OneSavings Bank plc

Pillar 3 Disclosures

For the year ended
31 December 2014

Savings Bank

Table of contents

Overview	4
Background	4
Pillar 3 Disclosure Policy	5
Materiality	5
Confidentiality	5
Verification	5
Basis and frequency of disclosure	6
Media and location of publication	6
Management and Board sign-off	6
Scope	7
Risk management objectives and policies	8
Risk management framework	8
2014 highlights	10
Outlook for 2015	11
The Board of Directors	16
Role	16
Board subcommittees	17
The Business	18
Role	18
Executive subcommittees	18
Risk and Compliance	21
Internal Audit	22
Recovery and Resolution Plan (RRP)	22
Capital Resources	23
Capital requirements	25
Pillar 1 capital requirements	25
Large Exposures	27
Overall Pillar 2 Rule	27
Counterparty risk	27
Credit risk	27
Definition of past due and impaired	27
Impairment of financial assets	27
Credit risk exposure breakdowns	30
Use of External Credit Assessment Institutions (ECAIs)	34
Operational Risk	35
Remuneration	36

Tables

Table 1: Forbearance measures undertaken during the financial year 11
Table 2: Board subcommittees 17
Table 3: Executive committees 19
Table 4: Capital resources 23
Table 5: PSBs, Subordinated Liabilities and Bonds 24
Table 6: Pillar 1 capital requirements 26
Table 7: Impaired, past due, provisions and provision charges by counterparty type 29
Table 8: Impaired, past due, provisions and provision charges by geographic area 29
Table 9: Reconciliation of changes in provisions for impaired exposures 29
Table 10: Year end and average exposure by exposure class 30
Table 11: Exposures by geographic area and material exposure classes 31
Table 12: Exposures by significant counterparty type and exposure classes 32
Table 13: Exposures by residual maturity breakdown 33
Table 14: Exposures by Credit Quality Step 34
Table 15: Code staff aggregate remuneration for 2014 40

Figures

Figure 1: Group structure 7
Figure 2: Risk Governance Structure 11

Overview

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

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

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

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

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

- Lending commitments for which capital is held are included.
- Exposure amount is presented net of specific provisions.

[1] Revised Pillar 3 disclosure requirements, Basel Committee on Banking Supervision, January 2015.

Pillar 3 Disclosure Policy

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

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

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

Materiality

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

Confidentiality

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

Verification

The information and figures contained in the Pillar 3 disclosure document have been subject to internal verification and are based on financial statements and supporting schedules. For the 2014 Pillar 3 disclosures there is additional reporting over what is presented in the statutory financial accounts and Common Reporting ("COREP") which is submitted to the PRA. The additional disclosures over the statutory financial accounts are the table showing code staff aggregate remuneration for 2014 and other remuneration disclosures, the table for disclosing the impact of the transitional rules from the current own funds capital to the final own funds capital under CRD IV (Appendix II – Own Funds), the main characteristics of capital instruments (Appendix III – Subordinated Debt Instruments), Asset Encumbrance (Appendix I – Disclosure on Asset Encumbrance) and Leverage Ratio (Appendix IV). The additional disclosures over the COREP are contained in the table illustrating the main features of capital instruments (Appendix III – Subordinated Debt Instruments).

For Liquidity Coverage Ratio (LCR) for December 2014, the Group provides a qualitative discussion on how it will meet the LCR pending the finalisation of the rules in 2015. LCR will be reported first for the December 2015 Pillar 3 disclosures. For Net Stable Funding Ratio ("NSFR") the first reporting in the Group's Pillar 3 disclosures is scheduled for December 2018.

Basis and frequency of disclosure

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

Media and location of publication

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

Management and Board sign-off

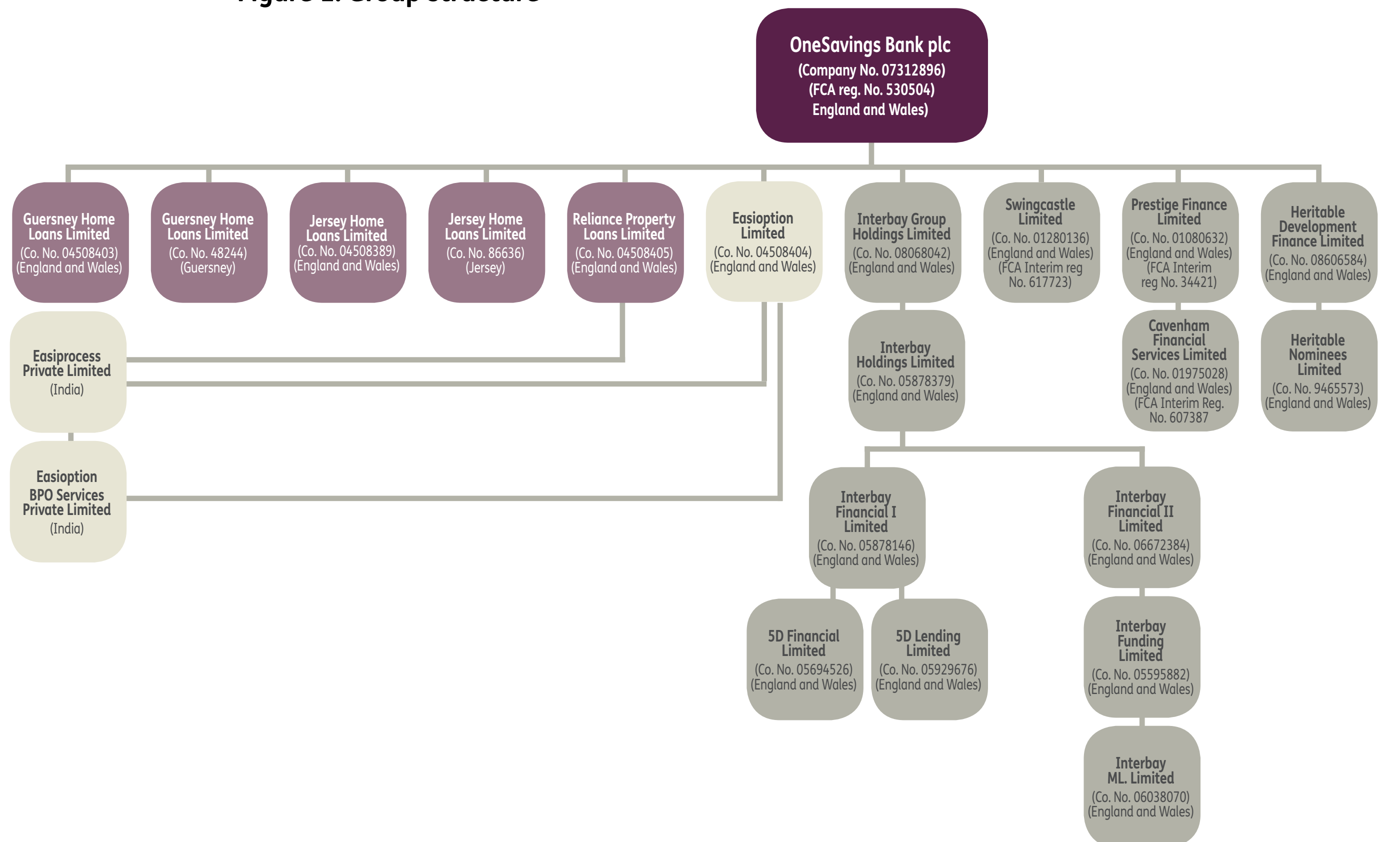
The Executive Committee and the Risk Committee are responsible for assessing and confirming the appropriateness of the Pillar 3 disclosures, including their verification and frequency. The disclosures must convey the Group's risk profile comprehensively to market participants as required under Part 8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

The Pillar 3 disclosures are reviewed by the Board Risk Committee and the Board.

