17 March 2016

OneSavings Bank plc

Preliminary results for the year ended 31 December 2015

Financial highlights

- Underlying profit before taxation[1] up by 52% to £105.9m (2014: £69.7m)
- Loans and advances grew by 31% in 2015 to £5.1bn (2014: £3.9bn), driven by gross organic origination of £1.8bn (2014: £1.5bn) and the purchase of a second charge mortgage portfolio for £260m
- Cost:income ratio[2] further reduced to 26% (2014: 28%), driven by strong income growth and continued focus on cost control and efficiency
- Underlying return on equity[3] increased to 32% (2014: 31%)
- Underlying basic earnings per share[4] up by 43% to 34.8 pence (2014: 24.4 pence)
- Final dividend[5] of 6.7 pence per share giving a full year dividend of 8.7 pence per share, in line with our target dividend policy
- Fully-loaded Common Equity Tier 1 (CET1) capital ratio strengthened to 11.6% (2014: 11.4%)

Andy Golding, CEO of OneSavings Bank, said:

“I am delighted to report another year of very strong performance in 2015, delivering on all our financial objectives. We have continued to grow the loan book through our specialist lending brands and improved both our net interest margin and cost to income ratio. This growth has been achieved whilst strengthening our capital ratio, demonstrating strong organic capital generation capability through profitability, and at the same time improving our excellent levels of customer service. I am particularly pleased that we have successfully innovated in the commercial side of our Buy-to-Let/SME segment through our InterBay brand, as well as increasing the range and volume of funding lines and growing Heritable Development Finance.

Looking forward we remain cognisant of the political and regulatory headwinds in Buy-to-Let and in 2016 we have amended our lending criteria to cement our focus on the professional landlords that we believe will continue to develop their Buy-to-Let portfolios. This is in line with our expectation that the private rented sector will continue to be a vital component of the UK housing market. We have entered 2016 with our strongest ever pipeline, and application and completion volumes are showing sustained growth. We look forward with confidence”.

Key Metrics

	2015	**2014**
Net Interest Margin[6] (bps)	309	291
Statutory Profit before Tax (£m)	105.3	63.7
Total Assets (£bn)	6.0	4.9
Statutory basic EPS[7] (pence)	34.1	21.7
Loan to deposit ratio[8] (%)	93	90
3 Months+ Arrears[9] (%)	2.1	2.3
Loan loss ratio[10] (bps)	23	33
Customer Net Promoter Score (%)	54.8	38.9

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Analyst Presentation

A presentation for analysts will be held at 9:30am on Thursday 17th March at Brunswick Group, 16 Lincoln's Inn Fields, WC2A 3ED. The UK dial in is +44 (0) 20 3427 1910 and the passcode is 1479648. The presentation will be webcast and available from 9.30am on the OneSavings Bank website at osb.co.uk/investor relations/report and accounts. Registration is open immediately.

About OneSavings Bank plc

OneSavings Bank plc ('OSB') began trading as a bank on 1 February 2011 when the trade and assets of Kent Reliance Building Society ('KRBS') were transferred into the business. OSB is a specialist lending and retail savings group authorised by the Prudential Regulation Authority, part of the Bank of England, and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

OSB focuses on selected sub-sectors of the lending market in which it has established expertise, platforms and capabilities, and where opportunities have been identified for both high returns on a risk-adjusted basis and strong growth. These include Residential Mortgages (comprising first charge, second charge and shared ownership), Buy-to-Let/SME and Personal Loans. OSB originates organically through specialist brokers and independent financial advisors.

OSB is predominantly funded by retail savings originated through the established Kent Reliance franchise, which includes a network of branches in the South East of England, as well as online and postal channels. Diversification of funding is currently provided by a securitisation and OSB joined the Funding for Lending Scheme in early 2014.

