report	222,724,283	99.89	243,594	0.11	222,967,877	492
To approve the Remuneration Policy	216,736,072	97.21	6,231,805	2.79	222,967,877	492
To approve the variation of the remuneration ratio	216,979,666	97.31	5,988,211	2.69	222,967,877	492

Implementation of Remuneration Policy for Executive Directors for 2016

Salary

Salary reviews are normally carried out in Q1 every year and take effect from 1 April in that year. In spring 2016, the Remuneration Committee reviewed the base salaries of the Executive Directors. This review took into account the salary increase budgets for other employees, the performance and experience of the Directors and of OneSavings Bank together with the relative pay levels and practice in other public quoted companies of a similar size (both within the financial services sector and within the wider market). As a result of the continued growth of the Company, both the Chief Executive Officer and the Chief Financial Officer salaries remained below competitive external levels. The Committee considered that in light of this positioning combined with strong corporate and individual performance, adjustments should be made to bring them closer to market levels. Accordingly, the Committee determined that the base salary for the Chief Executive Officer will be increased by 9.8% and the base salary for the Chief Financial Officer increased by 6.9%. As a result, the salaries for the Executive Directors during 2016 are:

Executive Director	Salary from 01 April 2016 £
Andy Golding	450,000
April Talintyre	310,000

Benefits

These will remain as a car allowance, private medical insurance and life assurance for the Executive Directors.

Pension

The current pension arrangements described above will remain in place for the forthcoming financial year.

Annual bonus & Deferred Share Bonus Plan (DSBP)

The operation of the bonus plan for 2016 will be consistent with the framework detailed in the policy section of this report. The maximum opportunity for the year ending 31 December 2016 will be 100% of salary for all Executive Directors. 75% of the awards will be based on corporate performance – split between Company financial performance (35% of the total bonus) and non-financial performance (40% of the total bonus). The remaining 25% of the awards will be determined based on the executive's personal performance.

Half of any bonus payment will be subject to 50% of payment made in shares under the DSBP, and clawback/malus provisions apply as detailed in the policy report.

Proposed target levels have been set to be challenging relative to the 2016 business plan. Specific targets are deemed to be commercially sensitive. However, the Committee intends to disclose these retrospectively in next year's remuneration report to the extent that they do not remain commercially sensitive.

Annual report on remuneration continued

Performance Share Plan (PSP)
Awards under the PSP will be made in March 2016. Awards for the Executive Directors will be 100% of salary. The performance conditions that will apply to the 2016 awards continue to be Earnings per Share (EPS) and total shareholder return (TSR).

For the EPS element, growth targets are set with reference to the Company's three year business plan and external expectations of our performance. The target range continues to be set at a level well above most listed companies. However, the range is reduced from that set in 2015, since our plans and external estimates both reflect the impact of the Bank Corporation tax surcharge which is effective from 1 January 2016.

For the TSR element, the 2016 award will measure OneSavings Bank's relative performance against the FTSE 250, given that the Company is now part of this index.

The pay-out schedules for each element are set out below:

Performance level	EPS element (50% of total award)	TSR element (50% of total award)	% of that part of the award vesting
Below 'threshold'	<8%	Below median	0%
'Threshold'	8%	Median	25%
'Stretch'	15%	Upper quartile	100%
Pro-rata vesting in between the above points			

All employee share plans
In 2015 OneSavings Bank made a second annual award under the SAYE scheme allowing all eligible employees to save a portion of their monthly salary with the option to use these savings to purchase shares at a pre-agreed price at the end of the exercise period. For the 2015 grant, the maximum amount an employee could save across all plans was £500 per month and the exercise period was set at three years. The exercise price was discounted by 20% from the share price on award.

External Board appointments
Andy Golding is a Director/trustee of Building Societies Trust Limited but receives no remuneration for this position.

Payments to departing Directors
During the year, the Company has not made any payments to past Directors; neither has it made any payments to Directors for loss of office.

Implementation of Non-Executive Director remuneration policy
Single total figures of remuneration – Chairman and Non-Executive Directors (audited information)
The table below sets out a single figure for the total remuneration received by the Chairman and each Non-Executive Director the years ended 31 December 2015 and 31 December 2014.

Total fees £000	2014	**2015**
Chairman		
Mike Fairey	193	**150**
Non-Executive Directors		
Graham Allatt	44	**70**
Eric Anstee[1]	–	**2**
Rod Duke	68	**80**
Tim Hanford	53	**60**
Malcolm McCaig	61	**60**
Mary McNamara	47	**70**
Dr David Morgan	53	**60**
Nathan Moss	40	**60**
Stephan Wilcke	258	**60**
Total	817	**672**

1 Eric Anstee joined the Board on 21 December 2015.

Non-Executive Directors cannot participate in any of the Company's share schemes and are not eligible to join a Company pension scheme.

Chairman and Non-Executive Director fees
The annual fees for serving as a Non-Executive Director were reviewed and agreed by the Board prior to listing. The fee levels that apply from listing to date are set out below.

Base fees £000	2014	**2015**
Chairman	150	**150**
Non-Executive Director	60	**60**
Additional fees		
Senior Independent Director	10	**10**
Audit Committee Chair	10	**10**
Remuneration Committee Chair	10	**10**
Nomination Committee Chair	10	**10**
Risk Committee Chair	10	**10**

The Chairman's fee will be increased to £165,000 in 2016. This reflects the continued contribution and time commitment made by the incumbent to the role and brings the fee closer to the market level versus similar sized companies within the sector. Other Non-Executive Director fees will remain unchanged.

Statement of Directors' shareholdings and share interests (audited information)
Total shares owned by executives:

	Total interest in shares at 31-Dec-15	Shares owned at 31-Dec-15	Interests in share incentive schemes awarded without performance conditions at 31-Dec-15	Interests in share incentive schemes awarded subject to performance conditions as at 31-Dec-15	Shareholding requirement (% of basic salary)	Current shareholding (% of basic salary)
Andy Golding	2,250,540	2,000,000	79,307	171,233	200%	1,942%
April Talintyre	962,042	779,415	61,622	121,005	150%	1,173%

Notes:
1 Includes share in OSB Holdco Ltd.
2 Based on the closing share price on 31 December 2015 – £3.537.
3 There were no changes to directors' interests in the Company's shares during the period 31 December 2015 and 16 March 2016.

This includes the following options under the SAYE:

				Exercise period		Number of options		
Executive	Date of grant	Exercise price £	Market price 31-Dec-15 £	Beginning	End	Beginning of period	Granted/ exercised/ forfeited/ lapsed	End of period
April Talintyre	2014	1.34	3.357	18-Jul-17	18-Jan-18	6,716	–	6,716

Share ownership guidelines
The Remuneration Committee has approved share ownership guidelines which require the Chief Executive Officer to accumulate and maintain a holding in ordinary shares in the Company equivalent to no less than 200% of salary and the Chief Financial Officer 150% of salary. 50% of any vested share awards must be retained until the guideline is achieved.

Non-Executive Directors' shareholdings (audited information)

Non-Executive Director	Shareholding as at 31-Dec-15
Graham Allatt	0
Eric Anstee	0
Rod Duke	94,537
Mike Fairey	30,000
Tim Hanford	0
Malcolm McCaig	111,805
Mary McNamara	0
Dr David Morgan	0
Nathan Moss	0
Stephan Wilcke	300,000

The following information was disclosed in the IPO Prospectus at the time of listing. The Chairman received an award of 30,000 ordinary shares for his services in preparing the Company for Listing. He is required to hold these shares while he remains as a Director of the Company, subject to the discretion of the Remuneration Committee. Stephan Wilcke is required to accumulate and maintain a holding of shares in the Company equivalent to no less than two times his Non-Executive Director fees. Rod Duke and Malcolm McCaig received an award of 106,481 and 159,722 ordinary shares respectively as nil price options (the 'IPO Awards') which vested immediately on listing. They were able to dispose of up to 30% by value of the ordinary shares in which they were indirectly interested following the vesting of their IPO awards. There are no other share ownership guidelines for Non-Executive Directors.

Approval
This report was approved by the Board of Directors, on the recommendation of the Remuneration Committee, on 16 March 2016 and signed on its behalf by:

Mary McNamara
Chairman of the Remuneration Committee
16 March 2016

Directors' report

The Directors present their Annual Report and the audited financial statements of the Group for the year ended 31 December 2015.

Share capital and rights attaching to shares

Details of the Company's share capital are set out on page 119.

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share in the Company may be issued with such rights (including preferred, deferred or other special rights) or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine).

Employee share schemes

Details of the Company's employee share schemes are set out on pages 79 to 80.

Results and dividends

The results for the year are set out in the statement of profit or loss on page 88. The Directors recommend the payment of a final dividend of 6.7 pence per share on 18 May 2016 subject to approval at the Annual General Meeting on 11 May 2016, with a record date of 29 March 2016. This is in addition to the 2015 interim dividend of 2.0 pence per share paid during the year (2014: 3.9 pence total dividend).

Directors

The Directors who served the Company during 2015 and up to the date of this report are listed on page 54.

Eric Anstee joined the Board on 21 December 2015 as an independent Non-Executive Director. Stephan Wilcke will step down from the Board with effect from the 2016 AGM.

Details of the Directors, together with their biographies, can be found on pages 48 to 49.

Directors' interests

Directors' interests in the shares of the Company are set out on page 81 in the Remuneration Report.

Directors' indemnities

The Company's Articles of Association (the 'Articles') provide, subject to the provisions of UK legislation, an indemnity for Directors and officers of the Company and the Group in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them which relate to anything done or omitted, or alleged to have been done or omitted, by them as officers or employees of the Company and the Group. Directors' and officers' liability insurance cover is in place in respect of all the Company's Directors.

Directors' powers

As set out in the Articles, the business of the Company is managed by the Board who may exercise all the powers of the Company. In particular, save as otherwise provided in company law or in the Articles, the Directors may allot (with or without conferring a right of renunciation), grant options over, offer, or otherwise deal with or dispose of shares in the Company to such persons at such times and generally on such terms and conditions as they may determine. The Directors may at any time after the allotment of any share but before any person has been entered in the Register as the holder, recognise a renunciation thereof by the allottee in favour of some other person and may accord to any allottee of a share a right to effect such renunciation upon and subject to such terms and conditions as the Directors may think fit to impose. Subject to the provisions of company law, the Company may purchase any of its own shares (including any redeemable shares).

Appointment and removal of Directors

The Board may appoint a Director, either to fill a vacancy or as an addition to the existing Board. This Director must retire at the next AGM of the Company and put themselves forward for reappointment by the shareholders. In addition to any power of removal conferred by the Companies Act, the Company may, by special resolution, remove any Director before the expiration of his period of office and may, subject to the Articles, by ordinary resolution appoint another person who is willing to act as a Director in his place.

Equal opportunities

OneSavings Bank is committed to applying its Equality and Diversity policy at all stages of recruitment and selection. Shortlisting, interviewing and selection will always be carried out without regard to gender, gender reassignment, sexual orientation, marital or civil partnership status, colour, race, nationality, ethnic or national origins, religion or belief, age, pregnancy or maternity leave or trade union membership. Any candidate with a disability will not be excluded unless it is clear that the candidate is unable to perform a duty that is intrinsic to the role, having taken into account reasonable adjustments. Reasonable adjustments to the recruitment process will be made to ensure that no applicant is disadvantaged because of his/her disability. Line managers conducting recruitment interviews will ensure that the questions that they ask job applicants are not in any way discriminatory or unnecessarily intrusive.

Employee engagement

Employees are kept informed of developments within the business and in respect of their employment through a variety of means, such as staff meetings, briefings and the intranet. Employee involvement is encouraged and views and suggestions are taken into account when planning new products and projects. The Sharesave 'save as you earn' Scheme is open to all UK based employees and allows them to save a fixed amount of between £5 and £500 per month over either three or five years in order to use these savings at the end of the qualifying period to buy the Bank's shares at a fixed price established when the scheme was announced. The Group launched its first Sharesave scheme in June 2014 and granted further options under the Scheme in June 2015.

Greenhouse gas emissions

	CO_2e tonnes	
Emission type	Location-based Method	Market-based Method
Scope 1: Operation of Facilities	279	N/A
Scope 1: Combustion	57	N/A
TOTAL Scope 1 Emissions	336	336
Scope 2: Purchased Energy (UK)	325	355
Scope 2: Purchased Energy (Rest of World)	299	N/A
TOTAL Scope 2 Emissions	624	555
Total Emissions	**960**	**990**

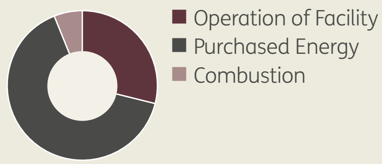
Greenhouse Gas Emissions Intensity Ratio:

	Total Footprint (Scope 1 and Scope 2) – CO_2e		
	Previous Year (2014)	Current Year (2015)	Year on Year Variance
Turnover (£000's)	118,911	162,511	36.7%
Intensity Ratio – Scope 2 location based method (tCO_2e/£100,000)	0.003	0.004	0.001
Intensity Ratio – Scope 2 market based method (tCO_2e/£100,000)	N/A	0.003	N/A

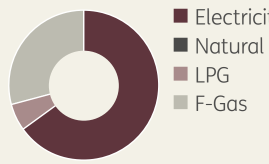
Notes:
- Our methodology has been based on the principals of the Greenhouse Gas Protocol, taking account of the 2015 amendment which sets out a 'dual reporting' methodology for the reporting of Scope 2 emissions. This means that UK Electricity is now reported using two methods.
- We have reported on all the measured emissions sources required under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, except where stated.
- The period of our report is 01 January 2015 – 31 December 2015 inclusive.
- This includes emissions under Scope 1 and 2, except where stated, but excludes any emissions from Scope 3.
- Conversion factors for UK electricity (location-based methodology), gas and fugitive emissions are those published by the Department for Environment, Food and Rural Affairs for 2015–16.
- Conversion factors for UK electricity (market-based methodology) are published by electricityinfo.org
- Conversion factors for overseas electricity are those published by the International Energy Agency for 2015. The units reported are CO_2 rather than CO_2e.
- Conversion factor used for R417A (F-gas) is published by National Refrigerants Ltd.
- A significant increase in the availability of data this year has meant that the scope of the emissions reporting has increased. In addition to the emission sources reported in 2014, the following sources have now been accounted for:
  - F-gas (UK).
  - Electricity (India).
  - Electricity & Gas for tenanted UK properties.
- As a result, the total number of supplies reported has increased from 12 to 28 and the reported emissions are significantly higher.

Statement of exclusions
- Global diesel/petrol use (for vehicles) has been excluded from the report on the basis that it is not material to our carbon footprint.
- The scope of reporting for our fugitive emissions, gas and LPG has been restricted to the United Kingdom. Other regions have been excluded due to lack of data or immateriality.
- Two UK sites; Heritage and InterBay, have been excluded from reporting as the data is not readily
- obtainable at the time of reporting.

Emissions breakdown by category (tCO_2e)



Emissions breakdown by source (tCO_2e)



Political donations

Neither the Company nor any of its subsidiaries made any political donations this year. Shareholder authority to make aggregate political donations not exceeding £50,000 was obtained at the 2015 AGM.

Major shareholders

As at 16 March 2016, there were 243,079,965 ordinary shares in issue.

The Company has been notified up to 16 March 2016 under the provision of the Disclosure and Transparency Rules (DTRs) of the following significant interests in the voting rights of the Company:

	Percentage of current issued share capital
J.C. Flowers & Co	53.78%
Old Mutual plc	8.45%

Note:
All interests disclosed to the Company in accordance with DTRs that have occurred, can be found on the News section of our corporate website: www.osb.co.uk.

Annual General Meeting

Accompanying this report is the Notice of the AGM which sets out the resolutions to be proposed to the meeting, together with an explanation of each. This year's AGM will be held on 11 May 2016 at The Lincoln Centre, 18 Lincoln's Inn Fields, London. The meeting will start at 11.00am with registration from 10.30am.

Audit

Each of the persons who is a Director at the date of approval of this report confirms that:
- So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware.
- The Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

KPMG LLP has indicated their willingness to continue holding office as auditor.

A resolution to reappoint KPMG LLP as auditor will be put to shareholders at the forthcoming AGM.

Going concern statement

The Directors have undertaken a going concern assessment in accordance with 'Going Concern and Liquidity Risk Guidance for UK directors of UK Companies 2009', published by the Financial Reporting Council in October 2009.

As a result of this assessment, the Directors are satisfied that the Group and the Company have adequate resources to continue to operate as a going concern for a period in excess of 12 months and have prepared the financial statements on that basis. In assessing whether the going concern basis is appropriate, the Directors have considered the information contained in the financial statements, the latest business plan, profit forecasts and the latest working capital forecasts.

These forecasts have been subject to sensitivity tests and having reviewed the ICAAP and ILAA and the Directors are satisfied that the Group and the Company have adequate resources to continue in operational existence for a period in excess of 12 months.

Directors' report continued

Key information in respect of the Group's strategic risk management framework, objectives and processes for mitigating risks including liquidity risk are set out in detail on pages 29 to 41.

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors have assessed the prospects and viability of the Company over a three-year period and have concluded that they have a reasonable expectation that the Company will be able to continue to operate and meets its liabilities as they fall due over that period. Details of this assessment are set out in the Strategic Report on page 42.

Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with IFRS as adopted by the European Union and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss of the Company for that period.

In preparing each of the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether they have been prepared in accordance with IFRSs as adopted by the EU.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent company, and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Corporate governance statement

The Company's Corporate Governance Report, which includes a statement as to the Company's compliance with the UK Corporate Governance Code 2014 during the year under review, is set out on pages 50 to 57 and is, together with the information on share rights set out on page 119, incorporated into this corporate governance statement by reference.

Other Information

Likely future developments in the company and its subsidiaries are contained in the Strategic Report on pages 1 to 47.

Information on financial instruments including financial risk management objectives and policies including the policy for hedging the exposure of the company and its subsidiaries to price risk, credit risk, liquidity risk and cash flow risk can be found in the Chief Risk Officer's Report on pages 29 to 41.

Approved by the Board and signed on its behalf by:

Zoe Bucknell
Group General Counsel and Company Secretary
16 March 2016

Independent Auditor's Report to the Members of OneSavings Bank plc only

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of OneSavings Bank plc for the year ended 31 December 2015 set out on pages 88 to 92. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

The starting point for our audit was a consideration of the inherent risks to the Group's business model and how these have been mitigated. This included understanding the strength of the Group's capital and liquidity position, the diversification of assets, the flexibility and tenor of its balance sheet and the management of its cost base. We assessed and challenged the inherent risks with reference to:

- independent economic forecasts and commentary;
- the views of our specialists in a number of areas including bank regulation, IT and tax;
- the views of the Prudential Regulatory Authority and the Financial Conduct Authority; and
- the significant changes taking place in banking regulation in the UK.

We also considered the Group's control environment and in particular whether its systems were processing transactions completely and faithfully, and included appropriate controls designed to prevent fraud. Our work included testing the key controls over the processing of transactions and the key inter-system and bank reconciliations.

These assessments enabled us to form a judgement on going concern and also highlighted the key areas of financial statement risk on which our audit has focused. By looking at both broad risk themes across the Group and particular concerns within the business, we were able to calibrate our work to financial statements risk more precisely.

Having addressed the going concern assumption and whether the Group's database of transactions was a sufficient underlying basis for the accounts, we considered the significant risks of material misstatement in decisions over loan impairments and the recognition of interest income through the Group's effective interest rate calculations. As described on pages 62 to 65 these are also areas that have been focused on by the Group's Audit Committee.

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit were deemed to be the same as those assessed in 2014, with no new significant risks identified.

These recurring risks were as follows:

Loan Impairment (£27.3m, 2014: £26.0m)

Refer to page 62 (Audit Committee Report), page 93 (accounting policy) and pages 88 to 92 (financial disclosures)
Movement in significance: none.

- The risk – This is a key judgemental area due to the level of subjectivity inherent in estimating the recoverability of loan balances, as lower levels of lending historically have provided the Group with little historical experience to predict the likelihood of these loans falling into arrears.