Scope

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

Figure 1: Group structure



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

All subsidiaries are 100 per cent funded by the Group and solo consolidated with the Group, with the exception of Easiprocess Private Limited, Heritable Development Finance Limited, Prestige Finance Limited, Rochester Financing Ltd. (Rochester) and Swingcastle Limited. Rochester is the Group's securitisation vehicle, to which it has minimal exposure. Consequently, there is no material difference in the basis of consolidation for accounting and prudential purposes.

Risk management objectives and policies

Risk management framework

Throughout 2014, the Group has taken an active approach to risk management and has continued to build on a best-in-class capability, ensuring that risks are appropriately rewarded where strategic, mitigated where appropriate, and well understood in all cases.

To support this strategic risk management, the Group has put in place a risk management framework, which consists of four key components.

- **Strategy and risk appetite:** The Board establishes a strategy for the Group and articulates a Statement of Risk Appetite that is consistent with that strategy.
  - The Group has an appetite to take credit risk in the pursuit of risk-adjusted high returns, but its absolute appetite for credit risk is nevertheless low, a balance which it strikes through a strategic focus on specialist lending.
  - The Group has a low appetite for market risk and does not seek to take a significant interest rate position or a directional view on rates.
  - The Group has a low appetite for liquidity risk, with a strategic focus on highly stable retail deposits covered by the FSCS.
  - The Group has a moderate appetite for operational risk. The specialist nature of much of the Group's business often requires manual processes, which bring with them an increased exposure to operational risk and need careful management.
  - The Group has a low appetite for conduct risk and maintains a strategic focus on simple, customer-friendly products.
  - The Group has a moderate appetite for regulatory risk and accepts that it may from time to time be exposed to changes in regulation or regulatory interpretation, particularly when that exposure is taken in the interest of an improved customer experience.
- **Governance:** The role of the Board, Board Committees, and management committees in this framework is summarised[1] in Figure 2. The Board has overall responsibility for ensuring effective risk management within the Group. Credit, market, liquidity, and operational risk – generally those matters regulated by the PRA – are monitored by the Risk Committee and led at the Executive level by the Chief Risk Officer. Conduct and regulatory risk – generally those matters regulated by the FCA – are monitored by the Audit Committee and led at the Executive level by the Group General Counsel. Management committees have been established to ensure detailed governance of each risk type. Additional sub-committees are responsible for certain finer aspects of risk management. In particular, the Transactional Credit Committee, a sub-committee of the Credit Committee, meets twice a week to sanction individual lending cases that fall outside the mandates of the Underwriting team.

[1] More information on the broader roles of these bodies in Group governance is included on page 38 of the Group's Annual Report and Accounts 2014.

- **Policies:** Policies have been established for the management of each risk type and are subject to annual Board review and approval. They specify responsibility for managing each risk and requirements for measurement and reporting.

- **Management Information (MI):** MI is produced so that each risk type can be monitored. The MI is produced on a range of frequencies and levels of detail, as appropriate for each risk and level of monitoring, from daily monitoring of liquidity by management to quarterly updates on regulatory risk for the Board. Effective MI relies on robust IT systems and high quality data.

The Group operates a "three lines of defence" model:

1. The first line of defence comes through the operational management in the business, which maintains appropriate systems and controls that are effectively implemented on a day-to-day basis.

2. The second line of defence comprises Risk and Compliance as well as the governance and oversight carried out by committees shown in Table 3.

3. The third line of defence is independent assurance checking and challenge. This is provided by Internal Audit and the external audit assurance reviews. Assurance reporting is provided to the Audit Committee.

Within this risk management framework, the principal risks to which the Group is exposed have been identified (see page 12). In addition, the Group carries out two major risk-focused annual planning exercises, the Internal Capital Adequacy Assessment Process (ICAAP) and the Individual Liquidity Adequacy Assessment (ILAA). The ICAAP establishes the Board's view on the Group's capital requirements, both under a base case forecast and under stress. This is an input to the PRA's SREP process, which leads to regulatory capital guidance. The ILAA established the Board's view on the Group's liquidity management and requirements. It is an input to the PRA's SLRP process, which leads to regulatory liquidity guidance.

2014 highlights

As a mortgage lender, the Group is exposed to the macroeconomic environment in general and house prices in particular. Throughout 2014, house prices have increased in our core geographic markets of London (16.3%) and the South-East (10.8%), and we have maintained a prudent approach to lending[2].

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

As detailed in Table 2 (also page 30 of the Annual Report and Accounts), we carefully underwrite each lending case, maintain sensible LTVs, assess affordability on each loan and avoid lending on property where we believe current valuations are unsustainable. We also operate portfolio limits and stress tests to ensure sufficient capital is in place to withstand a market downturn.

Metrics illustrating ongoing improvement in the Group's lending risk profile include:

- portfolio[3] arrears rate decreased from 2.9% to 2.3%;
- legacy problem loans reduced from £43.9m to £31.1m; and
- arrears balances on acquired portfolios reduced from £59.8m to £54.4m. These were in aggregate acquired at a significant discount to par leading to an average LTV of 60% as at 31 December 2014 providing good credit protection.

Our liquidity forecasting and controls have continued to improve, enhancing our ability to achieve financial efficiency while maintaining sufficient liquidity. We gained access to the FLS in 2014 and began drawing down under the scheme in March 2015.

We continue to focus on operational risk management. With our bespoke underwriting approach, the Group relies on manual processes; a strong control framework and rigorous root cause analysis of any incidents ensures that this operational risk is well managed.

We continually review operations, and have made a number of changes to improve quality and reduce cost, including outsourcing of mailings to a specialist provider, consolidation of our third-party servicing relationships, and implementation of an industry-leading system for managing customer complaints. Our ongoing IT investment included this year the launch of a new internet savings platform, providing more efficient, reliable and automated processing along with an enhanced customer offering[4].

[2] See "Market review" on page 6 of the Group's Annual Report and Accounts 2014.
[3] Excluding legacy problem loans.
[4] See "Our strategic framework" on page 8 of the Group's Annual Report and Accounts 2014.

Outlook for 2015

Looking forward, consensus economic forecasts see steady improvements in incomes and property prices with reductions in unemployment. Interest rates are expected to rise, leading to increased payments for many borrowers. But in the context of broad economic improvement, we expect this to be manageable for most customers and the Group. Nevertheless, we are working to identify those borrowers most exposed to a rate rise, so we can engage early. Simple, customer-friendly savings products should remain a reliable source of funding, and our ability to forecast our liquidity needs continues to improve. We have enhanced both operations and operational risk management, which will enable continued improvements in quality and efficiency.