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[1] Before exceptional IPO expenses of £2.1m in 2015 (2014: £7.4m) and after deduction of coupons on equity Perpetual Subordinated Bonds (PSBs) of £1.5m in each period

[2] Administrative expenses including depreciation and amortisation as a percentage of total income after deducting coupons on equity PSBs

[3] Underlying profit after taxation (profit after taxation excluding exceptional IPO expenses, 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)) as a percentage of average shareholders' equity (excluding equity PSBs of £22m)

[4] Underlying profit after taxation divided by the weighted average number of ordinary shares in issue

[5] Representing 25% of underlying profit after tax. To 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. For 2014, the dividend of 3.9p per share represented a final two-thirds dividend

[6] Net interest income, less coupons on PSBs classified as equity, as a percentage of average interest bearing assets including off balance sheet Funding for Lending Scheme (FLS) drawings

[7] Statutory profit after taxation divided by the weighted average number of ordinary shares in issue

[8] Excluding the impact of the Funding for Lending Scheme

[9] Portfolio arrears rate (excluding legacy problem loan book) of accounts for which there are missed or overdue payments by more than three months

[10] Impairment losses expressed as a percentage of average gross loans and advances

Chief Executive's Statement

Continued strong performance

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.

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[2] basic earnings per share grew by 43% to 34.8p (2014: 24.4p). 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 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.

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 its position as a leader in its chosen markets and enhanced its 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%[3], 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] Statutory profit before taxation increased by 65% to £105.3m (2014: £63.7m)

[2] Statutory basic EPS grew by 57% to 34.1 pence per share (2014: 21.7 pence per share)

[3] Excluding the impact of the Funding for Lending Scheme

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.

In his Summer Budget, 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 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 which is 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. OSBs Buy-to-Let refinancing percentage during 2015 was 58%, in line with the Council of Mortgage Lenders (CML) market average refinancing percentage during 2015 of 58%.

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 probably 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. 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.

Operating and financial review

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
- 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 1pp 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 below sets out the Group's stated financial objectives and our performance against them during the year.

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%
Dividend policy	Pay-out ratio of ≥25%[3]	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] Pay-out ratio of at least 25 per cent of underlying profit after taxation.

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.

Segmental Review

The following table shows the Group's loans and advances and contribution to profit by segment

31 December 2015, £m	**BTL/SME**	**Residential Mortgages**	**Personal Loans**	**Total**
Gross loans to customers	3,105.5	2,007.1	49.4	5,162.0
Provisions for impairment losses	(17.7)	(2.2)	(7.3)	(27.3)
Net loans to customers	3,087.8	2,004.8	42.1	5,134.7
Risk weighted assets	1,435.1	858.6	45.8	2,339.5

31 December 2014, £m	**BTL/SME**	**Residential Mortgages**	**Personal Loans**	**Total**
Gross loans to customers	2,064.9	1,763.4	117.1	3,945.4
Provisions for impairment losses	(15.4)	(2.6)	(8.0)	(26.0)
Net loans to customers	2,049.5	1,760.8	109.2	3,919.4
Risk weighted assets	990.1	738.1	101.1	1,829.3

31 December 2015, £m	**BTL/SME**	**Residential Mortgages**	**Personal Loans**	**Central[1]**	**Total**
Net interest income	95.1	69.0	5.6	-	169.8
Other income/expense	(0.6)	(5.8)	(1.4)	0.6	(7.3)
Total income	94.5	63.1	4.3	0.6	162.5
Impairment losses	(5.3)	(2.4)	(2.9)	-	(10.6)
Contribution to profit	89.2	60.7	1.3	0.6	151.9

31 December 2014, £m	**BTL/SME**	**Residential Mortgages**	**Personal Loans**	**Central[1]**	**Total**
Net interest income	50.3	57.1	17.7	-	125.2
Other income/expense	(1.0)	(6.1)	(1.5)	2.3	(6.3)
Total income	49.4	51.0	16.3	2.3	118.9
Impairment losses	(4.7)	(1.1)	(5.9)	-	(11.7)
Contribution to profit	44.6	49.9	10.4	2.3	107.2

[1] Central function includes gains on the sale of treasury assets

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 up from £27.2bn in 2014, 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 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 in the Buy-to-Let/SME segment. The average LTV remained low at 66% (31 December 2014: 68%) with only 1% of loans by value with LTV's exceeding 90% (31 December 2014: 2%). The average loan to value (LTV) for new BTL/SME origination was 72% (2014 of 72%).

Residential mortgages

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 mainly offset 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.

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 average 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: 2%). 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: 93%). 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.