The Group identifies specific mortgage loan cases for individual impairment assessment based on the size and nature of the loan, and the current level of arrears. Impairment requirements are determined based on estimated future cash flows discounted to present value at the rate inherent in the loan. This is a highly manual process, with a number of data inputs and assumptions including the cost of obtaining and selling the property, probable sale proceeds and any rental income prior to sale.

An assessment is performed collectively on all other loans for impairment, with the key assumptions being the probability of an account falling into arrears and subsequently defaulting, the market valuations of collateral provided and the estimated time and cost to sell any property repossessed by the Group. Due to the majority of the acquired portfolios being serviced by third parties, this requires data inputs from a number of different sources.

The assumptions noted above differ across the Group's loan portfolios of residential lending (comprising first charge, second charge and shared ownership lending), Buy-to-Let and SME lending, development finance, and personal loans, reflecting the diverse nature of lending performed by the Group and different characteristics of each book. Due to the limited historic information and sensitivity of the impairment assessments to these assumptions, there is a risk that actual experience will differ from the Group's current expectations.

The increased lending in recent years has been at a time of historically low interest rates, which may distort customer behaviour and loss experience data for use in future assumptions, particularly if interest rates are to increase in coming years. Similarly, the reduction in mortgage interest relief to landlords on Buy-to-Let properties may alter future loan performance in this sector, namely repayment and arrears rates, compared to past trends.

The Group implements a number of forbearance procedures on selected loans in arrears, such as restructuring of a loan or capitalisation of arrears balances. As this is a manual process, there is a risk that these measures are not appropriately taken into consideration when calculating the required provisions, as the apparent improvement in the arrears on the loans could result in a lower impairment provision if the loans are not identified as forborne.

- Our response – Our audit procedures included, evaluating and testing the key controls over the impairment provisioning process, including controls over loans both collectively and specifically provided for, such as credit committee review of impairment.

Independent Auditor's Report to the Members of OneSavings Bank plc only continued

In relation to loans specifically provided for, we tested the completeness of the loans identified by the Group as high risk through a consideration of all loans for risk factors such as magnitude, arrears and previous loan restructures. For the cases specifically provided for, we re-performed the calculations of impairment and agreed the key data inputs to third party documentation; namely projected selling costs to valuation reports, rental income to tenancy agreements and discount rates to the interest rate of the loan. The key judgemental areas of the calculation were assessed as the forecast sale value of the collateral and the time to sale of the property, which were tested for reasonableness through stress testing.

Our testing of the loans collectively provided for included re-performance of the model calculations and agreement of the data inputs in the model to the mortgage data system and third party reports in order to assess the accuracy of performance of the collective impairment model. The assumptions inherent in the model were critically assessed against our understanding of the Group, its recent performance and industry developments. We have assessed the methodology used by the Group to calculate the propensity of accounts with different arrears profiles to move both in to and out of default, and recalculated these rates based on the Group's actual historic experience. These actual rates were compared to those assumed by the Group to assess the reasonableness of the rates used in the collective impairment assessment. The valuation, forced sale discount and costs to sell the collateral, being the expected recovery on sale of the property, were stress tested to assess the sensitivity of the impairment provision to these assumptions.

In addition, taking into account the specific types of lending carried out by the Group, we benchmarked the Group's assumptions such as forced sale discounts and costs to sell collateral and provision coverage rates against other similar institutions to assess both the level of the impairment provision in comparison to industry norms and the continuing appropriateness of the assumptions used. We also evaluated the arrears monitoring process, through monitoring credit trends in the portfolio, to assess whether emerging trends are reflected in the provision level.

Other procedures performed included an assessment of forbearance activity to check that data arising from these concessions is accurately reflected in the impairment provision calculation. The accuracy of the provision on the forborne loans was tested by checking that for each forborne loan, the uplift to the propensity to default assumption in the collective impairment assessment was appropriately applied.

Recognition of revenue on organic and acquired loans (£268.2m, 2014: £209.9m)

Refer to page 62 (Audit Committee Report), page 93 (accounting policy) and pages 88 to 92 (financial disclosures)
Movement in significance: none

- **The risk** – The effective interest rate calculation, which uses relevant interest rates, fees and costs, incorporates assumptions around loan expected lives (driven by estimations of loan repayment profiles) and, in the case of acquired credit impaired mortgages, additional variables such as the purchase price and estimated recoverable values.

Due to the relatively low levels of historic organic lending in comparison to the significant recent growth, the Group has limited information available from which to assess trends in prepayment, redemption and product transfers, resulting in increased subjectivity to these assumptions, as detailed patterns of customer behaviour have not been clearly established from which to estimate future customer behaviour and performance.

As further portfolios are purchased by the Group, there is a need to ensure the consistency and accuracy of the effective interest rate calculations across the individual models. A number of the acquired portfolios are serviced by third parties, leading to data inputs from a number of sources.

- **Our response** – Our audit procedures in relation to loans originated by the Group included the testing of key controls in relation to the accuracy of data inputs from the mortgage systems into the effective interest rate models and the consistency of methodology and application across each of the loan portfolios owned by the Group.

We assessed the reasonableness of the models' key assumptions, including interest rates, product structures and expected lives by performing stress tests, considering historic experience, and benchmarking against assumptions observed at similar entities. We also assessed the mathematical accuracy of models through re-performance of the model calculations, and checked the effective interest rates used within the monthly calculations agreed to the models.

Our testing of acquired loan books included the procedures detailed above, and further procedures including regression testing to identify any significant deviations from the original forecast cash flows. We also considered whether any 'catch up' adjustments were required on portfolios where actual cash flow experience has differed from that originally predicted. For those loan books where catch up adjustments were recorded, we assessed the appropriateness of the payment assumptions used in the future forecast cash flow calculations, by comparing to payment rates previously experienced.

For the acquired loan books, we also considered the Group's control environment in respect of its oversight and governance of the mortgage service providers. We visited each of the servicers for the mortgage books where these were not administered by the Group to consider the adequacy of the control environment at these entities and to assess the accuracy and consistency of the information provided by the servicer companies to the Group.

One loan book was acquired during the year, for which we performed an assessment of the cash flow model. We used our internal modelling specialists to check the consistency of the formulae used and to check the mathematical accuracy of the calculation, in order to determine whether the effective interest rate calculated was appropriate. We also performed an assessment of the composition of the loan portfolio to determine the reasonableness of the acquisition fair values and the total amounts recoverable.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £4,080,000 (2014: £3,400,000), determined with reference to a benchmark of Group profit before tax of £102,000,000 (2014: £68,000,000), of which it represents 4.0% (2014: 5.0%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £204,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed at all three of the Group's reporting components; the Prestige sub-group, the InterBay sub-group and OSBIndia. These audits covered 100% of Group revenue, profit before tax and total assets. The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team set component materiality at £3,570,000 for all components, having regard to the size and risk profile of the Group across the components. The audit of one of the three components was performed by component auditors with the rest being performed by the Group audit team.

Group instructions were provided to the component auditors, and telephone conference meetings were also held. At these meetings, the findings reported to the Group audit team were discussed in more detail to ensure understanding.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Viability Statement on page 42, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the Group continuing in operation over the 3 years to 31 December 2018; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statements, set out on page 84, in relation to going concern and longer term viability; and
- the part of the Corporate Governance Statement on page 50 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 84, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Richard Gabbertas (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

16 March 2016

Statement of Profit or Loss

For the year ended 31 December 2015

	Notes	Group Year ended 31-Dec-15 £'000	Group Year ended 31-Dec-14 £'000
Interest receivable and similar income	2	**268,206**	209,882
Interest payable and similar charges	3	**(98,434)**	(84,681)
Net interest income		**169,772**	125,201
Fair value losses on financial instruments	4	**(3,153)**	(4,323)
Gains on sales of financial instruments	5	**580**	2,258
Fees and commissions receivable		**1,105**	875
Fees and commissions payable		**(1,076)**	(507)
External servicing fees		**(4,717)**	(4,593)
Total income		**162,511**	118,911
Administrative expenses	6	**(39,429)**	(32,390)
Depreciation and amortisation	19, 20	**(1,724)**	(896)
FSCS and other provisions	28	**(3,395)**	(2,767)
Operating profit before impairment losses		**117,963**	82,858
Impairment losses	17	**(10,616)**	(11,685)
Operating profit before exceptional IPO expenses		**107,347**	71,173
Exceptional IPO expenses	9	**(2,050)**	(7,428)
Profit before taxation		**105,297**	63,745
Taxation	10	**(21,239)**	(12,208)
Profit for the year		**84,058**	51,537
Dividend, pence per share	12	**8.7**	3.9
Earnings per share, pence per share			
Basic	11	**34.1**	21.7
Diluted	11	**34.0**	21.7

The above results are derived wholly from continuing operations.

The notes on pages 93 to 136 form part of these accounts.

The financial statements on pages 88 to 136 were approved by the Board of Directors on 16 March 2016.

Statement of Other Comprehensive Income

For the year ended 31 December 2015

	Group Year ended 31-Dec-15 £'000	Group Year ended 31-Dec-14 £'000
Profit for the year	**84,058**	51,537
Other comprehensive (expense)/income		
Items which may be reclassified to profit or loss:		
Fair value changes on available-for-sale securities		
Arising in the year	**(465)**	1,013
Transferred to profit or loss	**(664)**	166
Revaluation of foreign operations	**(463)**	(696)
Tax on items in other comprehensive income	**229**	(238)
Other comprehensive (expense)/income for the year	**(1,363)**	245
Total comprehensive income for the year	**82,695**	51,782

The notes on pages 93 to 136 form part of these accounts.

Statement of Financial Position

As at 31 December 2015

	Notes	Group As at 31-Dec-15 £'000	Bank As at 31-Dec-15 £'000	Group As at 31-Dec-14 £'000	Bank As at 31-Dec-14 £'000
Assets					
Cash in hand		**363**	**362**	288	288
Loans and advances to credit institutions	13	**354,691**	**323,382**	767,318	727,462
Investment securities	14	**393,382**	**393,382**	158,597	158,597
Loans and advances to customers	15	**5,134,759**	**4,166,624**	3,919,397	3,071,094
Derivative assets	33	**996**	**996**	937	937
Fair value hedges – assets		**58,156**	**58,156**	68,738	68,738
Deferred taxation asset	21	**3,401**	**760**	3,563	574
Intangible assets	19	**3,147**	**2,713**	2,305	2,305
Property, plant and equipment	20	**9,648**	**6,996**	3,104	2,443
Investments in subsidiaries and intercompany loans	18	**–**	**944,479**	–	834,506
Other assets	22	**11,813**	**5,421**	12,280	6,348
Total assets		**5,970,356**	**5,903,271**	4,936,527	4,873,292
Liabilities					
Amounts owed to retail depositors	23	**5,363,792**	**5,363,792**	4,331,639	4,331,639
Amounts owed to credit institutions	24	**1,518**	**1,518**	23,009	23,009
Amounts owed to other customers	25	**5,878**	**5,878**	4,353	4,353
Debt securities in issue	26	**188,350**	**–**	238,390	–
Derivative liabilities	33	**19,791**	**19,791**	25,447	25,447
Fair value hedges – liabilities		**1,413**	**1,413**	3,126	3,126
Current taxation liability		**9,185**	**6,995**	2,945	2,993
Deemed loan liability	18	**–**	**169,466**	–	204,111
Intercompany loans	18	**–**	**4,929**	–	727
Other liabilities	27	**18,897**	**9,511**	13,609	9,128
FSCS and other provisions	28	**2,334**	**2,334**	1,598	1,598
Subordinated liabilities	29	**24,574**	**24,574**	27,573	27,573
Perpetual subordinated bonds	30	**15,308**	**15,308**	15,234	15,234
		5,651,040	**5,625,509**	4,686,923	4,648,938
Equity					
Share capital	31	**2,431**	**2,431**	2,431	2,431
Share premium	31	**157,901**	**157,901**	157,901	157,901
Retained earnings		**143,983**	**104,349**	74,998	51,868
Other reserves		**15,001**	**13,081**	14,274	12,154
		319,316	**277,762**	249,604	224,354
Total equity and liabilities		**5,970,356**	**5,903,271**	4,936,527	4,873,292

The notes on pages 93 to 136 form part of these accounts.

The financial statements on pages 88 to 136 were approved by the Board of Directors on 16 March 2016.

Andy Golding
Chief Executive
16 March 2016

April Talintyre
Finance Director
16 March 2016

Company number: 07312896

Statement of Changes in Equity

For the year ended 31 December 2015

Group	Share capital £'000	Share premium £'000	Capital contribution £'000	Transfer reserve £'000	Foreign exchange reserve £'000	Available-for-sale reserve £'000	Share-based payment reserve £'000	Retained earnings £'000	Equity bonds[1] £'000	Total £'000
Balance at 1 January 2015	**2,431**	**157,901**	**4,468**	**(12,818)**	**(293)**	**785**	**132**	**74,998**	**22,000**	**249,604**
Profit for the year	–	–	–	–	–	–	–	84,058	–	84,058
Coupon paid on equity bonds[2]	–	–	–	–	–	–	–	(1,156)	–	(1,156)
Dividends paid								(14,342)		(14,342)
Other comprehensive income	–	–	–	–	(463)	(900)	–	–	–	(1,363)
Share based payments[3]	–	–	1,335	–	–	–	755	425	–	2,515
Balance at 31 December 2015	**2,431**	**157,901**	**5,803**	**(12,818)**	**(756)**	**(115)**	**887**	**143,983**	**22,000**	**319,316**

Bank	Share capital £'000	Share premium £'000	Capital contribution £'000	Transfer reserve £'000	Foreign exchange reserve £'000	Available-for-sale reserve £'000	Share-based payment reserve £'000	Retained earnings £'000	Equity bonds[1] £'000	Total £'000
Balance at 1 January 2015	**2,431**	**157,901**	**4,468**	**(15,231)**	**–**	**785**	**132**	**51,868**	**22,000**	**224,354**
Profit for the year	–	–	–	–	–	–	–	67,554	–	67,554
Coupon paid on equity bonds[2]	–	–	–	–	–	–	–	(1,156)	–	(1,156)
Dividends paid	–	–	–	–	–	–	–	(14,342)	–	(14,342)
Other comprehensive income	–	–	–	–	–	(900)	–	–	–	(900)
Share based payments[3]	–	–	1,072	–	–	–	755	425	–	2,252
Balance at 31 December 2015	**2,431**	**157,901**	**5,540**	**(15,231)**	**–**	**(115)**	**887**	**104,349**	**22,000**	**277,762**

Group	Share capital £'000	Share premium £'000	Capital contribution £'000	Transfer reserve £'000	Foreign exchange reserve £'000	Available-for-sale reserve £'000	Share-based payment reserve £'000	Retained earnings £'000	Equity bonds[1] £'000	Total £'000
Balance at 1 January 2014	1,265	119,885	3,326	(12,818)	403	(156)	–	21,273	22,000	155,178
Profit for the year	–	–	–	–	–	–	–	51,537	–	51,537
Coupon paid on equity bonds[2]	–	–	–	–	–	–	–	(1,138)	–	(1,138)
Other comprehensive income	–	–	–	–	(696)	941	–	–	–	245
Capital reorganisation (note 31)	922	(922)	(2,626)	–	–	–	–	3,326	–	700
Share issue	244	41,307	–	–	–	–	–	–	–	41,551
Share issue related costs	–	(2,369)	–	–	–	–	–	–	–	(2,369)
Share based payments	–	–	3,768	–	–	–	132	–	–	3,900
Balance at 31 December 2014	2,431	157,901	4,468	(12,818)	(293)	785	132	74,998	22,000	249,604

Bank	Share capital £'000	Share premium £'000	Capital contribution £'000	Transfer reserve £'000	Foreign exchange reserve £'000	Available-for-sale reserve £'000	Share-based payment reserve £'000	Retained earnings £'000	Equity bonds[1] £'000	Total £'000
Balance at 1 January 2014	1,265	119,885	–	(15,231)	–	(156)	–	14,290	22,000	142,053
Profit for the year	–	–	–	–	–	–	–	38,716	–	38,716
Coupon paid on equity bonds[2]	–	–	–	–	–	–	–	(1,138)	–	(1,138)
Other comprehensive income	–	–	–	–	–	941	–	–	–	941
Capital reorganisation (note 31)	922	(922)	700	–	–	–	–	–	–	700
Share issue	244	41,307	–	–	–	–	–	–	–	41,551
Share issue related costs	–	(2,369)	–	–	–	–	–	–	–	(2,369)
Share based payments	–	–	3,768	–	–	–	132	–	–	3,900
Balance at 31 December 2014	2,431	157,901	4,468	(15,231)	–	785	132	51,868	22,000	224,354

1 Equity bonds comprise £22m of perpetual subordinated bonds. See note 31 for more detail.
2 Coupon paid on equity bonds is shown net of tax.
3 The tax effect in excess of the related cumulative remuneration expense is recognised directly in equity within the share-based payment reserve and reclassified to retained earnings upon vesting.

The reserves are further disclosed in note 31.

Statement of Cash Flows

As at 31 December 2015

	Group As at 31-Dec-15 (Unaudited) £'000	Bank As at 31-Dec-15 £'000	Group As at 31-Dec-14 (Audited) £'000	Bank Year ended 31-Dec-14 £'000
Cash flows from operating activities				
Profit before tax	**105,297**	**84,450**	63,745	48,657
Adjustments for non-cash items:				
Depreciation and amortisation	**1,724**	**1,511**	896	713
Interest on subordinated liabilities	**1,250**	**1,250**	1,261	1,261
Interest on perpetual subordinated bonds	**969**	**969**	1,144	1,144
Impairment charge on loans	**10,616**	**10,226**	11,685	7,619
Gain on sale of financial instruments	**(580)**	**(580)**	(2,258)	(2,258)
FSCS and other provisions	**3,395**	**3,395**	2,767	2,767
Fair value losses on financial instruments	**3,153**	**3,153**	4,323	4,323
Share based payments	**1,812**	**1,732**	3,785	3,785
Changes in operating assets and liabilities				
Increase in loans to customers	**(1,225,978)**	**(1,105,756)**	(889,834)	(756,445)
Increase in retail deposits	**1,032,153**	**1,032,153**	1,080,063	1,080,063
Increase in intercompany balances	**–**	**(140,416)**	–	(171,438)
Decrease/(increase) in other assets	**467**	**927**	(2,849)	29
Decrease in derivatives and hedged items	**1**	**1**	629	629
(Decrease)/increase in bank and other deposits	**(19,966)**	**(19,966)**	23,573	23,573
Net increase in other liabilities	**5,288**	**382**	3,772	2,760
Exchange differences on working capital	**(463)**	**–**	(695)	–
Cash generated from/(used in) operating activities	**(80,862)**	**(126,569)**	302,007	247,182
Interest paid on bonds and subordinated debt	**(2,219)**	**(2,218)**	(2,442)	(2,442)
FSCS and other provisions paid	**(2,659)**	**(2,659)**	(2,450)	(2,450)
Tax paid	**(13,611)**	**(12,037)**	(1,517)	(913)
Net cash from operating activities	**(99,351)**	**(143,483)**	295,598	241,377
Cash flows from investing activities				
Sales of investment securities	**213,722**	**213,722**	1,377,632	1,377,632
Purchases of investment securities	**(449,056)**	**(449,056)**	(1,171,747)	(1,171,747)
Purchases of equipment and intangible assets	**(9,110)**	**(6,472)**	(2,980)	(2,529)
Cash generated from investing activities	**(244,444)**	**(241,806)**	202,905	203,356
Cash flows from financing activities				
Coupon paid on equity bonds	**(1,450)**	**(1,450)**	(1,450)	(1,450)
Dividends paid	**(14,342)**	**(14,342)**	–	–
Proceeds from share issues and capital contributions	**–**	**–**	42,251	42,251
Share issue (IPO) costs paid	**–**	**–**	(5,699)	(5,699)
Repayment of debt	**(52,965)**	**(2,925)**	(35,367)	–
Cash (used in)/generated from financing activities	**(68,757)**	**(18,717)**	(265)	35,102
Net increase/(decrease) in cash and cash equivalents	**(412,552)**	**(404,006)**	498,238	479,835
Cash and cash equivalents at the beginning of the period				
Cash in hand	**288**	**288**	267	267
Loans and advances to credit institutions repayable on demand	**767,318**	**727,462**	269,101	247,648
	767,606	**727,750**	269,368	247,915
Cash and cash equivalents at the end of the period				
Cash in hand	**363**	**362**	288	288
Loans and advances to credit institutions repayable on demand	**354,691**	**323,382**	767,318	727,462
	355,054	**323,744**	767,606	727,750
Movement in cash and cash equivalents	**(412,552)**	**(404,006)**	498,238	479,835

Notes to the Financial Statements

For the year ended 31 December 2015

1. Accounting Policies

The principal accounting policies applied in the preparation of the accounts for the Group and the Bank are set out below.