Figure 2: Risk Governance Structure

<table>
<tr><th>Risk</th><th>Credit</th><th>Market</th><th>Liquidity</th><th>Operational</th><th>Regulatory</th><th>Conduct</th></tr>
<tr><td rowspan="2">Board governance</td><td colspan="6">Board</td></tr>
<tr><td colspan="4">Risk Committee</td><td colspan="2">Audit Committee</td></tr>
<tr><td rowspan="3">Management governance</td><td colspan="6">Executive committee</td></tr>
<tr><td>Credit Committee</td><td colspan="2">ALCO</td><td colspan="3">Regulatory, Operational, and Conduct Risk Committee (ROCC)</td></tr>
<tr><td colspan="4">Chief Risk Officer</td><td colspan="2">Group General Counsel and Company Secretary</td></tr>
<tr><td>Key policies</td><td>Lending Policy Arrears, Repossession and Forbearance Policy</td><td>Interest Rate and Basis Risk Policy</td><td>Treasury Policy, ILAA</td><td colspan="2">Operational Risk Policy</td><td>Conduct Risk Policy</td></tr>
<tr><td>Management information</td><td>Credit MI pack</td><td colspan="2">ALCO MI pack</td><td>Operational Risk MI pack</td><td>Regulatory / Compliance MI</td><td>Conduct Risk MI</td></tr>
</table>

Table 1: Forbearance measures undertaken during the financial year:

Forbearance type	**2012**	**2013**	**2014**
Capitalisation	69	3	0
Temporary switch to interest only	117	80	41
Interest rate reduction	0	0	1
Loan term extension	3	30	15
Full or partial debt forgiveness	0	0	0
Payment holiday	0	18	16
Assistance with voluntary sale of property	18	6	1
Reduced monthly payments	19	17	37
Total	**226**	**154**	**111**

Note: Figures are for Kent Reliance originations only.

Principal Risks and Uncertainties

Definition	Risk	Mitigation	Change
Credit risk			
Potential for loss due to the failure of a counterparty to meet its contractual obligation to repay a debt in accordance with the agreed terms	**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 Group's lending is secured, some borrowers fail to maintain the value of the security.	All loans are extended only after thorough bespoke and expert underwriting to ensure ability and propensity of borrowers to repay and sufficient security in case of default. Should there be problems with a loan, the collections and recoveries team works with customers unable to meet their loan service obligations to reach a satisfactory conclusion while adhering to the principle of treating customers fairly. A summary of forbearance measures undertaken is presented on page 9. While information on arrangements to pay is not included in the forbearance data, the Bank typically finds that over 80% of arrangements made by the team meet the payment plan agreed. Our strategic focus on lending to professional landlords means that properties are likely to be well managed, with income from a diversified portfolio mitigating the impact of rental voids or maintenance costs. Lending to owner-occupiers is subject to a detailed affordability assessment, including the borrower's ability to continue payments when interest rates increase. Lending on commercial property is more based on security, and is scrutinised by the Group's independent Real Estate team as well as by external valuers. Development lending is extended only after a deep investigation of the borrower's track record and the specific project and requires approval by a dedicated Development Finance Transactional Credit Committee.	**Unchanged** The Group's Lending Policy, underwriting standards, and approach to collections and recoveries have seen no material change in the past year.
	Macroeconomic downturn A broad deterioration in the economy would adversely impact both the ability of borrowers to repay loans and the value of the Group's security. Credit losses would impact across the lending portfolio, so even if individual impacts were to be small, the aggregate impact on the Group could be significant.	The Group works within portfolio limits on LTV and name, sector, or geographic concentration that are approved by Risk Committee and the Board and 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.	**Decreased** While the economic outlook remains uncertain, and particular concerns remain regarding contagion from Europe and geopolitical instability, the economic outlook for the UK has improved over the past year.
	Wholesale credit risk The Bank has wholesale exposures both through call accounts used for transactional and liquidity purposes and through derivative exposures used for hedging.	The Group transacts only with high quality wholesale counterparties. Derivative exposures include collateral agreements to mitigate credit exposures.	**Decreased** The Group established a reserve account with the Bank of England, enabling it to eliminate credit risk on most of its liquidity portfolio.

Definition	Risk	Mitigation	Change
Market risk			
Potential loss due to changes in market prices or values.	**Interest rate risk** An adverse movement in the overall level of interest rates could lead to a loss in value due to mismatches in the duration of assets and liabilities.	The Group's Treasury department actively hedges to match the timing of cash flows from assets and liabilities.	**Decreased** The Group has become more sophisticated in its assessment of interest rate risk, developing a better understanding of the potential impact of more complex movements in rates and enabling better hedging.
	Basis risk A divergence in market rates could lead to a loss in value, as assets and liabilities are linked to different rates.	The Group strategically focuses on products linked to administered rates to keep control of yield. Where there is a mismatch of market rates in the portfolio (e.g. Base Rate vs. LIBOR), the Treasury department hedges the exposure.	**Unchanged** Product design and hedging has enabled the Group to maintain the overall level of basis risk through the year.
Liquidity risk			
The risk that the Group will be unable to meet its financial obligations as they fall due	**Retail funding stress** As the Group is primarily funded by retail deposits, a retail run could put it in a position where it could not meet its financial obligations.	The Group's funding strategy is focused on a highly stable retail deposit franchise. The large number of depositors provides diversification, and c. 95% of balances are covered by the FSCS and so at no material risk of a retail run. In addition, the Group performs in depth liquidity stress testing as part of its ILAA and maintains a liquid asset portfolio sufficient to meet obligations under a stress. Finally, the Group has prepositioned mortgage collateral with the Bank of England, so that its liquidity insurance facilities can be accessed in the unlikely event that should become necessary.	**Decreased** The Group has made continual improvements in both its regular liquidity forecasting and stress testing framework. In addition, it has gained access to the Bank of England liquidity insurance facilities.

Definition	Risk	Mitigation	Change
Operational risk			
The risk of loss or negative impact to the Group resulting from inadequate or failed internal processes, people, or systems or from external events	Mortgage fraud Applicants may provide false information or documentation to obtain a mortgage they might not otherwise be offered. In extreme cases, funds could be borrowed against an inflated valuation or even a non-existent property.	Experienced underwriters perform thorough checks on application information, including credit checks, ID checks, address checks, and Land Registry checks and checks against the National Hunter anti-fraud data sharing system. Brokers, valuers, and solicitors are managed through panels and are subject to regular review.	Unchanged There has been no material change to the Group's approach to mortgage fraud risk.
	Network/system intrusion If hackers were to penetrate the Group's IT system, consequences could range from the diversion of funds to the theft of customer data.	An outsourced agency monitors the Group's infrastructure for known threats and reports when they are being executed. This is being extended to subsidiaries in 2015. Third-party tools are used regularly for penetration testing on the Group's systems. Anti-virus software is installed to detect viruses and malware. An IT security governance forum regularly reviews activity.	Unchanged As the Group has increased its profile and developed its online offering, it has likely become more of a target for hackers. At the same time, its security measures have continued to improve and have performed very well under testing.
	Model risk A small error in a model could be missed and lead the Group to overpay for a purchase or undercharge for a loan. If this were to happen on a large transaction, the absolute impact could be significant.	Models are subject to independent review and robust controls. Developers and users of the models have extensive industry experience and provide 'sanity checking' that will prevent any large errors.	Unchanged More models have been established in the business, meaning reduced need for new development and fewer chances to introduce errors. At the same time, the Group continues to pursue some relatively large transactions, particularly portfolio acquisitions, where a small model error could have a large absolute impact. The net effect is broadly unchanged exposure.
	Gaps in due diligence scope Transactions undertaken by the Commercial Team are bespoke, with each requiring well specified due diligence. Gaps in scope could mean that significant issues in a pool acquisition or funding line are not picked up in time, resulting in assets that are significantly lower value than assumed and/or significant cost to remedy issues.	Key stakeholders from Risk, Credit, Compliance, and Legal review transactions at early stages and before they are finalised. External specialists are used to conduct due diligence where appropriate.	Unchanged The business has grown and these transactions have become more 'business-as-usual', with a consistent team and approach mitigating the bespoke nature of each transaction. At the same time, the Group continues to pursue some relatively large transactions, where a gap in due diligence could have a bigger impact. The net effect is broadly unchanged exposure.