Financial review

Summary Profit or Loss	Group 31/12/2015 **£m**	Group 31/12/2014 **£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	105.9	69.7
Underlying profit after taxation	84.5	56.8
Key ratios		
Net interest margin	309bps	291bps
Cost:income ratio	26%	28%
Management expense ratio[2]	75bps	77bps
Loan loss ratio	0.23%	0.33%
Basic EPS, pence per share	34.1	21.7
Underlying basic EPS, pence per share	34.8	24.4
Underlying return on equity	32%	31%
Dividend per share, pence per share	8.7p	3.9p

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[3]	16.4%	20.1%
Common equity tier 1 ratio	11.6%	11.4%
Total capital ratio	14.1%	14.8%
Leverage ratio	4.5%	4.2%

[1] Including depreciation and amortisation.
[2] Administrative expenses including depreciation and amortisation as a percentage of average total assets.
[3] Liquid assets as a percentage of funding liabilities.

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 2015, as the Bank sought to spread the maturity profile and manage liquidity more efficiently (see Liquidity below for more details). On 30 November 2015 the BoE announced a two 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 two years with the allowance reducing by 25% every six months from 1 Feb 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) include 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 an expected increase in the Bank's share of UK protected deposits, partially offset by an overall decrease in the FSCS's expected capital losses and management expenses levy.

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.

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 Buy-to-Let/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 drawdowns under the FLS of £161m as at 31 December 2015. Total assets grew by 21% due to the impact of the FLS drawdowns as well as lower levels of liquidity. The FLS drawdowns 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 NISA 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).

Statement of Profit or Loss

For the year ended 31 December 2015

	Group 2015	Group 2014
	£'000	**£'000**
Interest receivable and similar income	**268,206**	**209,882**
Interest payable and similar charges	**(98,434)**	**(84,681)**
Net interest income	**169,772**	**125,201**
Fair value losses on financial instruments	**(3,153)**	**(4,323)**
Gains on sales of financial instruments	**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	**(39,429)**	**(32,390)**
Depreciation and amortisation	**(1,724)**	**(896)**
FSCS and other provisions	**(3,395)**	**(2,767)**
Operating profit before impairment losses	**117,963**	**82,858**
Impairment losses	**(10,616)**	**(11,685)**
Operating profit before exceptional IPO expenses	**107,347**	**71,173**
Exceptional IPO expenses	**(2,050)**	**(7,428)**
Profit before taxation	**105,297**	**63,745**
Taxation	**(21,239)**	**(12,208)**
Profit for the year	**84,058**	**51,537**
Dividend, pence per share	8.7	3.9
Earnings per share, pence per share		
Basic	34.1	21.7
Diluted	34.0	21.7

The above results are derived wholly from continuing operations.

Statement of Other Comprehensive Income

For the year ended 31 December 2015

	Group 2015	Group 2014
Profit for the year	84,058	51,537
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 income for the year	**(1,363)**	**245**
Total comprehensive income for the year	**82,695**	**51,782**

Statement of Financial Position

As at 31 December 2015

	Group 2015 £'000	Group 2014 £'000
Assets		
Cash in hand	**363**	**288**
Loans and advances to credit institutions	**354,691**	**767,318**
Investment securities	**393,382**	**158,597**
Loans and advances to customers	**5,134,759**	**3,919,397**
Derivative assets	**996**	**937**
Fair value hedges - assets	**58,156**	**68,738**
Deferred taxation asset	**3,401**	**3,563**
Intangible assets	**3,147**	**2,305**
Property, plant and equipment	**9,648**	**3,104**
Other assets	**11,813**	**12,280**
Total assets	**5,970,356**	**4,936,527**

Liabilities		
Amounts owed to retail depositors	**5,363,792**	**4,331,639**
Amounts owed to credit institutions	**1,518**	**23,009**
Amounts owed to other customers	**5,878**	**4,353**
Debt securities in issue	**188,350**	**238,390**
Derivative liabilities	**19,791**	**25,447**
Fair value hedges - liabilities	**1,413**	**3,126**
Current taxation liability	**9,185**	**2,945**
Other liabilities	**18,897**	**13,609**
FSCS and other provisions	**2,334**	**1,598**
Subordinated liabilities	**24,574**	**27,573**
Perpetual subordinated bonds	**15,308**	**15,234**
	5,651,040	**4,686,923**
Equity		
Share capital	**2,431**	**2,431**
Share premium	**157,901**	**157,901**
Retained earnings	**143,983**	**74,998**
Other reserves	**15,001**	**14,274**
	319,316	**249,604**
Total equity and liabilities	**5,970,356**	**4,936,527**

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**

Group 2014	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	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]	-	-	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**

1 Equity bonds comprise £22m of perpetual subordinated bonds

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.