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU); and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The financial statements have been prepared on a historical cost basis, as modified by the revaluation of available for sale financial assets, derivative contracts and financial assets held at fair value through profit or loss.

As permitted by section 408 of the Companies Act 2006, no statement of profit or loss is presented for the Bank.

b) Going concern

The Board undertakes regular rigorous assessments of whether the Bank is a going concern in the light of current economic conditions and all available information about future risks and uncertainties.

Projections for OneSavings Bank plc have been prepared, covering its future performance, capital and liquidity, for a period in excess of 12 months from the date of approval of these financial statements including stress scenarios. These projections show that the Group has sufficient capital and liquidity to continue to meet its regulatory requirements as set out by the Prudential Regulatory Authority.

The Board has therefore concluded that the Group has sufficient resources to continue in operational existence for a period in excess of 12 months and as a result it is appropriate to prepare these financial statements on a going concern basis.

c) Basis of consolidation

The Group accounts include the results of the 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.

In the Bank's financial statements investments in subsidiary undertakings are stated at cost less provision for any impairment.

d) Foreign currency translation

The consolidated financial statements are presented in pounds sterling which is the presentation currency of the Group. The financial statements of each of the Bank's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). Foreign currency transactions are translated into the functional currencies using the exchange rates prevailing at the date of the transactions. Monetary items denominated in foreign currencies are re-translated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the re-translation and settlement of these items are recognised in profit or loss. Non-monetary items are not re-translated.

The assets and liabilities of foreign operations with functional currencies other than sterling are translated into the presentation currency at the exchange rate on the reporting date. The income and expenses of foreign operations are translated at the rates on the dates of transactions. Exchange differences on foreign operations are recognised in other comprehensive income and accumulated in the foreign exchange reserve within equity. When a foreign operation is wholly or partly disposed of with loss of control, the relevant accumulated exchange differences are reclassified to profit or loss as part of the gain or loss on disposal. In a partial disposal without loss of control, the proportionate share of cumulative exchange differences is reattributed to non-controlling interest.

e) Segmental reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports and components of the Group which are regularly reviewed by the chief operating decision maker to allocate resources to segments and to assess their performance. For this purpose, the chief operating decision maker of the Group is the Board of Directors.

The Group lends solely within the UK and the Channel Islands and as such no geographical analysis is required.

The Group segments its lending by product, focusing on the customer need and reason for a loan. It operates under three segments; Buy-to-Let/SME, Residential Mortgages, and Personal Loans.

f) Interest income and expense

Interest income and interest expense for all interest-bearing financial instruments measured at amortised cost are recognised in profit or loss using the effective interest rate (EIR) method. The EIR is the rate which exactly discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying value of the financial asset or liability.

Notes to the Financial Statements continued

For the year ended 31 December 2015

1. Accounting Policies continued

f) Interest income and expense continued

In calculating the EIR the Group estimates the cash flows considering all contractual terms but not future credit losses. Potential early repayment charges, origination fees received and paid on loans to customers, together with premium/discount paid on/received on acquired loan books and acquisition costs on loan books are included within loans and advances to customers and are amortised over the expected life of those assets using the EIR method.

Interest income on available for sale investments is included in interest receivable and similar income. Interest on derivatives is included in interest receivable and similar income or interest expense and similar charges following the underlying instrument it is hedging.

g) Fees and commissions

Fees and commissions which are an integral part of the EIR of a financial instrument are recognised as an adjustment to the EIR and recorded in interest income. Other fees and commissions are recognised on the accruals basis as services are provided or on the performance of a significant act, net of VAT and similar taxes.

h) Taxation

Income tax comprises current and deferred tax. It is recognised in profit or loss, other comprehensive income or directly in equity, consistently with the recognition of items it relates to.

Current tax is the expected tax charge or credit on the taxable income or loss in the period and any adjustments in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amounts of assets or liabilities for accounting purposes and carrying amounts for tax purposes.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available to utilise the asset. The recognition of deferred tax is mainly dependent on the projections of future taxable profits and future reversals of temporary differences. The current Board's projections of future taxable income assume that the Group will utilise its deferred tax asset within the next 5 years.

i) Dividends

Dividends are recognised in equity in the period in which they are paid or, if earlier, approved by shareholders.

j) Cash and cash equivalents

Cash and cash equivalents comprise cash, non-restricted balances with central banks and highly liquid financial assets with original maturities of less than three months from the date of acquisition subject to an insignificant risk of changes in their fair value.

k) Intangible assets

Purchased software and costs directly associated with the development of computer software are capitalised as intangible assets where the software is a unique and identifiable asset controlled by the Group and will generate future economic benefits.

Costs to establish technological feasibility or to maintain existing levels of performance are recognised as an expense.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, which is generally five years. Intangible assets are reviewed for impairment on an annual basis.

l) Property, plant and equipment

Property, plant and equipment comprise freehold land and buildings, major alterations to office premises, computer equipment, motor vehicles and fixtures measured at cost less accumulated depreciation. These assets are reviewed for impairment annually and if they are considered to be impaired are written down immediately to their recoverable amounts.

Gains and losses on disposals calculated as the difference between the net disposal proceeds with the carrying amount of the asset are included in profit or loss.

Items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful economic lives as follows:

Buildings	50 years
Leasehold improvements	10 years
Equipment, fixtures and vehicles	5 years

Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The cost of repairs and renewals is charged to profit or loss in the period in which the expenditure is incurred.

1. Accounting Policies continued

m) Financial instruments

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they originated. All other financial instruments are accounted for on trade date which is when the Group becomes a party to the contractual provisions of the instrument. The Group classifies its financial instruments in accordance with IAS 39 and IAS 32 into the following categories:

(i) Loans and receivables: which are predominantly mortgage loans, advances to customers and money market advances with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell in the near term. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the EIR method, less impairment losses. Where exposures are hedged by derivatives, designated and qualifying as fair value hedges, the fair value adjustment for the hedged risk to the carrying value of the hedged loans and advances is reported in Fair value hedges – assets.

(ii) Financial assets at fair value through profit or loss: include derivatives with positive fair values. Financial assets in this category are initially recognised and subsequently re-measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised in profit or loss.

(iii) Available-for-sale (AFS) financial assets: comprise securities held for liquidity purposes (certificates of deposit, treasury bills and money market instruments in the nature of loans and advances to credit institutions). These assets are non-derivatives that are designated as available-for-sale and not categorised in any other financial asset categories. These are held at fair value with movements being taken to other comprehensive income and accumulate in the AFS reserve within equity, except for impairment losses which are taken to profit or loss. When the instrument is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

(iv) Financial liabilities: comprise deposits, issued debt securities and subordinated liabilities used as sources of funding. They include the Sterling Perpetual Subordinated Bond where the terms allow no discretion over the payment of interest. These financial liabilities are initially measured at fair value less direct transaction costs, and subsequently held at amortised cost using the EIR method.

The Group has no financial liabilities held for trading or designated at fair value through profit or loss except for derivatives with negative fair values. These financial liabilities are initially recognised and subsequently re-measured at fair value, with changes taken to profit or loss.

(v) Classification as liability or equity: financial instruments that include no contractual obligation to deliver cash or another financial asset on potentially unfavourable conditions are classified as equity.

Equity financial instruments comprise own shares and the Perpetual Subordinated Bond which was issued with terms that include discretion over the payment of interest. Accordingly, the coupon paid on the bond and related tax effect are recognised directly in retained earning.

(vi) Derecognition of financial assets and liabilities: financial assets are derecognised when the contractual rights to receive cash flows have expired and where substantially all the risks and rewards of ownership have been transferred.

Financial liabilities are derecognised only when the obligation is discharged, cancelled or has expired.

(vii) Sale and repurchase agreements: financial assets sold subject to repurchase agreements ('repo') are retained in the financial statements if they fail the de-recognition criteria of IAS 39 described in paragraph (vi) above. The financial assets that are retained in the financial statements are reflected as loans or investment securities and the counterparty liability is included in amounts owed to depositors, credit institutions or other customers. Financial assets purchased under agreements to resell at a pre-determined price where the transaction is financing in nature ('reverse repo') are accounted for as loans and receivables. The difference between the sale and repurchase price is treated as interest and accrued over the lives of agreements using the EIR method.

n) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments (interest and basis rate swaps) for the purpose of reducing fair value interest rate risk to hedge its exposure to the interest rate risk arising from financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading.

Notes to the Financial Statements continued

For the year ended 31 December 2015

1. Accounting Policies continued

n) Derivative financial instruments and hedge accounting continued

Derivative financial instruments are recognised at their fair value with changes in their fair value going through profit or loss. Fair values are calculated by discounting cash flows at the prevailing interest rates.

All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Derivatives covered by master netting agreements are settled and therefore recognised on a net basis.

The Group designates certain derivatives as a hedge of fair value of a portfolio of recognised assets or liabilities (macro fair value hedge). Hedge accounting is used for derivatives designated in this way provided the criteria specified in IAS 39 (EU endorsed) are met.

Where there is an effective hedge relationship for fair value hedges, the changes in fair value of the hedged item arising from the hedged risk are taken to profit or loss. The fair value changes of both the hedged item and the derivative substantially offset each other to reduce profit volatility. To qualify for hedge accounting at inception, the hedge relationship must be clearly documented and the derivative must be expected to be highly effective in offsetting the hedged risk. In addition, effectiveness must be tested throughout the life of the hedge relationship.

The Group discontinues hedge accounting when testing demonstrates that a derivative is not or has ceased to be highly effective as a hedge, the derivative ceases through expiry or sale or the underlying hedged item matures, is sold or is repaid.

If a derivative no longer meets the criteria for hedge accounting the cumulative fair value hedging adjustment is amortised over a period up to the maturity of the previously designated hedge relationship. If the underlying item is sold or repaid the unamortised fair value adjustment is immediately reflected in profit or loss.

o) 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 a 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.

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 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.

1. Accounting Policies continued

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:

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.

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.

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.

p) Debit and credit valuation adjustments

The debit and credit valuation adjustments ('DVA' and 'CVA') are included in the fair value of derivative financial instruments. The DVA is based on the expected loss a counterparty faces due to the risk of the Group's default. The CVA reflects the Group's risk of the counterparty's default.

The methodology is based on a standard calculation, taking into account:
- the one-year probability of default, updated on a regular basis;
- the expected exposure at default;
- the expected loss given default; and
- the average maturity of the swaps.

The funding valuation adjustment ('FVA') is not calculated.

q) Provisions and contingent liabilities

A provision is recognised when there is a present obligation as a result of a past event, it is probable that the obligation will be settled and the amount can be estimated reliably.

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events which are either not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but disclosed unless their probability is remote.

r) Employee benefits – defined contribution scheme

Obligations for contributions to defined contribution pension arrangements are recognised as an expense in profit or loss as incurred.

s) Share-based payments

In accordance with IFRS 2 'Share-based payments', options granted to employees over the Bank's shares under the Group's share-based incentive schemes are measured at fair value at grant and are charged on a straight-line basis to the profit and loss account (with a corresponding increase in equity) over the vesting period in which the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related conditions at the vesting date. The amount recognised as an expense for awards subject to market conditions is based on the proportion that is expected to meet the condition as assessed at the grant date. No adjustment is made for the actual proportion that meets the market condition at vesting. Share-based payments that vest on grant are immediately expensed in full with a corresponding increase in equity.

Notes to the Financial Statements continued

For the year ended 31 December 2015

1. Accounting Policies continued

s) Share-based payments continued

The grant date fair value of a nil price option over the Bank's shares which vests at grant or which carries the right to dividends or dividend equivalents during the vesting period (IPO share awards) is the share price at the grant date. The grant date fair value of a nil price option over the Bank's shares that does not carry automatic rights to dividends or dividend equivalents (the Deferred Share Bonus Plan) is based on the Bank's share price at the grant date adjusted for the impact of the expected dividend yield. The fair value at grant date of awards made under the Share Save Schemes is determined using a Black-Scholes Option model.

The grant date fair value of nil price options that are subject to non-market conditions and which do not carry automatic rights to dividends or dividend equivalents (the EPS element of the Performance Share Plan) is based on the share price at the grant date adjusted for the impact of the expected dividend yield. An assessment is made at each reporting date on the proportion of the awards expected to meet the related market vesting conditions.

The fair value of an option that is subject to market conditions (the relative share price element of the Performance Share Plan) is determined at grant date using a Monte Carlo model. No adjustment is made for the actual proportion that meets the market condition at vesting.

Where the allowable cost of share-based awards for tax purposes is greater than the cost determined in accordance with IFRS 2, the tax effect of the excess is taken to equity.

Employer's National Insurance is charged to the profit and loss account at the share price at the reporting date on the same vesting schedule as the underlying awards.

t) Exceptional IPO expenses

Exceptional items are material income or expense items which are non-recurring in nature. Exceptional items are reported separately in the statement of profit or loss to highlight the core performance of the Group and make it more relevant for comparison with other periods. The Group's exceptional expenses comprise of IPO related external fees and share awards. Some of the share awards vested immediately on admission while others vest over various periods of up to four years.

Qualifying costs directly attributable to issuing the primary shares such as advisory and underwriting fees were debited directly to equity. Costs associated with both the primary and secondary issuance were allocated between profit or loss and equity based on the number of primary and secondary shares. Other non-qualifying costs were taken to profit and loss.

Exceptional IPO share awards which vested on IPO and related national insurance contributions were expensed immediately. The awards with vesting periods along with the accruing national insurance are expensed on an on-going basis in profit and loss and continue to be presented as exceptional items.

Further detail on accounting for share-based payments is disclosed in notes above.

u) Securitisation

At the reporting date, the Group had one securitisation scheme administered through Rochester Financing No.1 Plc special purpose entity ('SPE'). The Group assessed whether it controls the SPE and therefore should consolidate it under criteria of IFRS 10. The criteria include the power to direct relevant activities, exposure or rights to variable returns and the ability to use its power to affect the amount of these returns. The Group has the power to appoint directors and control daily operations of its SPE through securitisation documents. It owns the certificates which give rights to the residual interest income remaining after servicing the external debt. It has the ability to affect the amount of outgoing payments if required. On this basis, Rochester Financing No.1 Plc is considered a wholly owned subsidiary and consolidated in the Group's operations.

The Bank has retained the risks and rewards of ownership in respect of the loans transferred to Rochester Financing No.1 Plc, therefore, they fail derecognition criteria and remain in its assets.

Whilst the securitisation entity has been consolidated as a 100% subsidiary, the mortgage loans included within the securitisation structure are ring-fenced, with the cash flows being used to repay its liabilities in line with the priority of payments set out in the securitisation prospectus. The senior debt is held externally while junior debt and residual certificates are retained by the Bank. The Group statement of financial position shows externally held notes as debt securities in issue.

v) Judgements in applying accounting policies and critical accounting estimates

In preparing these financial statements, the Group has made judgements, estimates and assumptions which affect the reported amounts within the current and next financial year. Actual results may differ from these estimates.

Estimates and judgements are regularly reviewed based on past experience, expectations of future events and other factors. The key areas where estimates and judgements are made are as follows:

1. Accounting Policies continued

(i) Loan book impairments: Specific provision assessments for individually significant loans or portfolios of loans involve significant judgment in relation to estimating future cash flows, including the cost of obtaining and selling collateral, the likely sale proceeds and any rental income prior to sale. The most critical estimate is the level of house prices where a variance of 10% equates to a change of £2.7m (2014: £4.6m) in the provision.

All assets without a specific provision are assessed collectively. Collective provisions are calculated using twelve month delinquency roll rates and one year probability of defaults on different segments of the loan book. These rates along with forced sale discounts and the level of house prices are applied to calculate expected losses. Judgement is exercised in deciding how to apply historic experience to current market conditions. The most critical estimate is the level of house prices where a variance of 10% applied to the calculation of the loss given default equates to a change of £3.2m (2014: £2.4m) in the provision. The impact of house price variances on the probability of default is difficult to quantify but could be material.

(ii) Loan book acquisition accounting and income recognition: Acquired loan books are initially recognised at fair value. Significant judgement is exercised in calculating their effective interest rate ('EIR') using cash flow models which include assumptions on the likely macroeconomic environment, including HPI, unemployment levels and interest rates, as well as loan level and portfolio attributes and history used to derive prepayment rates, the probability and timing of defaults and the amount of incurred losses.

(iii) Effective interest rate: A number of assumptions are made when calculating the effective interest rate for newly originated loan assets. These include their expected lives, likely redemption profiles and the anticipated level of any early redemption charges. Directly attributable fees is a significant element of the effective interest rate of the BTL products and is recognised in profit and loss over the expected life of the loans. Judgement is used in assessing the expected life of products with an initial discounted or fixed period which then revert to the standard variable rate. The impact of a 6 month longer expected life on 2015 new origination, that is expected to reach the end of the discounted or fixed period, would be to recognise an additional £1.1m (2014: £1.0m) of interest income as the impact of spreading fee income over a longer period is more than offset by the impact of a higher revert rate for the additional period.

w) Adoption of new standards

During the year the Group adopted Annual Improvements to IFRSs, 2010 to 2012 and 2011 to 2013 cycles, all effective for accounting periods beginning on or after 1 July 2014, consisting of minor amendments to existing standards. The annual improvement cycles did not have a significant impact on the financial statements.

The new standards and amendments below have not been yet endorsed by the EU and therefore have not been applied in preparing these financial statements:

- IFRS 9 Financial Instruments, effective from 1 January 2018, replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a different classification of financial assets based on the entity's business model and the cash flow characteristics of the instruments.

  IFRS 9 will replace the existing incurred loss impairment approach with an expected credit loss approach. Under this approach at initial recognition of a loan, an allowance is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months. In the event of a significant increase in credit risk, an allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL. The assessment of credit risk and the estimation of ECL must be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date.

  IFRS 9 is expected to have a significant impact on operations particularly in the risk and finance functions of the Group.

  The appropriate governance framework will also be established to review ECL's, models used, and judgements made. The Group is completing its impact assessment phase and is planning to commence its design and modelling phase in the first quarter of 2016. The Group will engage external consultants to work alongside existing teams to complete the development of IFRS 9 models, controls and procedures by the end of 2016 that will allow OSB to parallel run and test IFRS 9 models during 2017.

  Hedge accounting will become more closely aligned with risk management practices under IFRS 9. The Group has elected to continue with IAS 39 hedging that is an option under IFRS 9 until a separate IASB project to address macro hedge accounting strategies is finalised and can be assessed. Whilst at this stage the Group expects to continue with IAS 39 hedge accounting, it will implement the revised hedge accounting disclosures required by the related amendments to IFRS 7 'Financial Instruments: Disclosures'.

  At this stage it is not possible to quantify the potential impact of IFRS 9, however the Group will provide a further update in the 2016 annual report and should be in a position to provide initial quantitative indications during 2017.

Notes to the Financial Statements continued

For the year ended 31 December 2015

1. Accounting Policies continued

w) Adoption of new standards continued

- IFRS 15 Revenue from Contracts with Customers, effective from 1 January 2018, replaces IAS 11 Construction contracts, IAS 18 Revenue and several related interpretations. It introduces a single framework for revenue recognition based on new concepts and principles. The new standard is not expected to have a significant impact on the financial statements.