Definition	Risk	Mitigation	Change
Conduct risk			
The risk that the Group's culture, organisation, behaviours, and actions result in unfair, unreasonable, or unexpected customer outcomes and detriment	Lending products While the Group's products are simple, the size of a mortgage loan for a typical customer and the general lack of experience with such transactions means that customers may find themselves exposed to unfavourable outcomes.	The Group has a strategic dedication to simple, customer-friendly products. In addition, distribution is through intermediaries, who take on the role of advising customers, though the Group does review their performance. Finally, a robust conduct risk framework and product assessment tool is in place.	Decreased There has been little change in the Group's product offering from a conduct standpoint over the past year, and risk remains low. But the introduction of the conduct risk framework and product risk tool have reduced the risk in new product development.
	Back book The Group has a substantial back book of loans that were originated in a different conduct risk environment. The back book has not yet been reviewed in its entirety, and it is possible that there are some product features that could lead to customer detriment.	A thorough review of the back book is underway to identify conduct risk issues and remediate as appropriate.	Unchanged The issues highlighted through the back book review have so far been limited to a small number of cases, and, after investigation, the impact has proven to be limited.
Regulatory risk			
The risk that a change in legislation or regulation will adversely impact the Group	Capital requirements The regulatory capital regime is subject to change and could lead to increases in the level and quality of capital that the Group needs to hold to meet regulatory requirements.	The Group engages actively with regulators, industry bodies, and advisors to keep in front of potential changes and provide feedback through the consultation process.	Increased Recent changes implemented as part of CRD IV have resulted in requirements for more and higher quality capital, though elements of these requirements are being phased in. Further proposals currently under discussion could lead to significant increases in the Group's capital requirements.
	Conduct regulation Regulatory changes focused on the conduct of business could force changes in the way the Group carries out business and impose substantial compliance costs.	The Group has a programme of regulatory horizon scanning linking into a formal regulatory change management programme. In addition, the focus on simple products and customer-oriented culture means that current practice may not have to change significantly to meet new conduct regulations.	Increased The regulatory environment has tightened and this is likely to continue, exposing the Group to increased risk.

The Board of Directors

Role

The ultimate control of the Group rests with the Board. Under the articles of association of the Group, the Directors direct its business and may exercise powers that are not reserved to its members in general meetings.

The Group's purpose is outlined in the articles of association. The Board will set the Group's aims and objectives, and it is the Board's responsibility to ensure that the necessary financial and human resources are in place to enable the Group to meet those objectives. The Board is also responsible for reviewing management performance.

The Board specifies the Group's risk appetite statement and its supporting quantitative limits, and delegates authority to subcommittees to act in specific areas, including the approval of certain policies and limits, as discussed under Board subcommittees below.

It is the responsibility of the Board to ensure that there are appropriate governance arrangements, including:

- A clear organisational structure
- Well defined, transparent and consistent lines of responsibility
- Effective processes to identify, manage, monitor and report risks to which the Group may be exposed
- Internal control mechanisms
- Arrangements to ensure compliance with legal and regulatory requirements
- Effective control and safeguard arrangements for all information processing systems

Board subcommittees

The Board has delegated specific areas of oversight and control to the subcommittees set out below. Each committee has Board-approved terms of reference, which are reviewed at least annually. The Board subcommittees and their objectives are listed in Table 2.

Table 2: Board subcommittees

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

The Business

Role

The Board sets out its directive controls in policy and through delegation of powers, authority and responsibility to the CEO. The CEO chairs the Executive Committee, made up of the following:

- CEO,
- Finance Director,
- CRO,
- Group Chief Operating Officer,
- Sales and Marketing Director,
- Group General Counsel and Company Secretary,
- Chief Credit Officer,
- Commercial Director, and
- Chief Technology Officer.

The CEO apportions and allocates powers and duties to management through the executive team. Policies set out mandates and limits for the discharge of responsibility, and job descriptions formalise the roles of individual staff. All staff are made aware of their duties, the limits of their authority, the reporting lines and the processes over which they have jurisdiction. All management and staff in the core business are considered the first line of defence. They are responsible for implementing the controls and mitigating actions that minimise or eliminate risks to the business.

Management has embedded the internal controls required within procedure manuals and carries out supervision, exception monitoring, and staff training to ensure the effectiveness of these controls.

The Group has a Whistleblowing Standard to encourage employees and others who have serious concerns about any aspect of its affairs or those of the wider group to come forward and voice those concerns without the fear of subsequent victimisation, discrimination, or disadvantage.

Executive subcommittees

The Executive Committee has delegated specific responsibilities to a number of sub-committees which report directly into it, as listed in Table 3.

Table 3: Executive committees

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

Committee	Main objectives and responsibilities
Transactional Credit Committee	Subcommittee of the Credit Committee Consider and approve lending decisions that fall outside the mandates of underwriters but within the mandates for the Committee Consider and approve bespoke pricing Review and recommend certain adjustments to Lending Policy
Operations Committee	Oversee operational management of business Provide operational inputs into larger projects Structure and manage smaller operational projects Oversee Indian Operations
Change Control Committee	Subcommittee of Operations Committee Oversee implementation of changes to business processing
Regulatory, Operational, and Conduct Risk Committee (ROCC)	Review legal risk register to ensure risk remains within the Board stated risk appetite, agree mitigation plans and monitor progress against those plans Propose and regularly review the implementation and effectiveness of the operational risk policy and statement of operational risk appetite Propose and regularly review the implementation and effectiveness of the group's conduct risk policy and statement of conduct risk appetite
Executive M&A Committee (EMAC)	Coordinate internal stakeholders for inorganic agenda Ensure that due diligence covers all relevant aspects After completion, oversee delivery of the integration plan

Risk and Compliance

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

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

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

The Chief Risk Officer (CRO) and the Group General Counsel also provide assurance to the Board through regular reports which assess strategic risks as well as business risks.

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

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

Internal Audit

Internal Audit is outsourced to Grant Thornton, which acts as the Group's "third line of defence" and reports directly to the Chairman of the Audit Committee. Ideally, all significant failings are captured by the first and second lines of defence. However a further line of defence is needed to identify any potential failure of systems and controls, either because they are poorly designed or do not operate as intended.

Internal Audit carries out its own risk analysis of the Group's business and reviews the risk assessments conducted by Risk and Compliance but may not place reliance on them. Internal Audit reviews the work carried out by Risk and Compliance and report any weaknesses or areas of concern to the Audit Committee.

An inspection plan is drawn up, based on priorities arising from the risk analysis. This is then considered and approved by the Audit Committee. The results of the audits carried out are reported to the Board, together with the Executive Committee's proposed responses to mitigate findings. Any systemic weaknesses or major control weaknesses are highlighted, and the reports are graded with an opinion on the controls implications and severity of the findings.

The Board and the Executive Committee ensure that agreed actions are allocated to responsible individuals who are accountable for achieving the action within the timescales set and agreed.

Recovery and Resolution Plan (RRP)

The RRP is a regulatory requirement, which has two distinct elements:

- the recovery plan is the Group's menu of options for addressing a range of financial stresses caused by idiosyncratic problems, market wide stresses, or both; and
- resolution planning is the provision of information and analysis to the authorities, in order to help them prepare a resolution plan for the Group.