Statement of Cash Flows

For the year ended 31 December 2015

	Group	Group
	Year ended 31-Dec-15	**Year ended 31-Dec-14**
	£'000	**£'000**
Cash flows from operating activities		
Profit before tax	**105,297**	**63,745**
Adjustments for non-cash items:		
Depreciation and amortisation	**1,724**	**896**
Interest on subordinated liabilities	**1,250**	**1,261**
Interest on perpetual subordinated bonds	**969**	**1,144**
Impairment charge on loans	**10,616**	**11,685**
(Gain) on sale of financial instruments	**(580)**	**(2,258)**
FSCS and other provisions	**3,395**	**2,767**
Fair value losses on financial instruments	**3,153**	**4,323**
Share based payments	**1,812**	**3,785**
Changes in operating assets and liabilities		
Increase in loans to customers	**(1,225,978)**	**(889,834)**
Increase in retail deposits	**1,032,153**	**1,080,063**
Increase in intercompany balances	**-**	**-**
Decrease / (increase) in other assets	**467**	**(2,849)**
Decrease in derivatives and hedged items	**1**	**629**
(Decrease) / increase in bank and other deposits	**(19,966)**	**23,573**
Net increase in other liabilities	**5,288**	**3,772**
Exchange differences on working capital	**(463)**	**(695)**
Cash generated from / (used in) operating activities	**(80,862)**	**302,007**
Interest paid on bonds and subordinated debt	**(2,219)**	**(2,442)**
FSCS and other provisions paid	**(2,659)**	**(2,450)**
Tax paid	**(13,611)**	**(1,517)**

Net cash from operating activities	**(99,351)**	**295,598**
Cash flows from investing activities		
Sales of investment securities	**213,722**	**1,377,632**
Purchases of investment securities	**(449,056)**	**(1,171,747)**
Purchases of equipment and intangible assets	**(9,110)**	**(2,980)**
Cash generated from investing activities	**(244,444)**	**202,905**
Cash flows from financing activities		
Coupon paid on equity bonds	(1,450)	(1,450)
Dividends paid	(14,342)	-
Proceeds from share issues and capital contributions	-	42,251
Share issue (IPO) costs paid	-	(5,699)
Repayment of debt	(52,965)	(35,367)
Cash (used in) / generated from financing activities	(68,757)	(265)
Net increase/(decrease) in cash and cash equivalents	(412,552)	498,238
Cash and cash equivalents at the beginning of the period		
Cash in hand	288	267
Loans and advances to credit institutions repayable on demand	767,318	269,101
	767,606	**269,368**
Cash and cash equivalents at the end of the period		
Cash in hand	**363**	**288**
Loans and advances to credit institutions repayable on demand	**354,691**	**767,318**
	355,054	**767,606**

Movement in cash and cash equivalents	**(412,552)**	**498,238**

General note to the financial information

The financial information set out in the announcement does not constitute the Company's statutory accounts for the years ended 31 December 2014 or 31 December 2015, but is derived from those statutory accounts, which have been reported on by the Company's auditors. Statutory accounts for the years ended 31 December 2014 have been delivered to the Registrar of Companies and those for the year ended 31 December 2015 will be delivered to the Registrar following the Company's Annual General Meeting.

Sections of this preliminary announcement, including but not limited to the Chief Executive's Report and Operating and Financial Report, may contain forward-looking statements with respect to certain of the plans and current goals and expectations relating to the future financial condition, business performance and results of the Group. These have been made by the Directors in good faith using information available up to the date on which they approved this report. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of the Group and depend upon circumstances that may or may not occur in the future. There are a number of factors that could cause actual future financial conditions, business performance, results or developments to differ materially from the plans, goals and expectations expressed or implied by these forward-looking statements and forecasts. Nothing in this document should be construed as a forecast.

A copy of the Annual Report and Accounts for the year ended 31 December 2015 will be posted to shareholders in due course. Copies of this announcement can be obtained from the Group Company Secretary, OneSavings Bank PLC at Reliance House, Sun Pier, Chatham, Kent ME4 4ET.

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.

Risk Principles and Culture

OSB's 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 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 underlying capabilities are subject to ongoing review and are adaptive to the changing operating environment and OSB's business model

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

Risk Strategy & 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 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 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 time frame 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.