- IFRS 16 Leases, effective from 1 January 2019, replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease and two related SIC interpretations. The new standard requires the lessees to recognise right-of-use assets and lease liabilities for most leases over 12 months long. Lessor accounting has largely remained unchanged. Adoption of IFRS 16 in respect of rented properties is not expected to have a material effect on the financial statements.

2. Interest receivable and similar income

	Group Year ended 31-Dec-15 £'000	Group Year ended 31-Dec-14 £'000
On BTL/SME mortgages	**149,658**	88,001
On residential mortgages	**115,912**	105,754
On personal loans	**7,482**	21,576
On reverse repo transactions	**–**	460
On investment securities	**1,632**	1,684
On other liquid assets	**2,781**	1,661
Net expense on derivative financial instruments	**(9,259)**	(9,254)
	268,206	209,882

Included within interest receivable is £2,408k (2014: £1,161k) in respect of interest accrued on accounts with a specific provision.

3. Interest payable and similar charges

	Group Year ended 31-Dec-15 £'000	Group Year ended 31-Dec-14 £'000
On retail deposits	**94,961**	78,672
On Perpetual Subordinated Bonds	**969**	1,144
On subordinated liabilities	**1,250**	1,261
On wholesale borrowings	**5,693**	6,407
Net income on derivative financial instruments	**(4,439)**	(2,803)
	98,434	84,681

4. Fair value gains and losses on financial instruments

	Group Year ended 31-Dec-15 £'000	Group Year ended 31-Dec-14 £'000
Fair value changes in hedged assets	**(7,435)**	5,491
Hedging of assets	**7,299**	(6,960)
Fair value changes in hedged liabilities	**1,713**	(3,948)
Hedging of liabilities	**(1,605)**	4,077
Amortisation of the fair value adjustment on cancelled hedges	**(3,147)**	(3,198)
Net gains/(losses) on unmatched swaps	**73**	154
Debit and credit valuation adjustment	**(51)**	61
	(3,153)	(4,323)

Amortisation of the fair value adjustment on cancelled hedges relates to hedged assets and liabilities where the hedges were terminated before maturity and effective at the point of termination. Their fair value adjustment at the time of hedge termination continues to be amortised over the original hedging term.

Unmatched swaps are derivatives that do not form part of a hedging relationship.

The debit valuation adjustment (DVA) is calculated on the Group's derivative liabilities and represents exposure of their holders to the risk of the Group's default. The credit valuation adjustment (CVA) reflects the Group's risk of the counterparty's default.

5. Gain on sales of financial instruments

The Bank routinely buys and sells liquidity assets in order to confirm the ease with which cash can be realised and the robustness of the valuations assigned to such assets. During the year, transactions in liquid assets resulted in a net gain of £580k (2014: net gain of £2,258k).

6. Administrative expenses

	Group Year ended 31-Dec-15 £'000	Group Year ended 31-Dec-14 £'000
Staff costs	**21,653**	18,701
Facilities costs	**2,179**	2,157
Marketing costs	**1,855**	1,316
Support costs	**5,160**	3,201
Professional fees	**4,588**	3,136
Other costs[1]	**3,994**	3,879
	39,429	32,390

1 Other costs mainly consist of irrecoverable VAT expense.

Included in professional fees are amounts paid to the auditors of the Group, further analysed below:

	Group Year ended 31-Dec-15 £'000	Group Year ended 31-Dec-14 £'000
Audit of the Bank and Group accounts	**291**	220
Audit of the Group's subsidiary undertakings pursuant to legislation	**99**	115
Tax advisory services	**38**	17
Tax compliance services	**21**	27
Audit related assurance services	**71**	53
All other non-audit services	**41**	98
	561	530

In 2014, a further £855k was paid to the auditors in connection with the stock exchange listing, as disclosed in note 9.

Staff numbers and costs

Staff costs comprise the following categories

	Group Year ended 31-Dec-15 £'000	Group Year ended 31-Dec-14 £'000
Salaries, incentive pay and other benefits	**18,933**	16,374
Share-based payments	**477**	17
Social security costs	**1,161**	1,439
Other pension costs	**1,082**	871
	21,653	18,701

The average number of persons employed by the Group (including executive Directors) during the period was 520 (2014: 419) on a full-time employee (FTE) basis, analysed below.

	Group 2015	Group 2014
Operations	**248**	215
Administrative	**272**	204
	520	419

Notes to the Financial Statements continued

For the year ended 31 December 2015

7. Directors' emoluments and transactions

Executive Directors' emoluments – 2015

	Salary & fees £'000	Incentive pay[1] £'000	Other benefits[2] £'000	Contribution to personal pension policy £'000	Total £'000
A Golding	401	191	13	52	657
A Talintyre	284	130	9	37	460
Total executive emoluments	685	321	22	89	1,117

Executive Directors' emoluments – 2014

	Salary & fees £'000	Incentive pay[1] (restated) £'000	Other benefits[2] £'000	Contribution to personal pension policy £'000	Year ended 31-Dec-14 Total £'000
A Golding	349	174	12	45	580
A Talintyre	252	120	8	33	413
Total executive emoluments	601	294	20	78	993

Non-Executive Directors' emoluments

	Group 2015 Fees £'000	Group 2014 Fees £'000	Group 2014 IPO Awards[3] £'000	Group 2014 Total £'000
G Allatt	70	44	–	44
E Anstee[4]	2	–	–	–
R Duke	80	68	181	249
M Fairey	150	193	–	193
T Hanford	60	53	–	53
M McCaig	60	61	272	333
Sir C McCarthy	–	17	272	289
M McNamara	70	47	–	47
D Mills	–	37	272	309
Dr D Morgan	60	53	–	53
N Moss	60	40	–	40
S Wilcke	60	258	–	258
	672	871	997	1,868
Total Directors' emoluments	1,787	1,864	997	2,861

1 In addition to the cash incentive pay above, the Executive Directors were granted an equal amount in the form of shares deferred for three years under the Deferred Share Bonus Plan. The deferred part does not have any further performance conditions attached, however it is subject to clawback and is forfeited if the Executive Director leaves prior to vesting unless a good leaver reason applies such as redundancy, retirement or ill health. 2014 incentive pay has been restated to exclude the amount payable in shares subject to future vesting. The Executive Directors received a further share award under the Performance Share Plan with a grant date face value of £375k for A Golding and £265k for A Talintyre using a share price of £2.19 (the average mid-market quotation for the preceding five days before grant). These shares vest in three years subject to performance conditions disclosed in note 8.

2 Other benefits comprise of car allowance and health insurance.

3 Certain Non-Executive Directors received IPO awards in the form of nil price options which vested in full on admission.

4 E Anstee joined OSB on 21 December 2015.

S Wilcke stepped down as Executive Chairman of the Group on 1 April 2014 in advance of the listing on the London Stock Exchange and M Fairey was appointed as an independent Non-Executive Chairman. S Wilcke remained on the Board as a Non-Executive Director.

7. Directors' emoluments and transactions continued

M Fairey's remuneration consisted of £150k director's fees in respect of his duties as Chairman of the Board and Chairman of the Nomination Committee. In 2014, his remuneration comprised of director's fees of £100k and a payment of £51k to purchase 30k shares in the Bank at IPO. The Bank also covered the cost of income tax and national insurance of £42k.

S Wilcke's remuneration in 2015 consisted of director's fees of £60k. His remuneration in 2014 comprised of salary of £107k, bonus payments of £102k, £14k in pension contributions and £35k non-executive fees.

Prior to the IPO, A Golding, A Talintyre and S Wilcke held shares in OSB Holdco Ltd ('Holdco'), one of the Bank's shareholders, under a long-term incentive plan ('LTIP'). The difference between the unrestricted market value and nominal value of the Growth Shares, grossed up for income tax and national insurance covered by the Bank was £23k for A Golding, £9k for A Talintyre and £18k for S Wilcke. These shares were subject to a vesting schedule but vested in full at IPO in June 2014. No directors had their shares vest in 2015.

The figures above include £nil (2014: £nil) compensation for loss of office during the period.

At 31 December 2015 outstanding loans granted in the ordinary course of business to Directors and their connected persons amounted to £nil (2014: £nil).

See Note 8 Share-based payments and the Annual Report on Remuneration for further details on Directors' emoluments.

8. Share-based payments

The Group operates the following share-based schemes:

IPO Share Awards

Certain Directors, senior managers and other employees of the Bank received one off share awards in the form of nil price options over shares in the Bank on its admission to the London Stock Exchange in June 2014. A proportion of these awards vested on admission with the remainder vesting over either a 12, 24 or 48 month period. The cost of IPO Share Awards based on their fair value at grant date of 170 pence per share (the IPO offer price) is recognised over the respective vesting period (adjusted for expected attrition) with awards that vested on admission being immediately expensed in full. The expense is reported within exceptional IPO expenses in the statement of profit or loss and is offset fully by an additional capital contribution as the awards were granted by OSB Holdco Ltd, the Bank's major shareholder.

OSB Sharesave Scheme

The Save As You Earn ('SAYE') or Sharesave Schemes are open to all UK based employees and allow them to save a fixed amount of between £5 and £500 per month over either three or five years in order to use these savings at the end of the qualifying period to buy the Bank's shares at a fixed price established when the schemes were announced. The group offered 3 and 5 year sharesave schemes in both 2014 and 2015, with the exercise price set at a 20% discount on the share price on the scheme dates.

Deferred Share Bonus Plan

The Deferred Share Bonus Plan ('DSBP') applies to Executive Directors and certain senior managers and requires 50% of their performance bonuses to be deferred in shares for 3 years. There are no further performance conditions attached but the share awards are subject to clawback provisions. The DSBP is a share-based award and as such is expensed over its vesting period. The first DSBP relating to 2014 bonuses was granted in March 2015.

Performance Share Plan

Executive Directors and certain senior managers are also eligible for a Performance Share Plan ('PSP') based on performance conditions linked to earnings per share and total shareholder return over a 3 year vesting period. The first award was issued in March 2015.

The performance conditions applying to 2015 awards are based on a combination of EPS and total shareholder return (TSR) equally weighted and assessed independently. For the EPS element, growth targets are linked to the Company's three year growth plan, measuring growth from the base figure of 2014. For the TSR element, OneSavings Bank Share's performance is measured against the FTSE All Share index excluding Investment Trusts.

Notes to the Financial Statements continued

For the year ended 31 December 2015

8. Share-based payments continued

Performance Share Plan continued

The share-based expense for the year includes a charge in respect of the remaining IPO awards with future vesting provisions, Sharesave schemes, the deferred Share bonus plan and Performance Share Plan. The IPO related charge is reported within note 9 Exceptional IPO expenses while the Sharesave schemes, deferred bonus plan and PSP charges are included in employee expenses within note 6 Administrative expenses.

The share-based payment expense during the year comprised of the following:

	2015 £'000	2014 £'000
Included in exceptional IPO expenses:		
Share awards vested on IPO	–	2,272
IPO share award expensed in the year	1,335	1,496
	1,335	3,768
Included in administrative expenses:		
Sharesave	39	17
Deferred Share Bonus Plan	169	–
Performance Share Plan	269	–
	477	17
	1,812	3,785

Movements in the number of share awards and their weighted average exercise prices are presented below:

	IPO share awards	Sharesave		Deferred shares Bonus Plan	Performance Share plan
	Number	Number	Weighted average exercise price, £	Number	Number
At 1 January 2015	2,673,508	527,821	1.34	–	–
Granted	–	282,889	2.27	322,933	612,262
Exercised	(1,114,635)	–	–	–	–
Forfeited	(321,029)	(48,783)	1.70	(21,358)	(33,105)
At 31 December 2015	1,237,844	761,927	1.66	301,575	579,157
Exercisable at					
At 31 December 2015	119,791	15,342	1.62	–	–

	IPO share award	Sharesave	
	Number	Number	Weighted average exercise price, £
At 1 January 2014	–	–	–
Granted	3,726,844	538,567	1.34
Exercised	(1,030,206)	–	–
Forfeited	(23,130)	(10,746)	1.34
At 31 December 2014	2,673,508	527,821	1.34
Exercisable at			
At 31 December 2014	119,791	–	–

For the share-based awards granted during the year, the weighted average grant date fair value was 152 pence.

The weighted average market price at exercise for share options exercised in the year was 298 pence.

8. Share-based payments continued

The range of exercise prices and weighted average remaining contractual life of outstanding awards are as follows:

Exercise price	2015 Number	2015 Weighted average remaining contractual life	2014 Number	2014 Weighted average remaining contractual life
IPO share awards				
Nil	**1,237,844**	**2.5**	2,673,508	1.9
Sharesave				
134–227 pence	**761,927**	**3.4**	527,821	3.3
Deferred Share Bonus Plan				
Nil	**301,575**	**2.2**	–	–
Performance Share Plan				
Nil	**579,157**	**2.2**	–	–
	2,880,503	**2.6**	3,201,329	2.2

The valuation of share options is based on the following assumptions:

IPO Share Awards
The grant date fair value of the IPO share awards was the issue price of £1.70 as they are in the form of nil price options which carry rights to dividends during the vesting period. The charge in respect of awards with future vesting provisions assumed a weighted average attrition of nil (2014: 2.6%). This is lower than the overall expected staff attrition rate as nil attrition was assumed for certain Senior Managers who received larger awards.

Sharesave Schemes
The grant date fair values of options under the Sharesave Schemes were determined using a Black-Scholes model. This determined the fair value of options over 1 ordinary share in the 2015 3 and 5 year Sharesave Schemes as 17 pence and 19 pence respectively (2014: 31 pence and 34 pence), using the following assumptions:

	2015	2014
Contractual life, years	**3/5 years**	3/5 years
Share price at issue, £	**2.84**	1.60
Expected volatility[1]	**20%**	20%
Attrition rate	**9.6%**	10.5%
Dividend yield	**3.6%**	3%

1 The volatility was based on a benchmark of the FTSE 350 diversified financials as insufficient history was available for the Bank's Shares.

Deferred Share Bonus Plan
The grant date fair value of nil price options under the deferred share plan of 226 pence per share is based on the mid-market share price at the grant date of 251 pence per share, adjusted for the impact of dividends, as the options don't carry automatic rights to dividends. A dividend yield of 3.7% was used based on available analyst consensus. The expense for 2015 assumes an attrition rate of 9.1%.

Performance Share Plan
The grant date fair value of nil price options under the performance share plan ('PSP') of 226 pence per share is based on the mid-market share price at the grant date of 251 pence per share, adjusted for the impact of dividends, as the options don't carry automatic rights to dividends. A dividend yield of 3.7% was assumed based on available analyst consensus. The expense for 2015 assumes an attrition rate of 9.1%.

A vesting rate of 100% was assumed as at 31 December 2015 for the EPS element of the PSP, based on the expectation that the required target growth will be achieved over the vesting period. A vesting rate of 50% was assumed for the total shareholder return element of the PSP, based on a Monte Carlo model using historical share price performance data for the target benchmark FTSE all share index excluding Investment Trusts and the FTSE 350. Diversified Financials as a proxy for the Company's share as insufficient history was available.

Notes to the Financial Statements continued

For the year ended 31 December 2015

9. Exceptional IPO expenses

Exceptional IPO expenses consist of expenses incurred in connection with the stock exchange listing (IPO) and share based awards granted on admission. These non-recurring expenses are presented separately to provide better comparability of the current reporting period with previous years.

Exceptional IPO expenses are summarised in the table below:

Charged to profit or loss	**Group Year ended 31-Dec-15 (Audited) £'000**	Group Year ended 31-Dec-14 (Audited) £'000
IPO related costs	**715**	3,660
Share awards vested on IPO	**–**	2,272
IPO share awards with future vesting provisions	**1,335**	1,496
	2,050	7,428

In 2015, IPO related costs consist solely of the related employer's national insurance on IPO share awards.

Share awards represent the grant date fair value of nil price options over OSB shares granted to certain Directors, senior managers and other employees of the Bank at admission. These options were granted by OSB Holdco Ltd, the Bank's major shareholder and as such the expense excluding the associated employers National Insurance, is offset fully by an additional capital contribution.

Charged to reserves	**Group Year ended 31-Dec-15 £'000**	Group Year ended 31-Dec-14 £'000
IPO related costs	**–**	2,369

IPO related expenses of 2014 include £855k paid to the Group auditors. Note 1 t) explains the basis of the split of IPO costs between profit or loss and reserves.

10. Taxation

Taxation	**Group Year ended 31-Dec-15 £'000**	Group Year ended 31-Dec-14 £'000
Corporation tax	**(20,804)**	(4,755)
Total current taxation	**20,804**	4,755
Deferred taxation	**(435)**	(7,453)
Total taxation	**(21,239)**	(12,208)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average taxation rate applicable to profits of the Group as follows:

Taxation	**Year ended 31-Dec-15 £'000**	Year ended 31-Dec-14 £'000
Profit before taxation	**105,297**	63,745
Profit multiplied by the weighted average rate of corporation taxation in the UK during 2015 of 20.25% (2014: 21.5%)	**(21,323)**	(13,705)
Taxation effects of:		
Expenses not deductible for taxation purposes	**(24)**	(641)
Adjustments in respect of earlier years	**294**	2,235
Subsidiaries taxed at different rates	**(66)**	(52)
Re-measurement of deferred taxation –change in taxation rate	**(172)**	(96)
Other	**52**	51
Total taxation charge	**(21,239)**	(12,208)

11. Earnings per share

Earnings per share (EPS) are based on the profit for the period and the number of ordinary shares in issue. Basic EPS are calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share take into account share options, awards and preference shares which can be converted to ordinary shares.

For the purpose of calculating earnings per share, profit attributable to ordinary shareholders is arrived at by adjusting profit for the year for the after-tax amounts of coupons on equity bonds:

	Group Year ended 31-Dec-15 £'000	Group Year ended 31-Dec-14 £'000
Profit for the year	**84,058**	51,537
Adjustments:		
Coupon on perpetual subordinated bonds classified as equity	**(1,450)**	(1,450)
Tax on coupon	**294**	312
Profit attributable to ordinary shareholders	**82,902**	50,399

In 2014, the Group reorganised its share capital for the IPO, as disclosed in note 31. In accordance with IAS 33, earnings per share for all periods have been prepared on the basis of the new structure after the reorganisation, as summarised in the table below:

	Group Year ended 31-Dec-15	Group Year ended 31-Dec-14
Weighted average number of shares, millions		
Basic	**243.1**	232.6
Diluted	**243.8**	232.7
Earnings per share, pence per share		
Basic	**34.1**	21.7
Diluted	**34.0**	21.7
Underlying earnings per share, pence per share		
Basic	**34.8**	24.4
Diluted	**34.7**	24.4

12. Dividends

During the year, the Group paid the following dividends:

	Group Year ended 31-Dec-15 £'000	Group Year ended 31-Dec-14 £'000
Final dividend 2014, 3.9 pence per share	**9,480**	–
Interim dividend 2015, 2.0 pence per share	**4,862**	–
	14,342	–

The Directors propose a final dividend of 6.7 pence per share (2014: 3.9 pence) payable on 18 May 2016 with a record date of 29 March 2016. This dividend is not reflected in these financial statements as it is subject to approval by shareholders at the Annual General Meeting on 11 May 2016. Together with the interim dividend of 2.0 pence, it makes a total dividend for 2015 of 8.7 pence per share.

13. Loans and advances to credit institutions

	Group As at 31-Dec-15 £'000	**Bank As at 31-Dec-15 £'000**	Group As at 31-Dec-14 £'000	Bank As at 31-Dec-14 £'000
Loans and advances to credit institutions have remaining maturities as follows:				
Repayable on demand:				
Bank of England	**311,520**	**311,520**	568,756	568,756
Others	**43,171**	**11,862**	198,562	158,706
	354,691	**323,382**	767,318	727,462

Within the above balances, £29.4m is ring-fenced within the Rochester Financing No.1 Plc securitisation vehicle and can only be used to pay interest and principal of the issued debt securities.