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

Capital Resources

Table 4 summarises the composition of regulatory capital resources as of 31 December 2014. Details on the Group's leverage ratio are presented in Appendix IV – Leverage Ratio. The Group complied with all externally imposed capital requirements to which it is subject for the years ended December 2013 and December 2014.

Table 4: Capital resources

		Group 2014 £'000	Group 2013 £'000
Common equity tier 1 capital			
	Called up share capital	2,431	198
	Share premium / Capital contribution	162,369	121,157
	Retained earnings	60,886	23,361
	Transfer reserve	(12,818)	(12,818)
	Other reserves	785	(156)
Deductions from common equity tier 1 capital			
	Intangible assets	(2,305)	(1,117)
	Deferred tax asset	(3,563)	-
	Investments in subsidiaries	-	-
	Common equity tier 1 capital	**207,785**	**130,625**
Additional Tier 1 capital			
	Convertible preference shares	-	1,067
	Share premium on preference shares	-	670
Total Tier 1 Capital		**207,785**	**132,362**
Tier 2 capital			
	Subordinated debt	54,219	57,127
	Collective Provisions	9,876	3,072
	Deductions from tier 2 capital	(2,000)	-
Total Tier 2 Capital		**62,095**	**60,199**
Total regulatory capital		**269,880**	**192,561**

Capital forecasts are made for a minimum 12-month rolling period and are updated monthly. The expectation is that capital will continue to be generated organically.

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

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

Intangible assets include capitalised software and do not qualify as capital for regulatory purposes. All the Perpetual Subordinated Bonds (PSBs), Subordinated Liabilities and Bonds are issued by OSB.

Table 5 shows the terms of PSBs, Subordinated Liabilities and Bonds are detailed below:

Table 5: PSBs, Subordinated Liabilities and Bonds[5]

Subordinated liabilities	**Group 2014 £'000**	**Group 2013 £'000**
Linked to LIBOR (London Interbank Offered Rate):		
Floating rate Subordinated Liabilities 2015	3,001	3,002
Floating rate Subordinated Liabilities 2016	3,003	3,003
Floating rate Subordinated Liabilities 2017	5,655	5,656
Floating rate Subordinated Loans 2022	708	706
Linked to the average standard mortgage rate of the five largest building societies:		
Floating rate Subordinated Liabilities 2017	5,047	5,049
Fixed rate:		
6.45% Subordinated Liabilities 2024	10,159	10,163
	27,573	**27,579**
Perpetual subordinated bonds		
5.99% sterling perpetual subordinated bonds	**15,234**	**15,263**
Total subordinated liabilities and bonds	**42,807**	**42,842**

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

[5] In addition to the PSBs in Table 5, the Bank has issued £22m 6.591% PSBs which are classified as equity, as full discretion can be exercised by the Directors over the payment of the coupon. The classification of these PSBs means that coupon payments are treated within retained earnings rather than through profit or loss.

Capital requirements

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

Pillar 1 requirements

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

- Credit – Standardised approach
- Operational risk - Basic indicator approach
- Market risk – not applicable
- CVA risk – Standardised method

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

Table 6: Pillar 1 capital requirements

	2014	
Standardised Exposure Classes	**Risk Weighted Assets £m**	**Capital Requirement £m**
Central government and central banks	-	-
Regional governments or local authorities	-	-
Administrative bodies and non-commercial	-	-
Multilateral development banks	-	-
International organisations	-	-
Institutions[1]	47,367	3,789
Corporates[1]	-	-
Retail	78,822	6,306
Secured by mortgages on residential property	1,328,153	106,252
Secured by mortgages on commercial real estate	140,248	11,220
Past due	161,531	12,922
Regulatory high-risk categories	-	-
Covered bonds	-	-
Securitisation positions	-	-
Short-term claims on institutions and corporates	-	-
Collective Investment Undertakings (CIUs)	-	-
Other items	15,009	1,201
Total Credit Risk	**1,771,129**	**141,690**
Operational Risk - Basic Indicator Approach		**4,458**
Counterparty Credit Risk	**1,569**	**126**
Total Pillar 1 Capital Requirements[2]		**146,274**

Notes:
1 Excluding those assessed as short-term claims on institutions and corporates
2 This figure excludes a credit valuation adjustment capital requirement of £58k.

The Group’s business is predominantly in the United Kingdom where the countercyclical capital buffer was zero as of 31 December 2014.

Large Exposures

The Group tracks its exposures by connection and regularly reports on its largest exposures, those exceeding £3.0m[6], to the Credit Committee, Risk Committee, and Board. An integral part of the underwriting process is a review of all exposures exceeding £1m by the Transactional Credit Committee.

As of 31 December 2014, there were fifty-five connections over £3.0m with a total net exposure of £295m. Of these, five were allocated specific provisions and had a total carrying value of £39.3m and provision of £8.9m.

Connections within the large exposure list are subject to detailed review, with the emphasis on non-performing assets where the Group's actions will have the most impact. Large performing connections are monitored closely to help anticipate any problems.

Overall Pillar 2 Rule

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

At least annually the Group undertakes a detailed, forward-looking assessment of capital adequacy in order to assess the Pillar 2 capital requirement. This exercise is known as the Internal Capital Adequacy Assessment Process (ICAAP). Based on the results of the ICAAP the PRA determines the Group's required Individual Capital Guidance (ICG) and Capital Planning Buffer (CPB). It is the Group's policy to hold capital resources in excess of the higher of what is implied by the Group's ICAAP and the sum of the ICG and CPB.

On a monthly basis the capital forecasts are refreshed and reviewed by the ALCO, the Risk Committee and the Board. The refreshed projections reflect the impact of actual performance to that time and consider whether key assumptions are still valid. Capital forecasts are also be produced in circumstances where a potential impact to capital may occur such as revised budget forecasts or in the course of evaluating a substantial acquisition.

Capital is not formally allocated to the businesses with lending targets and limits based instead on gross volume. However, return on equity is a key metric in product design and lending decisions and management can adjust targets and limits depending on capital availability.

Counterparty risk

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

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

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

Credit risk

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

Definition of past due and impaired

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

Impairment of financial assets

The Group regularly assesses whether there is evidence that a financial asset or a portfolio of financial assets that is not carried at fair value through profit or loss is

6 This report covers connections that are not defined as large exposures under Article 392 of the CRR, for which the threshold is 10 per cent of total capital resources. Exposures below £3m are reported at the discretion of the Risk team.

impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date ('a loss event'), and that loss event or events has / or have had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually-assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. An individual provision is also considered where an account is not in arrears but the Group has exercised forbearance in the conduct of the account. Any provision is based on a management assessment of the propensity for the account to realise a loss had forbearance not been shown taking account of the amount recoverable on mortgage indemnity cover and additional security.

For financial assets carried at amortised cost, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original EIR.

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been recognised directly in equity to the statement of profit or loss. The cumulative loss that is removed from equity and recognised in the statement of profit or loss is measured as the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss on that asset previously recognised in the statement of profit or loss.

If, in a subsequent period, the fair value of the debt security classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.
The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure and any costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. In addition, the Group uses its experienced judgement to estimate the amount of an impairment loss. This incorporates amounts calculated to overcome model deficiencies and systemic risks where appropriate and supported by historic loss experience data. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact reliability.