Risk Governance & Organisational Structure

Risk governance refers to the processes and structures established by the Board to ensure that risks are taken within the approved appetite with clear delineation between risk taking and oversight responsibilities. The 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 based controls and mitigants. Internal Audit provides independent assurance as to the effectiveness and compliance with the Strategic Risk Management Framework (SRMF) and the underlying risk management policies and procedures.

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.

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. 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 (LTI) for residential mortgage lending reduced with 3.3% of new loans having LTI's 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

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).

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.

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 successfully utilised the FLS to manage its liquidity in 2015. The Bank first prepositioned mortgage collateral with the Bank of England in February 2015 in order to use the FLS and to access the Bank of England's liquidity insurance facilities, should they 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.

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 assets. 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.

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.

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.

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 British Bankers' Association (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.

Conduct Risk

The Bank views its culture and behaviours in treating all of 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 and 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.

Principal Risks and Uncertainties

Strategic and business risk

This is defined as the risk to the Bank's earnings and profitability arising from its strategic decisions, changes in business conditions, improper implementation of decisions or lack of responsiveness to industry changes.

Arising from

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

Mitigants

Regular monitoring by the Board and the executive committee of strategic and business performance against market commitments, the balanced business scorecard and the risk appetite. Use of stress testing to flex core business planning assumptions to assess potential performance under stressed operating conditions.

Reputational risk

The potential risk of adverse effects that can arise from the Bank's reputation being impacted by 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.

Arising from

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

Mitigants

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.

Credit risk

Credit risk is defined as the 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.

Mitigation

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.

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.

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.

Mitigants

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.

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.

Mitigants

The Group transacts only with high-quality wholesale counterparties.

Market risk

This is defined as 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.

Mitigants

The Group's Treasury department actively hedges to match the timing of cash flows from assets and liabilities.

Basis risk

A divergence in market rates could lead to a loss in value, as assets and liabilities are linked to different rates.

Mitigants

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.

Liquidity risk

This is defined as 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.

Mitigants

The Group's funding strategy is focused on a highly stable retail deposit franchise. The large number of depositors provides diversification, and c. 94% of balances are covered by the FSCS and so at no material risk of a retail run.

Solvency risk

This is defined as 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.

Arising from

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.

Mitigants

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.

Operational risk

This is defined as 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.

Mitigants

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.

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.

Mitigants

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.

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.

Mitigants

The Bank has established and continues to invest in and enhance its data management architecture, systems, governance and controls.

Model risk

An 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.

Mitigants

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. In 2016 a new Risk Model Policy will be approved and implemented to improve controls and reduce likelihood of errors.

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.

Mitigants

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.

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.

Mitigants

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.

Conduct risk

This is defined as 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.

Mitigants

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.

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.

Mitigants

A thorough review of the back book is underway to identify conduct risk issues and remediate as appropriate.

Compliance/Regulatory risk

This is defined as the risk that a change in legislation or regulation, or an interpretation that differs from the Group's will adversely impact the Group.

Arising from

Key compliance based regulatory changes that the Bank is subject to include European Mortgage Credit Directive (EMCD), Senior Managers Regime (SMR) and potential macro prudential controls of the Buy-to-Let sector.

Further proposals currently under discussion, including the Basel Committee consultation on standardised risk weights, could lead to significant increases in the Group's capital requirements.

Mitigants

The Bank has adopted the EMCD and SMR in an effective and timely manner.

The adoption of Mortgage Market Review (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 Buy-to-Let sector.

The Basel proposals will be subject to extensive consultation and the eventual outcome could be materially different to those initially proposed. The adoption of the eventual changes may take a number of years to implement. The Group intends to migrate to IRB.

Conduct regulation

Regulatory changes focused on the conduct of business could force changes in the way the Group carries out business and impose substantial compliance costs. For example, the Financial Policy Committee's increased focus on Buy-to-Let lending or tax changes such as the Bank Corporation Tax Surcharge must be considered.

Mitigants

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.

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 above).

The Group manages and monitors its risk profile through its risk management framework, in particular through its risk appetite statement and risk limits. 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.

Director’s responsibility statement

The responsibility statement below has been prepared in connection with the full Annual Report of the Company for the year ended 31 December 2015. Certain parts of these accounts are not presented within this announcement.

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; and
• 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 of 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 provides the information necessary for shareholders to assess the Group’s position and performance, business model and strategy.

Approved by the Board and signed on its behalf by:

Zoe Bucknell
Group General Counsel and Company Secretary
16 March 2016