Notes to the Financial Statements continued

For the year ended 31 December 2015

14. Investment securities

	Group and Bank As at 31-Dec-15 £'000	Group and Bank As at 31-Dec-14 £'000
Government investment securities	**393,382**	158,181
Other investment securities:		
Unlisted	**–**	416
	393,382	158,597
Investment securities have remaining maturities as follows:		
Less than three months	**25,049**	58,381
Three months to one year	**339,283**	23,240
One to five years	**29,050**	57,747
More than five years	**–**	19,229
	393,382	158,597

Investment securities include £nil (2014: £20.0m) of assets sold under repurchase agreements (repos). In accordance with IAS 39, these securities have been retained in the Group's assets.

In addition to the above, at 31 December 2015 the Group held £160.7m (2014: £98.0m) of treasury bills received from the Bank of England under the FLS scheme. These securities are accounted for off-balance sheet but included in liquid assets for regulatory purposes. In exchange, the Group pledges with the Bank of England either loans to customers or other investment securities. These assets cannot be sold or pledged further under normal circumstances.

At the reporting date, the Group had no treasury assets (2014: £102.0m) pledged with the Bank of England in exchange for the FLS treasury bills. The value of pledged loans to customers is disclosed in note 15.

The Directors consider that the primary purpose of holding investment securities is prudential. These securities are held as liquid assets with the intention of use on a continuing basis in the Group's activities and are classified as loans and receivables, financial assets held to maturity or financial assets available for sale as appropriate. During 2014 and 2015, all investment securities belonged to the available-for-sale category.

Movements during the year of investment securities classified as available-for-sale are analysed as follows:

	Group and Bank As at 31-Dec-15 £'000	Group and Bank As at 31-Dec-14 £'000
At 1 January	**158,597**	339,603
Additions	**449,056**	1,171,747
Disposals and maturities	**(213,142)**	(1,353,932)
Changes in fair value	**(1,129)**	1,179
At 31 December	**393,382**	158,597

15. Loans and advances to customers

	Group As at 31-Dec-15 £'000	**Bank As at 31-Dec-15 £'000**	Group As at 31-Dec-14 £'000	Bank As at 31-Dec-14 £'000
BTL/SME mortgages	**3,105,536**	**2,442,516**	2,064,905	1,586,175
Residential mortgages	**2,007,062**	**1,697,870**	1,763,391	1,388,905
Personal loans	**49,442**	**49,442**	117,138	117,138
	5,162,040	**4,189,828**	3,945,434	3,092,218
Less: provision for impairment losses on loans and advances (see note 16)	**(27,281)**	**(23,204)**	(26,037)	(21,124)
	5,134,759	**4,166,624**	3,919,397	3,071,094

Maturity analysis

Loans and advances to customers are repayable from the reporting date as follows:

	Group As at 31-Dec-15 £'000	**Bank As at 31-Dec-15 £'000**	Group As at 31-Dec-14 £'000	Bank As at 31-Dec-14 £'000
Less than three months	**108,472**	**100,771**	36,916	35,271
Three months to one year	**140,927**	**118,959**	14,538	11,268
One to five years	**326,800**	**217,084**	346,453	271,445
More than five years	**4,585,841**	**3,753,014**	3,547,527	2,774,234
	5,162,040	**4,189,828**	3,945,434	3,092,218
Less: provision for impairment losses on loans and advances (see note 16)	**(27,281)**	**(23,204)**	(26,037)	(21,124)
	5,134,759	**4,166,624**	3,919,397	3,071,094

The above analysis is based on contractual maturity and may not reflect actual experience of repayments, since many mortgage loans are repaid early.

During the year the Group purchased mortgage books from other financial institutions with a gross value of £244.0m for a total of £260.8m (2014: gross value £26m, purchase price £20m).

At 31 December 2015, mortgages with a carrying value of £283.7m (2014: £328.0m) were pledged under the Group's securitisation programme. A further £465.6m (2014: £nil) were pledged with the Bank of England under the FLS scheme. These mortgages cannot be sold or pledged further unless the Group defaults on its obligations.

Notes to the Financial Statements continued

For the year ended 31 December 2015

16. Provision for impairment losses on loans and advances

Movement in provision for impairment losses on loans and advances to customers is as follows:

2015:

Specific	BTL/SME £'000	Residential mortgages £'000	Personal loans £'000	Total £'000
Group				
At 1 January 2015	15,313	848	–	16,161
Write offs in year	(2,918)	(154)	–	(3,072)
Charge/(credit) for the year net of recoveries	4,888	231	–	5,119
At 31 December 2015	17,283	925	–	18,208
Bank				
At 1 January 2015	11,208	399	–	11,607
Write offs in year	(1,781)	(65)	–	(1,846)
Charge/(credit) for the year net of recoveries	4,991	(334)	–	4,657
At 31 December 2015	14,418	–	–	14,418

Collective	BTL/SME £'000	Residential mortgages £'000	Personal loans £'000	Total £'000
Group				
At 1 January 2015	116	1,791	7,969	9,876
Write offs in year	(53)	(2,684)	(3,563)	(6,300)
Charge/(credit) for the year net of recoveries	383	2,188	2,926	5,497
At 31 December 2015	446	1,295	7,332	9,073
Bank				
At 1 January 2015	48	1,500	7,969	9,517
Write offs in year	(53)	(2,684)	(3,563)	(6,300)
Charge/(credit) for the year net of recoveries	365	2,278	2,926	5,569
At 31 December 2015	360	1,094	7,332	8,786

Total	BTL/SME £'000	Residential mortgages £'000	Personal loans £'000	Total £'000
Group				
At 1 January 2015	15,429	2,639	7,969	26,037
Write offs in year	(2,971)	(2,838)	(3,563)	(9,372)
Charge/(credit) for the year net of recoveries	5,271	2,419	2,926	10,616
At 31 December 2015	17,729	2,220	7,332	27,281
Bank				
At 1 January 2015	11,256	1,899	7,969	21,124
Write offs in year	(1,834)	(2,749)	(3,563)	(8,146)
Charge/(credit) for the year net of recoveries	5,356	1,944	2,926	10,226
At 31 December 2015	14,778	1,094	7,332	23,204

16. Provision for impairment losses on loans and advances continued

2014:

Specific	BTL/SME £'000	Residential mortgages £'000	Personal loans £'000	Total £'000
Group				
At 1 January 2014	22,245	2,217	–	24,462
Write offs in year	(11,652)	(1,529)	–	(13,181)
Charge/(credit) for the year net of recoveries	4,720	160	–	4,880
At 31 December 2014	15,313	848	–	16,161
Bank				
At 1 January 2014	18,160	731	–	18,891
Write offs in year	(7,795)	(493)	–	(8,288)
Charge/(credit) for the year net of recoveries	843	161	–	1,004
At 31 December 2014	11,208	399	–	11,607

Collective	BTL/SME £'000	Residential mortgages £'000	Personal loans £'000	Total £'000
Group				
At 1 January 2014	115	858	2,098	3,071
Write offs in year	–	–	–	–
Charge/(credit) for the year net of recoveries	1	933	5,871	6,805
At 31 December 2014	116	1,791	7,969	9,876
Bank				
At 1 January 2014	24	780	2,098	2,902
Write offs in year	–	–	–	–
Charge/(credit) for the year net of recoveries	24	720	5,871	6,615
At 31 December 2014	48	1,500	7,969	9,517

Total	BTL/SME £'000	Residential mortgages £'000	Personal loans £'000	Total £'000
Group				
At 1 January 2014	22,360	3,075	2,098	27,533
Write offs in year	(11,652)	(1,529)	–	(13,181)
Charge/(credit) for the year net of recoveries	4,721	1,093	5,871	11,685
At 31 December 2014	15,429	2,639	7,969	26,037
Bank				
At 1 January 2014	18,184	1,511	2,098	21,793
Write offs in year	(7,795)	(493)	–	(8,288)
Charge/(credit) for the year net of recoveries	867	881	5,871	7,619
At 31 December 2014	11,256	1,899	7,969	21,124

Prior to 2014, the Group provided, but did not write off loans after the security assets were sold, if it was still pursuing further recovery. In 2014 such loans were written off.

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For the year ended 31 December 2015

17. Impairment losses

	Group Year ended 31-Dec-15 £'000	Group Year ended 31-Dec-14 £'000
Impairment losses on loans and advances to customers	**10,616**	11,685
	10,616	11,685

18. Investments in subsidiaries, intercompany loans and transactions with related parties

The balances between the Bank and its subsidiaries at the reporting date are summarised in the table below:

	As at 31-Dec-15	As at 31-Dec-14
Investments in subsidiaries and intercompany loans receivable	**944,479**	834,506
Deemed loan liability	**(169,466)**	(204,111)
Intercompany loans payable	**(4,929)**	(727)
	770,084	629,668

The net movement during the year is as follows:

2015	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
At 1 January	**3,476**	**626,192**	**629,668**
Additions	**–**	**221,092**	**221,092**
Reclassifications[1]	**(1,630)**	**1,630**	**–**
Repayments	**–**	**(80,676)**	**(80,676)**
At 31 December	**1,846**	**768,238**	**770,084**

1 During the year, indirect investments held through intermediary holding companies were reclassified to intercompany loans.

2014	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
At 1 January	3,476	454,754	458,230
Additions	–	242,418	242,418
Repayments	–	(70,980)	(70,980)
At 31 December	3,476	626,192	629,668

Below is the list of the Bank's subsidiaries:

2015	Class of shares	Activity	Country of registration	Ownership	Charged by (to) the Bank £'000	Balance due to (by) the Bank £'000
Cavenham Financial Services Ltd	Ordinary	Mortgage originator and servicer	England	100%	(1,703)	2,899
EasiOption BPO Services Private Ltd	Ordinary	Back office processing	India	100%	–	–
Easioption Ltd	Ordinary	Holding company	England	100%	–	507
OSB India Private Limited (Formerly Easiprocess Private Ltd)	Ordinary	Back office processing	India	100%	(378)	(571)
Guernsey Home Loans Ltd	Ordinary	Mortgage provider	England	100%	885	25,725
Guernsey Home Loans Ltd	Ordinary	Mortgage provider	Guernsey	100%	2,767	79,358
Heritable Development Finance Ltd[1]	Ordinary	Mortgage originator and servicer	England	85%	(858)	(544)
Interbay Group Holdings Ltd[2]	Ordinary	Mortgage provider	England	100%	10,658	489,564
Jersey Home Loans Ltd	Ordinary	Mortgage provider	England	100%	263	7,360
Jersey Home Loans Ltd	Ordinary	Mortgage provider	Jersey	100%	10,927	323,220
Prestige Finance Ltd	Ordinary	Mortgage originator and servicer	England	100%	(919)	(3,657)
Reliance Property Loans Ltd	Ordinary	Mortgage provider	England	100%	141	4,416
Rochester Financing No.1 Plc[3]	Ordinary	Securitisation entity	England	0%	–	(159,882)
Rochester Management Limited[4]	Ordinary	Securitisation entity	England	100%	–	–
Rochester Mortgage Holdings Limited	Ordinary	Securitisation entity	England	100%	–	–
Swingcastle Limited	Ordinary	Mortgage servicer	England	100%	(7)	(157)
					21,776	768,238

18. Investments in subsidiaries, intercompany loans and transactions with related parties continued

2014 (restated)	Class of shares	Activity	Country of registration	Ownership	Charged by (to) the Bank £'000	Balance due to (by) the Bank £'000
Cavenham Financial Services Ltd	Ordinary	Mortgage originator and servicer	England	100%	(2,535)	(3,281)
EasiOption BPO Services Private Ltd	Ordinary	Back office processing	India	100%	–	–
Easioption Ltd	Ordinary	Holding company	England	100%	–	–
Easiprocess Private Ltd	Ordinary	Back office processing	India	100%	(2,003)	(295)
Guernsey Home Loans Ltd	Ordinary	Mortgage provider	England	100%	1,027	29,462
Guernsey Home Loans Ltd	Ordinary	Mortgage provider	Guernsey	100%	3,141	95,295
Heritable Development Finance Ltd[1]	Ordinary	Mortgage originator and servicer	England	85%	–	1,534
Interbay Group Holdings Ltd[2]	Ordinary	Mortgage provider	England	100%	5,420	308,422
Jersey Home Loans Ltd	Ordinary	Mortgage provider	England	100%	320	8,178
Jersey Home Loans Ltd	Ordinary	Mortgage provider	Jersey	100%	12,490	383,405
Prestige Finance Ltd	Ordinary	Mortgage originator and servicer	England	100%	(62)	3,097
Reliance Property Loans Ltd	Ordinary	Mortgage provider	England	100%	146	4,733
Rochester Financing No.1 Plc[3]	Ordinary	Securitisation entity	England	0%	–	(204,111)
Swingcastle Limited	Ordinary	Mortgage servicer	England	100%	(6)	(247)
					17,939	626,192

1 Heritable Development Finance Ltd was set up in December 2013 with Heritable Capital Ltd as a business development partnership. The entity is majority owned and controlled by the Bank. It has minimal retained earnings and immaterial non-controling interest which is not presented separately in Group reserves.
2 Interbay Group Holdings Ltd (OSB IGH Ltd) is the Interbay group holding company.
3 Rochester Financing No. 1 Plc ("Rochester") is a securitisation entity established by the Bank in October 2013 to raise diversified funds. Although not legally owned by the Group, it is fully controlled and consequently consolidated as a 100% subsidiary. The balance payable at the reporting date comprises of the deemed loan liability of £169.5m less £9.6m receivable through the quarterly cash distribution mechanism included within investments in subsidiaries and intercompany loans.
4 Rochester Management Limited was incorporated on 23 December 2015 to be the legal entity holder for securitised mortgages, but did not trade in the year.

All of the above investments are reviewed annually for impairment. All of the subsidiaries are actively trading or are fully funded by the Bank. Based on management's assessment of the future cash flows of each entity, no impairment has been recognised.

In addition to the above subsidiaries, the Bank has transactions with Kent Reliance Provident Society (KRPS), one of its founding shareholders. KRPS runs member engagement forums for the Bank. In exchange, the Bank provides KRPS with various services including IT, finance and other support functions. During the year the Bank covered operating expenses of KRPS amounting to £0.2m.

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions. During the period there were no related party transactions between the key management personnel and the Bank other than as described below.

Transactions with Key Management Personnel

The Board considers the key management personnel to comprise Executive and Non-Executive Directors. Directors' remuneration is disclosed in note 7.

In 2014, the Group provided A Golding a mortgage of £802k, issued on standard terms and on an arm's length basis. The mortgage was fully repaid by 31 December 2014. No loans were issued to related parties during 2015.

Key management personnel and connected persons held deposits with the Group of £1,135k (2014: £86k).

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For the year ended 31 December 2015

19. Intangible assets

	Group Year ended 31-Dec-15 £'000	Bank Year ended 31-Dec-15 £'000	Group and Bank Year ended 31-Dec-14 £'000
Cost			
At 1 January	5,341	5,341	3,727
Reclassification from property, plant and equipment	1,188	–	–
Additions	1,265	1,178	1,614
Disposals and write offs	(2,155)	(2,155)	–
At 31 December	5,639	4,364	5,341
Amortisation			
At 1 January	3,036	3,036	2,610
Reclassification from property, plant and equipment	713	–	–
Charged in year	898	770	426
Disposals and write offs	(2,155)	(2,155)	–
At 31 December	2,492	1,651	3,036
Net book value			
At 31 December	3,147	2,713	2,305

Intangible assets consist of computer software. There were no capitalised costs related to the internal development of software during the period.

During the year fully depreciated assets were written off.

20. Property, plant and equipment

Group 2015	Freehold land and buildings £'000	Equipment, fixtures and vehicles £'000	Total £'000
Cost			
At 1 January 2015	1,440	9,520	10,960
Reclassification to intangible assets	–	(1,188)	(1,188)
Additions	4,852	2,993	7,845
Disposals and write offs	–	(5,505)	(5,505)
Translation difference	–	–	–
At 31 December 2015	6,292	5,820	12,112
Depreciation			
At 1 January 2015	264	7,592	7,856
Reclassification to intangible assets	–	(713)	(713)
Charged in year	75	751	826
Disposals and write offs	–	(5,505)	(5,505)
Translation difference	–	–	–
At 31 December 2015	339	2,125	2,464
Net book value			
At 31 December 2015	5,953	3,695	9,648

20. Property, plant and equipment continued

Bank 2015	Freehold land and buildings £'000	Equipment, fixtures and vehicles £'000	Total £'000
Cost			
At 1 January 2015	**1,440**	**5,935**	**7,375**
Additions	**2,544**	**2,749**	**5,293**
Disposals and write offs	**–**	**(4,093)**	**(4,093)**
At 31 December 2015	**3,984**	**4,591**	**8,575**
Depreciation			
At 1 January 2015	**264**	**4,668**	**4,932**
Charged in year	**75**	**665**	**740**
Disposals and write offs	**–**	**(4,093)**	**(4,093)**
At 31 December 2015	**339**	**1,240**	**1,579**
Net book value			
At 31 December 2015	**3,645**	**3,351**	**6,996**

Group 2014	Freehold land and buildings £'000	Equipment, fixtures and vehicles £'000	Total £'000
Cost			
At 1 January 2014	1,419	9,451	10,870
Reclassification to other assets	–	(2,747)	(2,747)
Cost and depreciation grossed up	–	1,428	1,428
Additions	21	1,345	1,366
Translation difference	–	43	43
At 31 December 2014	1,440	9,520	10,960
Depreciation			
At 1 January 2014	241	5,674	5,915
Cost and depreciation grossed up	–	1,428	1,428
Charged in year	23	447	470
Translation difference	–	43	43
At 31 December 2014	264	7,592	7,856
Net book value			
At 31 December 2014	1,176	1,928	3,104

Bank 2014	Freehold land and buildings £'000	Equipment, fixtures and vehicles £'000	Total £'000
Cost			
At 1 January 2014	1,419	5,042	6,461
Additions	21	893	914
At 31 December 2014	1,440	5,935	7,375
Depreciation			
At 1 January 2014	241	4,408	4,649
Charged in year	23	260	283
At 31 December 2014	264	4,668	4,932
Net book value			
At 31 December 2014	1,176	1,267	2,443

In 2014, certain items have been reclassified to other categories within the statement of financial position. In 2015, some items were reclassified from property, plant and equipment to intangible assets.

In 2014, fully depreciated fixed assets across the subsidiaries were recognised on a gross basis. In 2015, fully depreciated assets were written off.

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21. Deferred taxation

Deferred taxation asset	Group As at 31-Dec-15 £'000	Bank As at 31-Dec-15 £'000	Group As at 31-Dec-14 £'000	Bank As at 31-Dec-14 £'000
At 1st January	**3,563**	**574**	10,901	7,260
Profit or loss (charge)/credit	**(435)**	**(87)**	(7,453)	(6,801)
Tax taken to other comprehensive income and reserves	**273**	**273**	115	115
At 31 December	**3,401**	**760**	3,563	574
Analysed as:				
Losses carried forward	**2,435**	**–**	2,875	–
Accelerated depreciation	**227**	**21**	141	27
Share-based payments	**659**	**659**	598	598
Other	**80**	**80**	(51)	(51)
	3,401	**760**	3,563	574

On 1 April 2015, the corporation tax rate changed from 21% to 20%. This results in a weighted average rate for the year of 20.25% (2014: 21.5%).

In the 2015 Summer Budget, the UK Government announced the reduction of the main corporation tax rate from 20% to 19% from 1 April 2017 and from 19% to 18% from 1 April 2020. As these rates were substantively enacted at 31 December 2015, the deferred tax has been calculated using the relevant rates for the expected periods of utilisation.

As at 31 December 2015, the Group has £4.8m (2014: £4.8m) of losses for which deferred tax assets had not been recognised.

The Government also announced an additional 8% surcharge on banking profits over £25m, effective from 1 January 2016. The Bank's profits are expected to be subject to the surcharge however, subsidiaries' profits are not, which means their losses of prior years will not attract an additional tax relief. The deferred tax calculation does not take into account the surcharge effect.