Impairment losses and any subsequent reversals are recognised in profit or loss. Following impairment, interest income is recognised using the original EIR which was used to discount the future cash flows for the purpose of measuring the impairment loss.

When a loan is uncollectable, it is written off against the related provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are taken through profit or loss.

The following tables analyse impaired loans and past due loans as at 31 December 2014.

Table 7: Impaired, past due, provisions and provision charges by counterparty type

Counterparty type	Gross impaired loans £'000	Gross past due loans £'000	Impairment provisions £'000	Charges for impairment provisions during the year £'000
Secured by mortgages	39,983	130,697	18,068	5,814
Retail	-	8,389	7,969	5,871
Total	**39,983**	**139,086**	**26,037**	**11,685**

Notes:
1 Counterparty type analysis is based on mapping all relevant loans to either Secured by mortgages or Retail as classified by the PRA
2 Impairment provisions include both collective and specific provisions
3 Gross past due loans presented on the regulatory basis where contractual payment is due for more than three months or the loan has a specific provision applied.

Table 8: Impaired, past due, provisions and provision charges by geographic area

Geographic area	Gross impaired loans £'000	Gross past due loans £'000	Impairment provisions £'000	Charges for impairment provisions during the year £'000
UK	34,121	101,242	22,798	10,270
Channel Islands	5,862	37,844	3,239	1,415
Rest of the World	-	-	-	-
Total	**39,983**	**139,086**	**26,037**	**11,685**

Table 9: Reconciliation of changes in provisions for impaired exposures

Impairment provisions	£'000
Opening balance as at 1 January 2014	27,533
Charge/(credit) for the year net of recoveries	11,685
Write offs in year	(13,181)
Closing balance as at 31 December 2014	**26,037**

Note: Impairment provisions include both collective and specific provisions.

Credit risk exposure breakdowns

The following tables show the Group's credit risk exposure as at 31 December 2014.

Table 10: Year end and average exposure by exposure class

Standardised Exposure Classes	Exposure at 31/12/2014 £'000	Average exposure[2] in 2014 £'000
Central government and central banks	604,138	506,443
Regional governments or local authorities		
Administrative bodies and non-commercial		
Multilateral development banks	101,446	99,112
International organisations		
Institutions[1]	205,221	141,582
Corporates[1]		
Retail	109,195	154,183
Secured by mortgages on residential property	3,569,183	3,088,021
Secured by mortgages on commercial real estate	184,049	166,046
Past due	122,925	126,639
Regulatory high-risk categories		
Covered bonds		
Securitisation positions	-	1,808
Short-term claims on institutions and corporates		
Collective Investment Undertakings (CIUs)		
Other items	15,009	20,481
Total	**4,911,166**	**4,304,315**

Notes:
1 Excluding those assessed as short-term claims on institutions and corporates
2 A simple average has been used taking the start and end of year figures wi th the exception of the securitisation position calculated based on a monthly average given the sale of the treasury RMBS portfolio in January 2014
3 Past due is shown net of specific provisions for loans where contractual payment is due more than three months or the loan has a specific provision applied.

Table 11: Exposures by geographic area and material exposure classes

Standardised Exposure Classes	UK £'000	Channel Islands £'000	Rest of the World £'000	Total £'000
Central government and central banks	604,138	-	-	**604,138**
Regional governments or local authorities	-	-	-	**-**
Administrative bodies and non-commercial	-	-	-	**-**
Multilateral development banks	-	-	101,446	**101,446**
International organisations	-	-	-	**-**
Institutions[1]	205,221	-	-	**205,221**
Corporates[1]	-	-	-	**-**
Retail	109,195	-	-	**109,195**
Secured by mortgages on residential property	3,098,427	470,756	-	**3,569,183**
Secured by mortgages on commercial real estate	165,543	18,505	-	**184,049**
Past due	88,325	34,600	-	**122,925**
Regulatory high-risk categories	-	-	-	**-**
Covered bonds	-	-	-	**-**
Securitisation positions	-	-	-	**-**
Short-term claims on institutions and corporates	-	-	-	**-**
Collective Investment Undertakings (CIUs)	-	-	-	**-**
Other items	15,009	-	-	**15,009**
Total	**4,285,858**	**523,861**	**101,446**	**4,911,166**

Notes:
1 Excluding those assessed as short-term claims on institutions and corporates.

Table 12: Exposures by significant counterparty type and exposure classes

Standardised Exposure Classes[1]	Corporate £'000	Retail £'000	Other £'000	Total £'000
Central government and central banks	604,138	-	-	**604,138**
Regional governments or local authorities	-	-	-	**-**
Administrative bodies and non-commercial	-	-	-	**-**
Multilateral development banks	101,446	-	-	**101,446**
International organisations	-	-	-	**-**
Institutions[2]	205,221	-	-	**205,221**
Corporates[2]	-	-	-	**-**
Retail	-	109,195	-	**109,195**
Secured by mortgages on residential property	-	3,569,183	-	**3,569,183**
Secured by mortgages on commercial real estate	-	184,049	-	**184,049**
Past due	-	122,925	-	**122,925**
Regulatory high-risk categories	-	-	-	**-**
Covered bonds	-	-	-	**-**
Securitisation positions	-	-	-	**-**
Short-term claims on institutions and corporates	-	-	-	**-**
Collective Investment Undertakings (CIUs)	-	-	-	**-**
Other items	-	-	15,009	**15,009**
Total	**910,805**	**3,985,352**	**15,009**	**4,911,166**

Notes:
1 Credit risk categories shown reflect PRA reporting
2 Excluding those assessed as short-term claims on institutions and corporates.

Table 13: Exposures by residual maturity breakdown

Standardised Exposure Classes	< 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Central government and central banks	567,907	36,231	-	-	**604,138**
Regional governments or local authorities	-	-	-	-	**-**
Administrative bodies and non-commercial	-	-	-	-	**-**
Multilateral development banks	-	10,053	72,171	19,223	**101,446**
International organisations	-	-	-	-	**-**
Institutions[1]	202,083	136	2,076	925	**205,221**
Corporates[1]	-	-	-	-	**-**
Retail	5,644	13,811	89,427	314	**109,195**
Secured by mortgages on residential property	37,444	16,513	335,440	3,179,786	**3,569,183**
Secured by mortgages on commercial real estate	2,606	552	19,500	161,391	**184,049**
Past due	-	-	-	122,925	**122,925**
Regulatory high-risk categories	-	-	-	-	**-**
Covered bonds	-	-	-	-	**-**
Securitisation positions	-	-	-	-	**-**
Short-term claims on institutions and corporates	-	-	-	-	**-**
Collective Investment Undertakings (CIUs)	-	-	-	-	**-**
Other items	-	-	-	15,009	**15,009**
Total	**815,684**	**77,295**	**518,614**	**3,499,573**	**4,911,166**

Notes:
1 Excluding those assessed as short-term claims on institutions and corporates.

Use of External Credit Assessment Institutions (ECAIs)

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

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

Table 14: Exposures by Credit Quality Step

Institutions (incl. banks)[1]

Credit Quality Step	Fitch	Moody	S&P	Risk Weight	Exposure 2014 £'000	Exposure 2013 £'000
1	AAA to AA-	AAA to AA-	Aaa to Aa3	20%	-	15,420
2	A+ to A-	A+ to A-	A1 to A3	50%	-	6,022
3	BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	100%	-	-
4	BB+ to BB-	BB+ to BB-	Ba1 to Ba3	100%	-	-
5	B+ to B-	B+ to B-	B1 to B3	100%	-	-
6	CCC+ and below	CCC+ and below	Caa1 and below	150%	-	-
Total						**21,442**

Notes:
1 Excluding those assessed as short-term claims on institutions and corporates.

Short term claims on Institutions and Corporates

Credit Quality Step	Fitch	Moody	S&P	Risk Weight	Exposure 2014 £'000	Exposure 2013 £'000
1	AAA to AA-	AAA to AA-	Aaa to Aa3	20%	-	-
2	A+ to A-	A+ to A-	A1 to A3	20%	153,220	70,870
3	BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	20%	-	-
4	BB+ to BB-	BB+ to BB-	Ba1 to Ba3	50%	-	-
5	B+ to B-	B+ to B-	B1 to B3	50%	-	-
6	CCC+ and below	CCC+ and below	Caa1 and below	150%	-	-
Total					**153,220**	**70,870**

Interest Rate Risk in the Non-trading Book

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

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

The Group measures Interest Rate risk using fourteen different interest rate curve shift scenarios designed to emulate a full range of market movements. These fourteen scenarios are defined by ALCO and are based on three 'shapes' of curve movement (shift, twist, and flex) with movements in rates scaled to approximate the potential move over one year at 99.9% two-tailed confidence interval with interest rates floored to zero. In addition, the regulatory scenario of an un-floored parallel shift of 200bps in both directions is applied.

Exposure is mitigated on a continuous basis through the use of derivatives within limits set by the ALCO and the Board (currently 3% of Common Equity Tier 1 Capital). After taking into account the derivatives entered into by the Group, a parallel interest rate increase of 2% would result in a gain of £2.4m (2013: £1.5m gain) in the statement of profit or loss.

Securitisation Risk

As of 31 December 2014, the Group had pledged under its securitisation programme mortgages with a carrying value of £328.0m (2013: £369.2m). The Group continues to recognise these loans on balance sheet, and risk weights them accordingly. This treatment results from the Group's retention of exposure to substantially all of the credit risk and rewards of the residual benefit of the underlying loan. Thus, Article 243 of CRR is not applicable when calculating risk weighted assets on the securitised loans, and no further disclosures are necessary.

Asset Encumbrance

As a part of its business strategy, the Group holds mortgage assets that are encumbered as a result of securitisation as discussed above, or through pre-positioning with the Bank of England under the Funding for Lending Scheme. Assets are further pledged under repurchase agreements. The Group also receives collateral in certain transactions. Additional information on asset encumbrance can be found in Appendix I - Disclosure on Asset Encumbrance.

Operational Risk

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

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

Remuneration

This remuneration disclosure is a requirement under Article 450 of the CRR, which applies to companies within the definition of Significant IFPRU firm (FCA/PRA Combined View IFPRU 1.2). It applies to the Group's remuneration policies and practices for categories of staff whose professional activities have a material impact on the company's risk profile (Code Staff).

Decision-making process

The Remuneration Committee of the Board is responsible for governance of remuneration for Executive Directors and other Code Staff. The Committee currently comprises three independent non-executive directors.
During 2014, the members of the Committee were:

- Mary McNamara (Committee Chairman) – from 19 May 2014
- Malcolm McCaig – from 1 February 2014
- Nathan Moss – from 19 May 2014
- Tim Hanford – until 19 May 2014
- David Mills – until 2 May 2014

The Committee met 9 times during the financial year 2014. Going forwards, they will hold a minimum of two meetings in each financial year, with additional meetings held where appropriate to do so.
The Committee has responsibility for setting and reviewing the remuneration policy and determining pay levels and structure for senior management including Executive Directors and Code Staff. A full description of their accountability is set out in the Committee's Terms of Reference, available on the company's website. In determining the remuneration policy the Committee takes into account all factors which it deems necessary (including relevant legal and regulatory requirements, the provisions and recommendations of the UK Corporate Governance Code ("Code") and associated guidance).

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

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

The link between pay and performance

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

- striking an appropriate balance between risk taking and reward;
- encouraging and supporting a strong culture of service and delivery;
- aligning employees' interests with those of shareholders and customers;
- rewarding the achievement of the overall business objectives of the Group; and
- guarding against inappropriate risk taking.

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

Remuneration Structures and their purpose

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

Fixed pay

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

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

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

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

Prior to approving payouts under the Executive Bonus Scheme, the Committee receives reports from the Chief Risk Officer and the Group Head of Compliance, so as to confirm that the Company has operated within the Board's approved risk framework for the year under review and that the indicative payout is appropriate in this context.

For 2014, the performance conditions in the Business Balanced Scorecard ("BBS") which comprised 75% of the award were:

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

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

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

While the Committee is committed to ensuring that Executive remuneration is dependent on the long-term success of the Company, some elements of SYSC 19A.3.47 (Retained shares and other instruments) and SYSC 19A.3.51 (Performance adjustment) have been disapplied as per paragraph 29 of the FCA's General guidance on proportionality: The Remuneration Code (SYSC 19A).

Performance Share Plan

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

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

The 2015 awards under the Performance Share Plan (the first made under the Plan since the Company listed in June 2014) are subject to an EPS (earnings per share) and TSR (total shareholder return) performance condition. The performance targets are:

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

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

Share ownership requirements

Executive Committee Members are also required to build and maintain a shareholding in the company (200% of base salary for the CEO, 150% of base salary for the other Executive Director and 100% of base salary for other Executive Committee Members).

Malus & Clawback

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

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

IPO Share Award

Certain Directors, senior managers and other employees of the Group received one off share awards in the form of nil price options over shares in the Group on its admission to the London Stock Exchange. A proportion of these awards vested on admission with the remainder vesting over either a 12, 24 or 48 month period.

Ratios between fixed and variable remuneration

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

Additional information on Directors' remuneration

Additional guidance on Directors' remuneration is available on pages 52-66 of the Group's 2014 Annual Report and Accounts.

Aggregate quantitative information on remuneration

Aggregate quantitative information on remuneration Table 15 below provides aggregate quantitative information set out in accordance with clauses 1(h) (i) to (vi) of CRR Article 450.

Table 15: Code staff aggregate remuneration for 2014

	Senior Management (ExCo & NED's)		Other Code staff		Notes
	No. of recipients	**£,000**	**No. of recipients**	**£,000**	
Fixed remuneration during 2014	20	2738	10	798	Includes basic salary, employer pension contribution, car allowances and PMI
Variable remuneration awarded for 2014 performance					
Cash (Paid in Year)	9	701	9	175	
Cash (Deferred for 12 months)	-	-	8	37	
Shares (Awarded in 2015 and deferred for 3 years)	9	701	-	-	
Nil cost share options					
IPO Awards	9	4073	8	1210	Calculated using IPO Share Price of 1.70
Sign-on payments or awards	1	93	-	-	
Severance payments	-	-	-	-	
Total Remuneration		**8306**		**2220**	
Outstanding deferred remuneration change during the year:					
As at 31 December 2013:					
Outstanding unvested	-	-	-	-	
Outstanding vested but unexercised	-	-	-	-	
Total		**-**		**-**	
Changes during the year:					
Awarded (As per IPO Awards above)	9	4073	8	1210	Calculated using IPO Share Price of 1.70
Lapsed due to performance outcomes or adjustments	-	-	-	-	
Lapsed due to leaving service	-	-	1	11	Calculated using year end 2014 share price of 2.145
Vested	9	1919	4	353	Calculated using IPO Share Price of 1.70
Exercised	9	1398	4	353	Calculated using IPO Share Price of 1.70
As at 31 December 2014:					
Outstanding unvested	5	2718	7	1070	Calculated using year end 2014 share price of 2.145
Outstanding vested but unexercised	3	657	-	-	Calculated using year end 2014 share price of 2.145
Total		**3375**		**1070**	

Code staff aggregate remuneration of EUR 1m or more for 2014

No Code Staff received total remuneration in excess of €1 million in 2014. Remuneration includes base salary, pension contribution (or allowance), ancillary benefits, and variable pay granted for 2014 performance.