22. Other assets

	Group As at 31-Dec-15 £'000	Bank As at 31-Dec-15 £'000	Group As at 31-Dec-14 £'000	Bank As at 31-Dec-14 £'000
Prepayments	**2,480**	**1,885**	3,205	3,160
Other assets	**9,333**	**3,536**	9,075	3,188
	11,813	**5,421**	12,280	6,348

23. Amounts owed to retail depositors

	Group and Bank As at 31-Dec-15 £'000	Group and Bank As at 31-Dec-14 £'000
Amounts owed to retail depositors	**5,363,792**	4,331,639

Repayable in the ordinary course of business as follows:

	Group and Bank As at 31-Dec-15	Group and Bank As at 31-Dec-14
On demand	**1,890,037**	1,432,528
Less than three months	**450,393**	208,435
Three months to one year	**1,903,208**	1,651,258
One to five years	**1,120,154**	1,039,418
	5,363,792	4,331,639

24. Amounts owed to credit institutions

Repayable in the ordinary course of business as follows:

	Group and Bank As at 31-Dec-15 £'000	Group and Bank As at 31-Dec-14 £'000
Less than three months	**1,518**	23,009
	1,518	23,009

As at 31 December 2014, amounts owed to credit institutions included an obligation of £20m to repurchase investment securities sold in a repo transaction, as disclosed in note 14.

25. Amounts owed to other customers

Repayable in the ordinary course of business as follows:

	Group and Bank As at 31-Dec-15 £'000	Group and Bank As at 31-Dec-14 £'000
Less than three months	**5,768**	4,353
One to five years	**110**	–
	5,878	4,353

26. Debt securities in issue

	Group As at 31-Dec-15 £'000	Bank As at 31-Dec-15 £'000	Group As at 31-Dec-14 £'000	Bank As at 31-Dec-14 £'000
One to five years	**188,350**	**–**	238,390	–
	188,350	**–**	238,390	–

Debt securities in issue comprise AAA and AA+ rated notes issued by Rochester Financing No. 1 Plc ('Rochester') and sold to third-party investors in 2013. Rochester is a mortgage securitisation entity established by the Bank in 2013. The Bank retained the remaining notes and residual certificates issued by Rochester and as such did not transfer substantially the risks and rewards of ownership of the securitised mortgages. These mortgages therefore remain on the Bank's balance sheet and the Group consolidates Rochester.

The notes sold originally had a nominal value of £273m, paid down to £188m as at 31 December 2015, and a final maturity date of July 2046, however the interest payable on the notes steps up from January 2018, with the holder of the majority of the residual certificates (currently the Bank) having the right to redeem the outstanding notes from this date. The Bank has an incentive to call at the step up date and the outstanding debt securities are expected to be settled at that date.

27. Other liabilities

	Group As at 31-Dec-15 £'000	Bank As at 31-Dec-15 £'000	Group As at 31-Dec-14 £'000	Bank As at 31-Dec-14 £'000
Falling due within one year				
Tax deducted at source from interest paid	**1,748**	**1,724**	1,111	1,111
Accruals and deferred income	**7,728**	**6,278**	5,694	5,341
Other creditors	**9,422**	**1,509**	6,804	2,676
	18,898	**9,511**	13,609	9,128

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28. FSCS and other provisions

The Financial Services Compensation Scheme ('FSCS') provides protection of deposits for the customers of authorised financial services firms, should a firm collapse. FSCS protects retail deposits of up to £85,000 for single account holders and up to £170,000 for joint holders. From the 1 January 2016, the protection decreases to £75,000 for single accounts holders and up to £150,000 for joint holders.

The compensation paid out to consumers is initially funded through loans from the Bank of England and HM Treasury. In order to repay the loans and cover its costs, the FSCS charges levies on firms regulated by the Prudential Regulation Authority and the Financial Conduct Authority. The Group is among those firms and pays FSCS a levy based on its share of total UK deposits. The FSCS levy is the main regulatory provision of the Group.

The ultimate FSCS levy to the industry as a result of the insolvencies cannot currently be estimated reliably as it is dependent on various uncertain factors including the potential recoveries of assets by the FSCS and changes in the level of protected deposits and the population of FSCS members at the time.

An analysis of FSCS and other provisions is presented below:

Group and Bank	**FSCS Year ended 31-Dec-15 £'000**	**Other provisions Year ended 31-Dec-15 £'000**	**Total Year ended 31-Dec-15 £'000**	FSCS Year ended 31-Dec-14 £'000	Other provisions Year ended 31-Dec-14 £'000	Total Year ended 31-Dec-14 £'000
As at 1 January	**1,484**	**114**	**1,598**	1,151	130	1,281
Paid during the year	**(2,658)**	**(1)**	**(2,659)**	(2,435)	(15)	(2,450)
Charge/(credit)	**3,395**	**–**	**3,395**	2,768	(1)	2,767
At 31 December	**2,221**	**113**	**2,334**	1,484	114	1,598

In accordance with IFRIC 21 interpretation of IAS 37, FSCS liability for 2015 will be recognised in 2016. The FSCS balance at the reporting date relates to the levy from previous years.

29. Subordinated liabilities

	Group and Bank As at 31-Dec-15 £'000	Group and Bank As at 31-Dec-14 £'000
Linked to LIBOR (London Interbank Offered Rate):		
Floating rate Subordinated Liabilities 2015	**–**	3,001
Floating rate Subordinated Liabilities 2016	**3,003**	3,003
Floating rate Subordinated Liabilities 2017	**5,655**	5,655
Floating rate Subordinated Loans 2022	**710**	708
Linked to the average standard mortgage rate of the five largest building societies:		
Floating rate Subordinated Liabilities 2017	**5,047**	5,047
Fixed rate:		
Subordinated Liabilities 2024	**10,159**	10,159
	24,574	27,573

Subordinated liabilities are repayable at the dates stated or earlier at the option of the Group with the prior consent of the Prudential Regulation Authority. All Subordinated Liabilities are denominated in sterling.

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

30. Perpetual Subordinated Bonds

	Group and Bank As at 31-Dec-15 £'000	Group and Bank As at 31-Dec-14 £'000
Sterling perpetual subordinated bonds	**15,308**	15,234

The bonds were issued with no discretion over the payment of interest and are therefore classified as financial liabilities. The coupon rate was 7.875% until the call date on 27 August 2014 after which it was reset to 5.9884% based on the 5 year gilt yield on 14 July 2014.

31. Share Capital

2015

Number of shares

Group and Bank	New ordinary shares
As at 1 January and 31 December	**243,079,965**

Group and Bank	£000's Value	Premium	Total
Ordinary shares	2,431	157,901	160,332

2014

Number of shares

Group and Bank	Ordinary A shares	Ordinary B shares	Ordinary E shares	Convertible Preference shares	New ordinary shares
As at 1 January	26,000	21,662	1,000	1,067,140	–
Capital reorganisation	(26,000)	(21,662)	(1,000)	(1,067,140)	218,638,200
IPO share issue	–	–	–	–	24,441,765
As at 31 December	–	–	–	–	243,079,965

There were no changes in the share capital in 2015.

In 2014, the Group reorganised its share capital in order to prepare for the public listing. The reorganisation involved an issue of interim shares, conversion, bonus issue and change of denomination. Ordinary B, E and preference shares regardless of nominal value were exchanged for the new £0.01 ordinary shares on a one-for-200 basis. Ordinary A shares were exchanged for 0.7m new shares, a proportion of about one A share for 26 new shares.

Ordinary B shares issued by OSB IGH Limited in connection with the Interbay acquisition and E shares issued by the Bank in connection with the Prestige acquisition with immaterial nominal value had value enhancement in the form of a put/call agreement with the sellers and loss protection provided by OSB Holdco Ltd, the Group shareholder. The value enhancement of £3.3m had been recognised as capital contribution.

Before the IPO, OSB Holdco Ltd bought out B and E shares at no cost to the Group. The shares were cancelled and their value enhancement kept in the capital contribution reserve, was reclassified to retained earnings.

During the IPO the Group issued and sold to the public 24.4m shares at £1.70 per share.

The capital reorganisation reduced KRPS's holding in the ordinary share capital of the Group to under 1%. As part of the reorganisation KRPS received an additional allocation of ordinary shares from OSB Holdco Ltd as consideration for the Bank's buy-out of the agency agreement to run a number of branches for the Bank in 2013. This transaction settled the Bank's liability of £0.7m and is recorded as a capital contribution in the statement of equity.

Perpetual Subordinated Bonds

In addition to the PSBs in note 30, the Bank has issued £22m PSBs which are classified as equity, as full discretion can be exercised by the Directors over the payment of the coupon. The classification of these PSBs means that any coupon payments on them are treated within retained earnings rather than through profit or loss.

Transfer reserve

The transfer reserve of £12.8m (Bank: £15.2m) represents the difference between the true value of net assets transferred to the Group from Kent Reliance Building Society in 2011 and the value of shares issued to the A ordinary shareholders.

AFS reserve

The AFS reserve of £(0.1)m (2014: £0.8m) represents the cumulative net change in the fair value of investment securities measured at fair value through other comprehensive income net of deferred tax.

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32. Financial commitments and guarantees

a) As at 31 December 2015, the Group's contracted or anticipated capital expenditure commitments not provided for amounted to £146k (2014: £3,373k). This consists of unfinished refurbishment of the new Indian office; 2014 consists of the cost and refurbishment of the new UK head office.

b) Operating lease commitments are summarised in the table below:

	Group As at 31-Dec-15 £'000	Bank As at 31-Dec-15 £'000	Group As at 31-Dec-14 £'000	Bank As at 31-Dec-14 £'000
Land and buildings: due within:				
One year	344	193	494	269
Two to five years	986	592	1,148	517
More than five years	–	–	14	14
	1,330	785	1,656	800

c) Undrawn mortgage loan facilities:

	Group As at 31-Dec-15 £'000	Bank As at 31-Dec-15 £'000	Group As at 31-Dec-14 £'000	Bank As at 31-Dec-14 £'000
As at 31 December	339,067	317,262	262,452	233,128

Undrawn loan facilities are approved loan applications which have not yet been exercised. They are payable on demand and are usually drawn down or expire within three months.

d) The Group did not have any issued financial guarantees as at 31 December 2015 (2014: Nil).

33. Risk management and financial instruments

Overview

Financial instruments form the vast majority of the Group's and Bank's assets and liabilities. The Group manages risk on a consolidated basis, and risk disclosures are provided on this basis.

Types of financial instrument

Financial instruments are a broad definition which includes financial assets, financial liabilities and equity instruments. The main financial assets of the Group are loans to customers and liquid assets which in turn consist of cash in the Bank of England Reserve account, call accounts with other credit institutions and UK and EU sovereign debt. These are funded by a combination of financial liabilities and equity instruments. Financial liability funding comes predominantly from retail deposits, supported by debt securities, subordinated debt, wholesale and other funding. Equity instruments include own shares and perpetual bonds meeting the equity classification criteria. The Group's main activity is mortgage and personal lending; it raises funds or invests in particular types of financial assets primarily in order to satisfy banking industry regulations and manage the risks arising from its operations. The Group does not trade in financial instruments for speculative purposes.

The Group uses derivative instruments to manage its financial risks. Derivative financial instruments ('derivatives') are financial instruments which value changes in response to changes in underlying variables such as interest rates, commodity or security prices, or indices. Typically the contract value of derivatives is much smaller than that of the instruments they relate to which makes them a convenient tool for benefiting from value changes without the need to buy or sell the whole underlying product. The most common derivatives comprise futures, forwards and swaps. Among these, the Group only uses swaps.

Derivatives are used by the Group solely to reduce ('hedge') the risk of loss arising from changes in market factors. Derivatives are not used for speculative purposes.

Types of derivatives and uses

The derivative instruments used by the Group in managing its risk exposures are interest rate swaps and basis rate swaps. Interest rate swaps convert fixed interest rates to floating or vice versa. Basis rate swaps perform a similar function by converting cash flows from one interest rate basis to another. As with other derivatives, the underlying product is not sold and payments are based on notional principal amounts.

Unhedged fixed rate liabilities create the risk of paying above-the-market rate if interest rates subsequently decrease. Unhedged fixed rate mortgages and liquid assets bear the opposite risk of earning below-the-market income when rates go up. While fixed rate assets and liabilities naturally hedge each other to a certain extent, this hedge is usually never balanced.

The Group uses swaps to convert its instruments, such as mortgages, deposits and liquid assets, from fixed or base rate-linked rates to LIBOR-linked variable rates. This ensures a guaranteed margin between the interest income and interest expense, regardless of changes in the market rates.

33. Risk management and financial instruments continued

Types of risk

The principal financial risks to which the Group is exposed are credit, liquidity and market risks, the latter comprising of interest and exchange rate risk. In addition to financial risks, the Group is exposed to various other risks, most notably operational, conduct and regulatory, covered in the Chief Risk Officer's Report.

The financial risks are analysed below.

Credit risk

Credit risk is the risk that unexpected losses may arise as a result of the Group's borrowers or market counterparties failing to meet their obligations to repay.

The Group has adopted the Standardised Approach for assessment of credit risk capital requirements. This approach considers risk weightings as defined under Basel II and Basel III principles.

The classes of financial instruments to which the Group is most exposed are loans and advances to customers, loans and advances to credit institutions, cash in the Bank of England Reserve account, call and current accounts with other credit institutions and investment securities. The maximum credit risk exposure equals to the total carrying amount of the above categories plus off-balance sheet undrawn mortgage facilities.

Credit risk – loans and advances to customers

Credit risk associated with mortgage lending is largely driven by the housing market and level of unemployment. A recession and/or high interest rates could cause pressure within the market, resulting in rising levels of arrears and repossessions.

All loan applications are assessed with reference to the Group's Lending Policy. Changes to the policy are approved by the Board, with mandates set for the approval of loan applications.

The Credit Committee and the ALCO regularly monitor lending activity, taking appropriate actions to re-price products and adjust lending criteria in order to control risk and manage exposure. Where necessary and appropriate, changes to the Lending Policy are recommended to the Risk Committee and the Board.

The following table shows an analysis of the lending portfolio by borrower type at the reporting date:

	Group As at 31-Dec-15		**Bank As at 31-Dec-15**	
	£'000	**%**	**£'000**	**%**
BTL/SME mortgages	**3,105,536**	**60%**	**2,442,516**	**58%**
Residential mortgages	**2,007,062**	**39%**	**1,697,870**	**41%**
Personal loans	**49,442**	**1%**	**49,442**	**1%**
Total loans before provisions	**5,162,040**	**100%**	**4,189,828**	**100%**

	Group As at 31-Dec-14		Bank As at 31-Dec-14	
	£'000	%	£'000	%
BTL/SME mortgages	2,064,905	52%	1,586,175	51%
Residential mortgages	1,763,391	45%	1,388,905	45%
Personal loans	117,138	3%	117,138	4%
Total loans before provisions	3,945,434	100%	3,092,218	100%

Notes to the Financial Statements continued

For the year ended 31 December 2015

33. Risk management and financial instruments continued

Property values are updated to reflect changes in the house price index. A breakdown of the table above by indexed loan to value is as follows:

Loan to value analysis by band:

Group	As at 31-Dec-15			
Band	BTL/SME £'000	Residential £'000	Total £'000	%
0 – 50%	**452,173**	**1,127,749**	**1,579,922**	**31%**
50% – 60%	**618,259**	**221,031**	**839,290**	**16%**
60% – 70%	**960,829**	**263,530**	**1,224,359**	**24%**
70% – 80%	**779,951**	**211,078**	**991,029**	**19%**
80% – 90%	**258,957**	**138,014**	**396,971**	**8%**
90% – 100%	**9,995**	**31,904**	**41,899**	**1%**
>100%	**25,372**	**13,756**	**39,128**	**1%**
Total mortgages before provisions	**3,105,536**	**2,007,062**	**5,112,598**	**100%**
Personal loans			**49,442**	
Total loans before provisions			**5,162,040**	

Bank	As at 31-Dec-15			
Band	BTL/SME £'000	Residential £'000	Total £'000	%
0 – 50%	**339,759**	**1,041,297**	**1,381,056**	**33%**
50% – 60%	**503,971**	**174,126**	**678,097**	**16%**
60% – 70%	**735,530**	**214,332**	**949,862**	**23%**
70% – 80%	**604,240**	**153,463**	**757,703**	**18%**
80% – 90%	**239,342**	**87,785**	**327,127**	**8%**
90% – 100%	**6,136**	**23,777**	**29,913**	**1%**
>100%	**13,538**	**3,090**	**16,628**	**0%**
Total mortgages before provisions	**2,442,516**	**1,697,870**	**4,140,386**	**100%**
Personal loans			**49,442**	
Total loans before provisions			**4,189,828**	

Group	As at 31-Dec-14			
Band	BTL/SME £'000	Residential £'000	Total £'000	%
0 – 50%	221,167	763,978	985,145	26%
50% – 60%	307,073	295,894	602,967	16%
60% – 70%	567,012	285,088	852,100	22%
70% – 80%	657,466	232,326	889,792	23%
80% – 90%	265,551	160,068	425,619	11%
90% – 100%	16,366	16,807	33,173	1%
>100%	30,270	9,230	39,500	1%
Total mortgages before provisions	2,064,905	1,763,391	3,828,296	100%
Personal loans			117,138	
Total loans before provisions			3,945,434	

Bank	As at 31-Dec-14			
Band	BTL/SME £'000	Residential £'000	Total £'000	%
0 – 50%	140,900	661,147	802,047	27%
50% – 60%	247,686	239,044	486,730	16%
60% – 70%	436,483	226,802	663,285	22%
70% – 80%	485,643	161,688	647,331	22%
80% – 90%	241,702	88,345	330,047	11%
90% – 100%	13,002	8,162	21,164	1%
>100%	20,759	3,717	24,476	1%
Total mortgages before provisions	1,586,175	1,388,905	2,975,080	100%
Personal loans			117,138	
Total loans before provisions			3,092,218	

33. Risk management and financial instruments continued

Analysis of mortgage portfolio by arrears and collateral held

The tables below provide further information on collateral in the mortgage portfolio by payment due status. Capped collateral only recognises collateral to the value of each individual mortgage and does not recognise over-collateralisation. The full collateral position is captured in the loan-to-value analysis above.

	Group As at 31-Dec-15		Bank As at 31-Dec-15	
	Loan balance £'000	**Capped collateral £'000**	**Loan balance £'000**	**Capped collateral £'000**
Not impaired:				
Not past due	**4,754,681**	**4,735,190**	**3,841,196**	**3,822,242**
Past due < 1 month	**158,542**	**158,393**	**136,014**	**136,014**
Past due 1 to 3 months	**72,892**	**72,891**	**63,889**	**63,888**
Past due 3 to 6 months	**33,308**	**32,930**	**31,202**	**30,824**
Past due 6 to 12 months	**24,529**	**24,523**	**19,040**	**19,034**
Past due over 12 months	**21,772**	**21,702**	**18,296**	**18,258**
Possessions[1]	**1,342**	**1,342**	**869**	**869**
	5,067,066	**5,046,971**	**4,110,506**	**4,091,129**
Impaired[2]:				
Not past due	**13,455**	**13,020**	**13,050**	**12,615**
Past due < 1 month	**121**	**121**	**–**	**–**
Past due 1 to 3 months	**899**	**899**	**–**	**–**
Past due 3 to 6 months	**2,161**	**2,046**	**521**	**521**
Past due 6 to 12 months	**5,349**	**4,518**	**2,779**	**1,994**
Past due over 12 months	**12,410**	**9,649**	**9,151**	**6,576**
Possessions	**11,137**	**10,242**	**4,379**	**4,379**
Total mortgages before provisions	**45,532**	**40,495**	**29,880**	**26,085**
Personal loans	**49,442**		**49,442**	
Total loans before provisions	**5,162,040**		**4,189,828**	

	Group As at 31-Dec-14		Bank As at 31-Dec-14	
	Loan balance Restated £'000	Capped collateral Restated £'000	Loan balance Restated £'000	Capped collateral Restated £'000
Not impaired:				
Not past due	3,413,038	3,410,263	2,624,045	2,622,909
Past due < 1 month	211,630	211,546	185,513	185,442
Past due 1 to 3 months	72,949	72,282	62,515	62,255
Past due 3 to 6 months	50,586	50,029	44,608	44,260
Past due 6 to 12 months	22,440	22,234	16,955	16,947
Past due over 12 months	16,263	16,107	9,903	9,862
Possessions[1]	1,431	1,368	763	763
	3,788,318	3,783,829	2,944,301	2,942,438
Impaired[2]:				
Not past due	12,308	11,787	11,916	11,396
Past due < 1 month	677	602	–	–
Past due 1 to 3 months	836	744	–	–
Past due 3 to 6 months	–	–	–	–
Past due 6 to 12 months	2,678	1,954	2,678	1,954
Past due over 12 months	11,779	8,217	11,779	8,217
Possessions	11,681	10,041	4,406	4,268
Total mortgages before provisions	39,959	33,345	30,779	25,835
Personal loans	117,138		117,138	
Total loans before provisions	3,945,434		3,092,218	

1 Mortgages with properties in possession are not considered impaired if the fair value of collateral exceeds the value of debt.
2 Impaired is defined as loans with a specific provision against them.

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33. Risk management and financial instruments continued

Below is a summary of capped collateral:

	Group As at 31-Dec-15		Bank As at 31-Dec-15	
	Loan balance £'000	**Capped collateral £'000**	**Loan balance £'000**	**Capped collateral £'000**
Not past due and not impaired	**4,754,681**	**4,735,190**	**3,841,195**	**3,822,242**
Past due but not impaired	**312,385**	**311,781**	**269,311**	**268,887**
Impaired	**45,532**	**40,495**	**29,880**	**26,085**
Total mortgages before provisions	**5,112,598**	**5,087,466**	**4,140,386**	**4,117,214**
Personal loans	**49,442**	–	**49,442**	–
Total loans before provisions	**5,162,040**	–	**4,189,828**	–

	Group As at 31-Dec-14		Bank As at 31-Dec-14	
	Loan balance £'000	Capped collateral £'000	Loan balance £'000	Capped collateral £'000
Not past due and not impaired	3,397,241	3,392,717	2,597,347	2,594,898
Past due but not impaired	391,072	389,325	346,931	345,916
Impaired	39,983	33,347	30,802	25,836
Total mortgages before provisions	3,828,296	3,815,389	2,975,080	2,966,650
Personal loans	117,138		117,138	
Total loans before provisions	3,945,434		3,092,218	

Analysis of personal loans by arrears

The arrears analysis of unsecured personal loans is provided in the table below:

Group and Bank	**As at 31-Dec-15 £'000**	As at 31-Dec-14 £'000
Not impaired:		
Not past due	**40,906**	107,161
Past due up to 3 months	**1,086**	1,588
Past due 3 to 6 months	**955**	1,197
Past due 6 to 12 months	**1,542**	3,085
Past due over 12 months	**4,953**	4,107
	49,442	117,138

33. Risk management and financial instruments continued

Geographical analysis by region

An analysis of loans by region is provided below:

Region	Group As at 31-Dec-15 £'000	Group As at 31-Dec-15 %	Bank As at 31-Dec-15 £'000	Bank As at 31-Dec-15 %
East Anglia	146,906	3%	131,924	3%
East Midlands	173,625	3%	140,681	3%
Greater London	2,116,432	42%	1,872,050	45%
Guernsey	110,454	2%	–	–
Jersey	340,237	7%	–	–
North East	73,975	1%	65,091	2%
North West	247,906	5%	213,486	5%
Northern Ireland	15,651	0%	15,220	0%
Scotland	64,653	1%	63,704	2%
South East	1,020,641	21%	938,315	23%
South West	324,204	6%	288,395	7%
Wales	105,549	2%	95,279	2%
West Midlands	257,033	5%	230,706	6%
Yorks & Humberside	115,332	2%	85,535	2%
Total mortgages before provisions	5,112,598	100%	4,140,386	100%
Personal loans	49,442		49,442	
Total loans before provisions	5,162,040		4,189,828	

Region	Group As at 31-Dec-14 £'000	Group As at 31-Dec-14 %	Bank As at 31-Dec-14 £'000	Bank As at 31-Dec-14 %
East Anglia	110,686	3%	98,819	3%
East Midlands	145,158	4%	121,975	4%
Greater London	1,387,227	39%	1,254,682	42%
Guernsey	133,496	3%	–	–
Jersey	398,804	10%	–	–
North East	53,645	1%	48,075	2%
North West	193,087	5%	170,410	6%
Northern Ireland	12,041	0%	11,604	0%
Scotland	52,336	1%	51,311	2%
South East	740,862	19%	686,010	23%
South West	236,463	6%	218,545	7%
Wales	85,260	2%	75,116	3%
West Midlands	185,675	5%	168,307	6%
Yorks & Humberside	93,556	2%	70,226	2%
Total mortgages before provisions	3,828,296	100%	2,975,080	100%
Personal loans	117,138		117,138	
Total loans before provisions	3,945,434		3,092,218	

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33. Risk management and financial instruments continued

Credit risk – investment securities and loans and advances to credit institutions

The Group holds treasury instruments in order to meet liquidity requirements and for general business purposes. The credit risk arising from these investments is closely monitored and managed by the Group's Treasury department. In managing these assets, Group treasury operates within guidelines laid down in the Treasury Policy approved by the Board and performance is monitored and reported to ALCO monthly, including through the use of an internally developed rating model based on counterparty credit default swap spreads.

The Group has limited exposure to emerging markets (Indian operations) and non-investment-grade debt. The ALCO is responsible for approving Treasury counterparties.

During the year, the average balance of cash in hand, loans and advances to credit institutions and investment securities on a monthly basis was £702,970k (2014: £753,921k).

	Group					
As at 31-Dec-15	**AAA £'000**	**AA £'000**	**A £'000**	**Less than A rating £'000**	**Unrated £'000**	**Total £'000**
Bank of England[1]	**311,520**	**–**	**–**	**–**	**–**	**311,520**
Call accounts	**–**	**29,425**	**2,442**	**9,910**	**1,394**	**43,171**
Floating rate notes	**34,102**	**–**	**–**	**–**	**–**	**34,102**
Treasury bills	**359,280**	**–**	**–**	**–**	**–**	**359,280**
Total	**704,902**	**29,425**	**2,442**	**9,910**	**1,394**	**748,073**
Percentages	**94%**	**5%**	**0%**	**1%**	**0%**	**100%**

	Bank					
As at 31-Dec-15	**AAA £'000**	**AA £'000**	**A £'000**	**Less than A rating £'000**	**Unrated £'000**	**Total £'000**
Bank of England[1]	**311,520**	**–**	**–**	**–**	**–**	**311,520**
Call accounts	**–**	**1**	**2,442**	**9,419**	**–**	**11,862**
Floating rate notes	**34,102**	**–**	**–**	**–**	**–**	**34,102**
Treasury bills	**359,280**	**–**	**–**	**–**	**–**	**359,280**
Total	**704,902**	**1**	**2,442**	**9,419**	**–**	**716,764**
Percentages	**98%**	**0%**	**1%**	**1%**	**0%**	**100%**

	Group					
2014	AAA £'000	AA £'000	A £'000	Less than A rating £'000	Unrated £'000	Total £'000
Bank of England[1]	568,756	–	–	–	–	568,756
Call accounts	–	34,279	110,205	54,078	–	198,562
Floating rate notes	34,348	–	–	–	–	34,348
Treasury bills	123,833	–	–	–	–	123,833
Other securities	–	–	–	416	–	416
Total	726,937	34,279	110,205	54,494	–	925,915
Percentages	79%	4%	12%	5%	0%	100%

	Bank					
2014	AAA £'000	AA £'000	A £'000	Less than A rating £'000	Unrated £'000	Total £'000
Bank of England[1]	568,756	–	–	–	–	568,756
Call accounts	–	–	110,205	48,501		158,706
Floating rate notes	34,348	–	–	–	–	34,348
Treasury bills	123,833	–	–	–	–	123,833
Other securities	–	–	–	416	–	416
Total	726,937	–	110,205	48,917	–	886,059
Percentages	82%	0%	12%	6%	0%	100%

1 Balances with the Bank of England include £8.2m (2014: £5.9m) held in the Cash Ratio Deposit.

33. Risk management and financial instruments continued

Industry sector/asset class

As at 31-Dec-15	Group £'000	Group %	Bank £'000	Bank %
Bank of England[1]	**311,520**	**42%**	**311,520**	**43%**
Other banks	**43,171**	**6%**	**11,862**	**2%**
Central governments	**359,280**	**47%**	**359,280**	**50%**
Supranationals	**34,102**	**5%**	**34,102**	**5%**
Total	**748,073**	**100%**	**716,764**	**100%**

2014	Group £'000	Group %	Bank £'000	Bank %
Bank of England[1]	568,756	62%	568,756	64%
Other banks	198,966	21%	159,110	18%
Central governments	56,216	6%	56,216	6%
Supranationals	101,977	11%	101,977	12%
Total	925,915	100%	886,059	100%

1 Balances with the Bank of England include £8.2m (2014: £5.9m) held in the Cash Ratio Deposit.

Geographical exposure

As at 31-Dec-15	Group £'000	Group %	Bank £'000	Bank %
United Kingdom	**683,153**	**91%**	**682,662**	**95%**
Rest of Europe	**34,102**	**5%**	**34,102**	**5%**
Australia	**29,424**	**4%**	**–**	**–**
India	**1,394**	**0%**	**–**	**–**
Total	**748,073**	**100%**	**716,764**	**100%**

2014	Group £'000	Group %	Bank £'000	Bank %
United Kingdom	789,119	85%	784,082	88%
Rest of Europe	101,977	11%	101,977	12%
Australia	31,954	4%	–	0%
India	2,865	0%	–	0%
Total	925,915	100%	886,059	100%

The Group monitors exposure concentrations against a variety of criteria, including asset class, sector and geography. To avoid refinancing risks associated with any one counterparty, sector or geographical region, the Board has set appropriate limits. These are contained in the Treasury Policy.

Liquidity risk

Liquidity risk is the risk of having insufficient liquid assets to fulfil obligations as they become due or the cost of raising liquid funds becoming too expensive.

The Group's approach to managing liquidity risk is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets and control of the growth of the business. The Group has established a Reserve account with the Bank of England and has access to its Contingent Liquidity Facilities.

Liquidity management is the responsibility of the ALCO, with day-to-day management delegated to Treasury as detailed in the Treasury Policy. The ALCO is responsible for setting limits over the level and maturity profile of wholesale funding and for monitoring the composition of the Group financial position. For each material class of financial liability a contractual maturity analysis is provided in notes 23 to 29.

An Asset Encumbrance Policy has also been approved with encumbrance levels monitored monthly at ALCO.

The Group also monitors a range of numeric triggers, defined in the Contingency Funding Plan ('CFP') and Recovery and Resolution Plan ('RRP'), which are designed to capture liquidity stresses in advance in order to allow sufficient time for management action to take effect.

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33. Risk management and financial instruments continued

These are monitored daily by the Risk team, with breaches immediately reported to the Chief Risk Officer, Deputy Chief Risk Officer, CEO, CFO and Head of Treasury.

The following table provides an analysis of the Group's gross contractual cash flows payable under financial liabilities:

	Group				
As at 31-Dec-15	**Up to 3 months £'000**	**3–12 months £'000**	**1–5 years £'000**	**More than 5 years £'000**	**Total £'000**
Amounts owed to retail depositors	**2,304,459**	**1,974,401**	**1,182,601**	**–**	**5,461,461**
Amounts owed to credit institutions and other customers	**6,892**	**–**	**111**	**–**	**7,003**
Debt securities in issue	**9,603**	**37,684**	**146,597**	**–**	**193,884**
Derivative financial instruments	**736**	**5,271**	**7,192**	**8,332**	**21,531**
Other liabilities	**18,898**	**–**	**–**	**–**	**18,898**
Subordinated liabilities	**281**	**8,756**	**16,742**	**734**	**26,513**
Perpetual subordinated bonds	**298**	**890**	**4,728**	**15,000**	**20,916**
Total liabilities	**2,341,167**	**2,027,002**	**1,357,971**	**24,066**	**5,750,206**
Off balance sheet loan commitments	**339,067**	**–**	**–**	**–**	**339,067**

	Bank				
As at 31-Dec-15	**Up to 3 months £'000**	**3–12 months £'000**	**1–5 years £'000**	**More than 5 years £'000**	**Total £'000**
Amounts owed to retail depositors	**2,304,459**	**1,974,401**	**1,182,601**	**–**	**5,461,461**
Amounts owed to credit institutions and other customers	**6,892**	**–**	**111**	**–**	**7,003**
Derivative financial instruments	**736**	**5,271**	**7,192**	**8,332**	**21,531**
Other liabilities	**9,511**	**–**	**–**	**–**	**9,511**
Subordinated liabilities	**281**	**8,756**	**16,742**	**734**	**26,513**
Perpetual subordinated bonds	**298**	**890**	**4,728**	**15,000**	**20,916**
Total liabilities	**2,322,177**	**1,989,318**	**1,211,374**	**24,066**	**5,546,935**
Off balance sheet loan commitments	**317,262**	**–**	**–**	**–**	**317,262**

	Group				
2014	Up to 3 months £'000	3–12 months £'000	1–5 years £'000	More than 5 years £'000	Total £'000
Amounts owed to retail depositors (restated)	1,641,829	1,664,447	1,083,448	–	4,389,724
Amounts owed to credit institutions and other customers	27,079	–	–	–	27,079
Debt securities in issue (restated)	11,827	35,733	203,680	–	251,240
Derivative financial instruments	785	4,491	12,234	8,088	25,598
Other liabilities	13,609	–	–	–	13,609
Subordinated liabilities	297	3,878	25,759	752	30,686
Perpetual subordinated bonds	295	890	4,728	15,000	20,913
Total liabilities	1,695,721	1,709,439	1,329,849	23,840	4,758,849
Off balance sheet loan commitments	262,452	–	–	–	262,452

	Bank				
2014	Up to 3 months £'000	3–12 months £'000	1–5 years £'000	More than 5 years £'000	Total £'000
Amounts owed to retail depositors (restated)	1,641,829	1,664,447	1,083,448	–	4,389,724
Amounts owed to credit institutions and other customers	27,079	–	–	–	27,079
Derivative financial instruments	785	4,491	12,234	8,088	25,598
Other liabilities	9,128	–	–	–	9,128
Subordinated liabilities	297	3,878	25,759	752	30,686
Perpetual subordinated bonds	295	890	4,728	15,000	20,913
Total liabilities	1,679,413	1,673,706	1,126,169	23,840	4,503,128
Off balance sheet loan commitments	233,128	–	–	–	233,128

The actual repayment profile of retail deposits may differ from the analysis above due to the option of early withdrawal with a penalty.

33. Risk management and financial instruments continued

Market risk

Market risk is the risk of an adverse change in Group income or the Group's net worth arising from movement in interest rates, exchange rates or other market prices. Market risk exists, to some extent, in all the Group's businesses. The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings and preservation of shareholder value.

Interest rate risk

The primary market risk faced by the Group is interest rate risk. Interest rate risk is the risk 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. The Group measures Interest Rate risk using fourteen different interest rate curve shift scenarios designed to emulate a full range of market movements. These fourteen 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.

Exposure is mitigated on a continuous basis through the use of derivatives within limits set by the ALCO and the Board (currently 1.5% of Common Equity Tier 1 Capital). After taking into account the derivatives entered into by the Group and reserve allocations a parallel interest rate movement of 2% would have an impact of £0.2m (2014: £2.4m gain) in the statement of profit or loss and £0.2m (2014: £0.9m) in equity.

There is no material difference between the interest rate risk profile for the Group and that for the Bank.

Foreign exchange rate risk

The Group has limited exposure to foreign exchange risk in respect of its Indian operations. A 5% movement in exchange rates would result in £0.1m (2014: £0.1m) effect in profit and loss and £0.2m (2014: £0.2m) in equity.

The Bank is not exposed to foreign exchange risk since all its assets and liabilities are expressed in pounds sterling.

Structured entities

The only structured entity within the Group, Rochester Financing No.1 Plc ('Rochester'), holds legal title to a pool of mortgages which are used as a security for issued debt. The transfer of mortgages fails derecognition criteria because the Bank retained the remaining notes and residual certificates issued and as such did not transfer substantially the risks and rewards of ownership of the securitised mortgages. Therefore, the Group is exposed to the credit, interest rate and other risks on the securitised mortgages to the same extent as on the other mortgages. It mitigates these risks on a Group basis as discussed throughout this note.

Cash flows generated from the mortgages securitised within Rochester Financing No.1 Plc are ring-fenced, i.e. can only be used to pay interest and principal of the issued debt securities in a waterfall order according to the seniority of bonds. The securitisation vehicle is self-funded and the Group is not contractually or constructively obliged to provide it further liquidity or financial support. The maximum loss exposure at any point in time is the amount of cash and cash equivalents held in Rochester.

Fair value adjustments for hedged risk

This represents the fair value adjustments to the carrying value of financial assets and liabilities as a result of portfolio hedging.

Notes to the Financial Statements continued

For the year ended 31 December 2015

33. Risk management and financial instruments continued

Fair values of financial assets and financial liabilities

The following tables give a comparison of book and fair values of the Group's financial assets and liabilities at the reporting date.

	Group					
			Fair value			
2015	Carrying amount £'000	Principal amount £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial instruments measured at fair value						
Financial assets						
Investment securities	393,382	394,000	393,382	–	–	393,382
Derivative assets	996	469,350	–	996	–	996
	394,378	863,350	393,382	996	–	394,378
Financial liabilities						
Derivative liabilities	(19,791)	(2,022,850)	–	(19,791)	–	(19,791)
Financial instruments not measured at fair value						
Financial assets						
Cash in hand	363	363	–	363	–	363
Loans and advances to credit institutions	354,691	350,461	–	354,691	–	354,691
Loans and advances to customers	5,134,759	5,307,410	–	–	5,459,258	5,459,258
	5,489,813	5,658,234	–	355,054	5,459,258	5,814,312
Financial liabilities						
Amounts owed to retail depositors	(5,363,792)	(5,317,331)	–	(5,405,272)	–	(5,405,272)
Amounts owed to credit institutions	(1,518)	(1,377)	–	(1,416)	–	(1,416)
Amounts owed to other customers	(5,878)	(5,580)	–	(5,586)	–	(5,586)
Debt securities in issue	(188,350)	(187,775)	–	–	(188,490)	(188,490)
Subordinated liabilities	(24,574)	(24,353)	–	(25,140)	–	(25,140)
Perpetual subordinated bonds	(15,308)	(15,000)	–	(17,828)	–	(17,828)
	(5,599,420)	(5,551,416)	–	(5,455,242)	(188,490)	(5,643,732)

	Bank					
			Fair value			
2015	Carrying amount £'000	Principal amount £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial instruments measured at fair value						
Financial assets						
Investment securities	393,382	394,000	393,382	–	–	393,382
Derivative assets	996	469,350	–	996	–	996
	394,378	863,350	393,382	996	–	394,378
Financial liabilities						
Derivative liabilities	(19,791)	(2,022,850)	–	(19,791)	–	(19,791)
Financial instruments not measured at fair value						
Financial assets						
Cash in hand	362	362	–	362	–	362
Loans and advances to credit institutions	323,382	319,152	–	323,382	–	323,382
Loans and advances to customers	4,166,624	4,331,542	–	–	4,462,026	4,462,026
Investments in group undertakings	944,479	944,479	–	944,479	–	944,479
	5,434,847	5,595,535	–	1,268,223	4,462,026	5,730,249
Financial liabilities						
Amounts owed to retail depositors	(5,363,792)	(5,317,331)	–	(5,405,272)	–	(5,405,272)
Amounts owed to credit institutions	(1,518)	(1,377)	–	(1,416)	–	(1,416)
Amounts owed to other customers	(5,878)	(5,580)	–	(5,586)	–	(5,586)
Debt securities in issue	–	–	–	–	–	–
Subordinated liabilities	(24,574)	(24,353)	–	(25,140)	–	(25,140)
Perpetual subordinated bonds	(15,308)	(15,000)	–	(17,828)	–	(17,828)
	(5,411,070)	(5,363,641)	–	(5,455,242)	–	(5,455,242)

33. Risk management and financial instruments continued

	Group					
			Fair value			
2014	Carrying amount £'000	Principal amount £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial instruments measured at fair value						
Financial assets						
Investment securities	158,597	155,871	158,181	416	–	158,597
Derivative assets	937	553,173	–	937	–	937
	159,534	709,044	158,181	1,353	–	159,534
Financial liabilities						
Derivative liabilities	(25,447)	(1,825,928)	–	(25,447)	–	(25,447)
Financial instruments not measured at fair value						
Financial assets						
Cash in hand	288	288	–	288	–	288
Loans and advances to credit institutions	767,318	766,257	–	767,318	–	767,318
Loans and advances to customers	3,919,397	3,945,435	–	–	4,297,190	4,297,190
	4,687,003	4,711,980	–	767,606	4,297,190	5,064,796
Financial liabilities			–			
Amounts owed to retail depositors	(4,331,639)	(4,291,221)	–	(4,377,204)	–	(4,377,204)
Amounts owed to credit institutions	(23,009)	(22,997)	–	(23,009)	–	(23,009)
Amounts owed to other customers	(4,353)	(4,060)	–	(4,353)	–	(4,353)
Debt securities in issue	(238,390)	(237,722)	–	–	(238,390)	(238,390)
Subordinated liabilities	(27,573)	(27,353)	–	(28,703)	–	(28,703)
Perpetual Subordinated Bonds	(15,234)	(15,000)	–	(18,500)	–	(18,500)
	(4,640,198)	(4,598,353)	–	(4,451,769)	(238,390)	(4,690,159)

	Bank					
			Fair value			
2014	Carrying amount £'000	Principal amount £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial instruments measured at fair value						
Financial assets						
Investment securities	158,597	155,871	158,181	416	–	158,597
Derivative assets	937	553,173	–	937	–	937
	159,534	709,044	158,181	1,353	–	159,534
Financial liabilities						
Derivative liabilities	(25,447)	(1,825,928)	–	(25,447)	–	(25,447)
Financial instruments not measured at fair value						
Financial assets						
Cash in hand	288	288	–	288	–	288
Loans and advances to credit institutions	727,462	726,401	–	727,462	–	727,462
Loans and advances to customers	3,071,094	3,256,562	–		3,367,119	3,367,119
Investments in group undertakings	834,506	834,506	–	834,506	–	834,506
	4,633,350	4,817,757	–	1,562,256	3,367,119	4,929,375
Financial liabilities			–			
Amounts owed to retail depositors	(4,331,639)	(4,291,221)	–	(4,377,204)	–	(4,377,204)
Amounts owed to credit institutions	(23,009)	(22,997)	–	(23,009)	–	(23,009)
Amounts owed to other customers	(4,353)	(4,060)	–	(4,353)	–	(4,353)
Debt securities in issue	–	–	–	–	–	–
Subordinated liabilities	(27,573)	(27,353)	–	(28,703)	–	(28,703)
Perpetual Subordinated Bonds	(15,234)	(15,000)	–	(18,500)	–	(18,500)
	(4,401,808)	(4,360,631)	–	(4,451,769)	–	(4,451,769)

At the reporting date, all derivatives were covered by master netting agreements. In the absence of such agreements a grossing up adjustment of £2.4m (2014: £3.3m) would be required.

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For the year ended 31 December 2015

33. Risk management and financial instruments continued

Fair values are determined using the following fair value hierarchy that reflects the significance and observability of the inputs used in making the measurements:

Level 1

These are valuation techniques that are based entirely on quoted market prices in an actively traded market and are the most reliable.

Level 2

These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are quoted prices available for similar instruments in active markets.

The management use LIBOR curves to value its derivatives, however, using OIS curves would not materially change their value. The fair value of the Group's derivative financial instruments incorporates credit valuation adjustments (CVA) and debit valuation adjustments (DVA). The DVA and CVA take into account the respective credit ratings and whether the derivative is collateralised or not.

In considering which similar instruments to use, management take into account the sensitivity of the instrument to changes in market rates and the credit quality of the instrument.

Basis risk derivatives are valued using discounted cash flow models and observable market data and will be sensitive to benchmark interest rate curves.

Level 3

These are valuation techniques for which any one or more significant input is not based on observable market data.

Valuation techniques for level 3 instruments may include net present value models, comparison to similar instruments with observable prices, Black-Scholes and other methods.

As disclosed in the tables above, financial instruments with fair value measured at level 3 include loans and advances to customers and debt securities in issue. Neither loans to customers nor debt securities in issue are measured at fair value in the statement of financial position.

Loans to customers belong to this level because their valuation uses unobservable inputs on collectability rates and redemption profiles. Their fair value is calculated using modelled receipts of interest and principal which are discounted at market rates.

Debt securities in issue are classified as level 3 because their principal is repaid using the cash flows from the underlying securitised mortgages, which in turn use the same unobservable inputs on collectability rates and redemption profiles. The fair value of issued debt securities is calculated using modelled payments of interest and principal discounted at market rates for similar instruments.

34. Pension scheme

Defined contribution scheme

The amount charged to profit or loss in respect of contributions to the Group's defined contribution and stakeholder pension arrangements is the contribution payable in the period. The total pension cost in the year amounted to £1,082k (2014: £871k).

Defined benefit scheme

KRBS operated a defined benefit pension scheme (the Scheme) funded by the payment of contributions to a separately administered fund for nine retired members. The Society's Board decided to close the Scheme with effect from 31 December 2001 and introduced a new defined contribution scheme to cover service of Scheme members from 1 January 2002.

The Scheme Trustees, having taken actuarial advice, decided to wind up the Scheme rather than continue to operate it on a "paid up" basis. The winding up is largely complete. As at 31 December 2015 the liability to remaining members is £2k (31 December 2014: £2k) matched by Scheme assets.

35. Capital Management

The Group is governed by its Capital Management Policy. The objectives of the Bank's Capital Management Policy are to efficiently manage the capital base to optimise shareholder returns whilst maintaining capital adequacy and satisfying key stakeholders such as customers and regulators.

The Bank's prime objectives in relation to the management of capital are to comply with the requirements set out by the Prudential Regulation Authority (PRA), the Bank's primary prudential supervisor, to provide a sufficient capital base to cover business risks and support future business development.

Capital management is based on the three "pillars" of Basel II: Under Pillar 1, the Bank calculates its minimum capital requirements based on 8% of risk weighted assets. The Prudential Regulation Authority then applies a multiplier to this amount to cover risks under Pillar 2 of Basel II and generate an Individual Capital Guidance (ICG). As instructed by the PRA, the Bank manages and reports its capital on a solo consolidated basis and hence the Bank's capital position is not disclosed separately.

35. Capital Management continued

The group's Pillar 1 capital information is presented in this note. To comply with Pillar 2, the group completes an annual self-assessment of risks known as the 'Internal Capital Adequacy Assessment Process' ('ICAAP') reviewed by the PRA. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on that firm's capital, risk exposures and risk assessment process. The group's Pillar 3 disclosures can be found on the group's website.

On 1 January 2014, a new set of rules, Basel III came into force through the Capital Requirements Directive and Regulation ('CRD IV'). Basel III complements and enhances Basels I and II with additional safety measures. Basel III changed definitions of regulatory capital, introduced new capital buffers and liquidity ratios, and modified the way regulatory capital is calculated.

The ultimate responsibility for capital adequacy rests with the Board of Directors. The Bank's ALCO, which consists of the Chief Executive Officer, Chief Financial Officer and other senior executives, is responsible for the management of the capital process including approving policy, overseeing internal controls and setting internal limits over capital ratios.

The Bank actively manages its capital position and reports this on a regular basis to senior management via the ALCO and other governance committees. Capital requirements are included within budgets, reforecast and strategic plans with initiatives being executed against this plan.

During the period the Group complied with the capital requirements set out by the PRA.

	As at 31-Dec-15 £'000	As at 31-Dec-14 £'000
Common equity tier 1 capital		
Called up share capital	**2,431**	2,431
Share premium, capital contribution and share-based payment reserve	**164,392**	162,369
Retained earnings	**122,924**	60,886
Transfer reserve	**(12,818)**	(12,818)
Other reserves	**(115)**	785
Deductions from common equity tier 1 capital		
Intangible assets	**(2,908)**	(2,305)
Deferred tax asset	**(1,919)**	(3,563)
Common equity tier 1 capital	**271,987**	207,785
Total Tier 1 Capital	**271,987**	207,785
Tier 2 capital		
Subordinated debt	**50,666**	54,219
Collective Provisions	**9,073**	9,876
Deductions from tier 2 capital	**(3,000)**	(2,000)
Total Tier 2 Capital	**56,739**	62,095
Total regulatory capital	**328,726**	269,880

The Bank has solo consolidation waivers for most of its subsidiaries. The impact of this has been included in the above table.

36. Operating segments

The Group operates under three segments:

1. **Buy-to-Let/SME:** secured lending on property for investment and commercial purposes.
2. **Residential Mortgages:** lending to customers who live in their own homes, secured either via first or second charges against the residential home.
3. **Personal Loans:** unsecured lending, which currently comprises solely the acquisition of the former Northern Rock performing consumer finance portfolio of c.70,000 customers from UK Asset Resolution in 2013.

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36. Operating segments continued

The financial position and results of operations of the above segments are summarised below:

2015	**BTL/SME £'000**	**Residential mortgages £'000**	**Personal loans £'000**	**Central[1] £'000**	**Total £'000**
Balances at the reporting date					
Gross loans and advances to customers	**3,105,536**	**2,007,062**	**49,442**	**–**	**5,162,040**
Provision for impairment losses on loans and advances	**(17,729)**	**(2,220)**	**(7,332)**	**–**	**(27,281)**
Loans and advances to customers	**3,087,807**	**2,004,842**	**42,110**	**–**	**5,134,759**
Capital expenditure	**5,478**	**3,557**	**75**	**–**	**9,110**
Profit or loss for the period					
Net interest income	**95,128**	**68,995**	**5,649**	**–**	**169,772**
Other income/(expense)	**(614)**	**(5,846)**	**(1,381)**	**580**	**(7,261)**
Total income	**94,514**	**63,149**	**4,268**	**580**	**162,511**
Impairment losses	**(5,271)**	**(2,419)**	**(2,926)**	**–**	**(10,616)**
Contribution to profit	**89,243**	**60,730**	**1,342**	**580**	**151,895**
Operating expenses					**(41,153)**
Exceptional IPO expenses					**(2,050)**
FSCS and other provisions					**(3,395)**
Profit before taxation					**105,297**
Taxation					**(21,239)**
Profit for the year					**84,058**

2014	BTL/SME £'000	Residential mortgages £'000	Personal loans £'000	Central[1] £'000	Total £'000
Balances at the reporting date					
Gross loans and advances to customers	2,064,905	1,763,391	117,138	–	3,945,434
Provision for impairment losses on loans and advances	(15,429)	(2,639)	(7,969)	–	(26,037)
Loans and advances to customers	2,049,476	1,760,752	109,169	–	3,919,397
Capital expenditure	1,558	1,339	83	–	2,980
Profit or loss for the year					
Net interest income	50,310	57,146	17,745	–	125,201
Other income/(expense)	(960)	(6,118)	(1,470)	2,258	(6,290)
Total income	49,350	51,028	16,275	2,258	118,911
Impairment losses	(4,721)	(1,093)	(5,871)	–	(11,685)
Contribution to profit	44,629	49,935	10,404	2,258	107,226
Operating expenses					(33,286)
Exceptional IPO expenses					(7,428)
FSCS and other provisions					(2,767)
Profit before taxation					63,745
Taxation					(12,208)
Profit for the year					51,537

1 Other income in the Central segment represents gains on sales of investment securities.

37. Country by country reporting

Country by Country Reporting ('CBCR') was introduced through Article 89 of the Capital Requirements Directive IV ('CRD IV'), aimed at the banking and capital markets industry.

From 1 January 2015, all institutions within the scope of CRD IV should publish annually, on a consolidated basis, by country where they have an establishment:

a) their name, nature of activities and geographic location;
b) number of employees;
c) their turnover;
d) pre-tax profit or loss;
e) corporation tax paid; and
f) any public subsidies received.

The ongoing reporting deadline is 31 December each year, starting from 31 December 2015, and disclosures should relate to the most recently ended accounting period.

The name, nature of activities and geographic location of the Group's companies are presented below:

Jurisdiction	Name	Activities
UK[1]	OneSavings Bank plc Easioption Ltd Guernsey Home Loans Ltd Heritable Development Finance Ltd Interbay Group Holdings Ltd Jersey Home Loans Ltd Prestige Finance Ltd Cavenham Financial Services Ltd Reliance Property Loans Ltd Rochester Financing No.1 Plc Rochester Mortgage Holdings Limited Swingcastle Limited 5D Finance Ltd 5D Lending Ltd Interbay Funding Ltd Interbay Financial I Ltd Interbay Financial II Ltd Interbay Holdings Ltd Interbay ML Ltd Guernsey Home Loans Ltd (Guernsey) Jersey Home Loans Ltd (Jersey)	Commercial banking
India[2]	EasiOption BPO Services Private Ltd OneSavings Bank India Private Ltd (Formerly Easiprocess Private Ltd)	Back office processing

1 Guernsey Home Loans Ltd (Guernsey) and Jersey Home Loans Ltd (Jersey) are incorporated in Guernsey and Jersey respectively but are considered to be located in the UK as they have no employees, are tax resident and centrally managed and controlled in the UK.
2 The Group had two Indian subsidiaries EasiOption BPO Services Private Ltd and Easiprocess Private Ltd, providing back office processing and earning a management fee from OneSavings Bank plc. During the year, they merged into one entity, OneSavings Bank India Private Ltd.

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37. Country by country reporting continued

Other disclosures required by the CBCR directive are provided below:

2015	UK	India	Consolidation[2]	Total
Average number of employees on an FTE basis	**325**	**195**	**–**	**520**
Turnover[1], £'000	**162,380**	**2,780**	**(2,649)**	**162,511**
Profit/(loss) before tax, £'000	**105,161**	**521**	**(385)**	**105,297**
Corporation tax paid, £'000	**13,471**	**140**	**–**	**13,611**
Public subsidies received, £'000	**–**	**–**	**–**	**–**

2014	UK	India	Consolidation[2]	Total
Average number of employees on an FTE basis	258	161	–	419
Turnover[1]	118,678	2,175	(1,942)	118,911
Profit/(loss) before tax	63,511	452	(218)	63,745
Corporation tax paid[3]	1,427	90	–	1,517
Public subsidies received	–	–	–	–

1 Turnover represents total income before impairment losses, regulatory provisions and operating costs, but after net interest, net commissions and fees, gains and losses on financial instruments and external servicing fees.
2 Relates to a management fee from Indian subsidiaries to OneSavings Bank plc for providing back office processing.
3 In 2014, the Group utilised £42m of tax losses brought forward which reduced the amount of corporation tax paid.

The tables below reconcile tax charge and tax paid during the year.

2015	UK £'000	India £'000	Total £'000
Tax charge/(credit)	**21,057**	**182**	**21,239**
Effects of:			
Relief for losses brought forward	**(674)**	**–**	**(674)**
Other timing differences	**207**	**32**	**239**
Tax outside of profit and loss	**(1,222)**	**–**	**(1,222)**
Prior year tax paid during the year	**2,847**	**367**	**3,214**
Current year tax to be paid after the reporting date	**(8,744)**	**(441)**	**(9,185)**
Tax paid	**13,421**	**140**	**13,611**

2014	UK £'000	India £'000	Total £'000
Tax charge/(credit)	11,942	266	12,208
Effects of:			
Relief for losses brought forward	(9,099)	–	(9,099)
Other timing differences	1,534	(33)	1,501
Tax outside of profit and loss	58	–	58
Prior year tax paid during the year	(266)	60	(206)
Current year tax to be paid after the reporting date	(2,742)	(203)	(2,945)
Tax paid	1,427	90	1,517

38. Events after the reporting date.

In February 2016, the Group acquired a portfolio of mortgages worth approximately £396m from Deutsche Bank. Out of this amount, £374m was acquired through an off-balance sheet securitisation vehicle, and £22m directly to comply with the retention requirements of the EU regulation. The Group acts as the co-arranger and master servicer of the securitisation, which will earn it a share of the interest income and a servicing fee on the off-balance sheet mortgages.

In February 2016, the Group also acquired a portfolio of second charge mortgages previously serviced by the Group from Melbourne Mortgages Limited. The portfolio had a principal outstanding balance of £14m as at 31 December 2015.

Glossary

AGM	Annual General Meeting
ALCO	Asset and Liability Committee
APB	Auditing Practices Board
BoE	Bank of England
CAPEX	Capital Expenditure
CCO	Chief Credit Officer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CFP	Contingency Funding Plan
CML	Council of Mortgage Lenders
CPI	Consumer Price Inflation
CRD IV	Capital Requirement Directive and Regulation
CRO	Chief Risk Officer
DSBP	Deferred Share Bonus Plan
DTR	Disclosure and Transparency Rules
EBA	European Banking Authority
EIR	Effective Interest Rate
EPS	Earnings Per Share
EU	European Union
FCA	Financial Conduct Authority
FD	Finance Director
FLS	Funding for Lending Scheme
FRC	Financial Reporting Council
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act
FTE	Full Time Equivalent Employees
FTSE	Financial Times Stock Exchange
GDP	Gross Domestic Product
GOSH	Great Ormond Street Hospital
GRC	Global Rate Change
HDF	Heritable Development Finance
HMRC	Her Majesty Revenue and Customs
HPI	House Price Inflation
HR	Human Resources
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
ICR	Interest Coverage Ratio
IFRS	International Financial Reporting Standards
ILAA	Individual Liquidity Adequacy Assessment
IPO	Initial Public Offering
ISA	Individual Savings Account
JCF	J.C.Flowers
KRBS	Kent Reliance Building Society
KRPS	Kent Reliance Provident Society
LCR	Liquidity Coverage Ratio
LIBOR	London Inter Bank Offered Rate
LTIP	Long Term Incentive Plan
LTV	Loan to Value
MI	Management Information
MMR	Mortgage Market Review
MPC	Monetary Policy Committee
NISA	New Individual Savings Account
NPS	Net Promoter Score
OFT	Office of Fair Trading
ONS	Office of National Statistics
PRA	Prudential Regulatory Authority
PRS	Private Rented Sector
PSB	Perpetual Subordinated Bonds
PSP	Performance Share Plan
RMBS	Residential Mortgage Backed Securities
RoE	Return on Equity
RWA	Risk Weighted Assets
SAYE	Save As You Earn
SID	Senior Independent Director
SLRP	Supervisory Liquidity Review Process
SME	Small Medium Enterprises
SPE	Special Purpose Entity
SREP	Supervisory Review and Evaluation Process
SRMF	Strategic Risk Management Framework

Company Information

Registered office and head office

Reliance House
Sun Pier
Chatham
Kent
ME4 4ET
United Kingdom

Registered in England no: 7312896
www.osb.co.uk

Registrars

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 8LU
United Kingdom

Telephone: 0871 384 2030
International: +44 121 415 7047

Investor relations

Email: osbrelations@osb.co.uk
Telephone: 01634 838973 9am-5pm
Monday to Friday
(excluding bank holidays)

Private shareholders are welcome to contact the Company Secretary if they have any questions or concerns they wish to be raised with the Board.

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www.emperordesign.co.uk +44 (0)20 7729 9090

one Savings Bank

www.osb.co.uk

Reliance House
Sun Pier
Chatham
Kent ME4 4ET
T +44 (0) 1634 848944