Appendix I - Disclosure on Asset Encumbrance

Template A – Assets

		Carrying amount of encumbered assets £'000	Fair value of encumbered assets £'000	Carrying amount of unencumbered assets £'000	Fair value of unencumbered assets £'000
		010	**040**	**060**	**090**
010	Assets	459,271		4,456,262	
030	Equity instruments	-	-	-	-
040	Debt securities	119,600	19,984	36,303	36,218
120	Other assets	339,671		4,419,959	

Template B – Collateral received

		Fair value of encumbered collateral received or own debt securities issued £'000	Fair value of collateral received or own debt securities issued available for encumbrance £'000
		010	**040**
130	Collateral received	-	-
150	Equity instruments	-	-
160	Debt securities	-	-
230	Other collateral received	-	-
240	Own debt securities issued other than own covered bonds or ABSs	-	-

Template C- Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent £'000	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £'000
		010	**030**
010	Carrying amount of selected financial liabilities	355,722	257,722

Template D- Information on importance of encumbrance

Assets are encumbered as part of the Group's funding arrangements. The main activities relates to securitisation and repurchase agreements. The Group holds encumbered assets in the form of a reserve bank account with the Bank of England, loans and advances to customers secured within the Group's securitisation vehicle, securities encumbered under the Funding for Lending Scheme, and cash collateral received in relation to derivative transactions. Within unencumbered Other Assets, 98% of these assets are deemed to be available for encumbrance, this includes non-reserve bank account with the Bank of England, cash at bank and loans and advances. Other Assets items that are deemed not able to be encumbered include intangible assets, deferred tax asset, property, plant and equipment, derivative assets and sundry debtors. The Group's ALCO reviews the asset encumbrance of the institution as a whole on a monthly basis and any events causing change in the asset encumbrance level are examined.

Appendix II – Own Funds

One Savings Bank Plc

	£000	**£000**
Common Equity Tier 1 capital: instruments and reserves	**31/Dec/14**	**Final CRD IV**
Capital instruments and the related share premium accounts	**164,800**	**164,800**
of which: Common shares	2,431	2,431
Retained earnings	60,886	60,886
Accumulated other comprehensive income (and any other reserves)	(12,033)	(12,033)
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**213,653**	**213,653**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Goodwill and Other intangible assets (net of related tax liability)	(2,305)	(2,305)
Deferred tax assets that rely on future profitability excluding those arising from temporary difference	(3,563)	(3,563)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(5,868)**	**(5,868)**
Common Equity Tier 1 (CET1) capital	**207,785**	**207,785**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**207,785**	**207,785**

One Savings Bank Plc (continued)

	£000	£000
Tier 2 (T2) capital: instruments and provisions		
Subordinated loans	54,219	54,219
Credit risk adjustments	9,876	9,876
Tier 2 (T2) capital before regulatory adjustment	**64,095**	**64,095**
Tier 2 (T2) capital: regulatory adjustments		
Of which holdings existing before 1 January 2013 and subject to transitional arrangements	(2,000)	(10,000)
Total regulatory adjustments to Tier 2 (T2) capital	**(2,000)**	**(10,000)**
Tier 2 (T2) capital	62,095	54,095
Total capital (TC = T1 + T2)	**269,880**	**261,880**
Total risk-weighted exposures	1,829,157	1,829,157
Capital ratios and buffers		
Common Equity Tier 1 ratio	11.4%	11.4%
Tier 1 ratio	11.4%	11.4%
Total capital ratio	14.8%	14.3%
Applicable caps on the inclusion of provisions in Tier 2		
Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	9,876	9,876
Cap on inclusion of credit risk adjustments in T2 under standardised approach	22,139	22,139
Capital instruments subject to phase-out arrangements (applicable between 1 Jan 2014 and 1 Jan 2022)		
- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	(2,000)	(10,000)

Appendix III – Subordinated Debt Instruments

Capital instruments' main features template

Issuer	OneSavings Bank Plc									
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	-	-	-	-	GB00B67JQX63	GB00B61ZXL72	-	-	-	-
Governing law(s) of the instrument	England	England	England	England	England	England	England	England	England	England
Regulatory treatment										
Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Ineligible	Tier 2	Tier 2	Tier 2
Eligible at solo/(sub-) consolidated/ solo & (sub-) consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated
Instrument type (types to be specified by each jurisdiction)	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt
Amount recognised in regulatory capital (£)	435,378	1,167,488	1,252,793	1,376,616	14,926,006	22,000,000	10,000,000	2,357,612	403,000	300,000
Nominal amount of instrument (£)	3,000,000	3,000,000	2,800,000	2,850,000	15,000,000	22,000,000	10,000,000	5,000,000	403,000	300,000
Issue price	Par	Par	Par	Par	Par	Par	Par	Par	Par	Par
Redemption price	Par	Par	Par	Par	Par	Par	Par	Par	Par	Par
Accounting classification	Liabilities	Liabilities	Liabilities	Liabilities	Liabilities	Equity	Liabilities	Liabilities	Liabilities	Liabilities
Original date of issuance	22 September 2005	11 December 2006	27 March 2007	31 May 2007	27 August 2004	07 March 2006	30 September 2009	09 May 2009	14 September 2012	14 September 2012
Perpetual or dated	Dated	Dated	Dated	Dated	Perpetual	Perpetual	Dated	Dated	Dated	Dated
Original maturity date	22 September 2015	11 December 2016	27 March 2017	31 May 2017	N/A	N/A	30 September 2024	10 May 2017	13 September 2017	13 September 2017
Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Optional call date, contingent call dates, and redemption amount	-	-	-	-	-	-	-	-	-	-

Capital instruments' main features template (continued)

Issuer	OneSavings Bank Plc									
Subsequent call dates, if applicable	-	-	-	-	-	-	-	-	-	-
Coupons / dividends	-	-	-	-	-	-	-	-	-	-
Fixed or floating dividend/ coupon	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Floating	Floating
Coupon rate and any related index	2.56188%	2.12688%	2.04000%	2.19000%	5.98840%	6.59100%	6.45000%	6.70000%	3.05181%	6.05181%
Existence of a dividend stopper	No	No	No	No	No	No	No	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory
Existence of step up or other incentive to redeem	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Noncumulative or cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger(s)	-	-	-	-	-	-	-	-	-	-
If convertible, fully or partially	-	-	-	-	-	-	-	-	-	-
If convertible, conversion rate	-	-	-	-	-	-	-	-	-	-
If convertible, mandatory or optional conversion	-	-	-	-	-	-	-	-	-	-
If convertible, specify instrument type convertible into	-	-	-	-	-	-	-	-	-	-
If convertible, specify issuer of instrument it converts into	-	-	-	-	-	-	-	-	-	-
Write-down features	-	-	-	-	-	-	-	-	-	-

Capital instruments’ main features template (continued)

Issuer	OneSavings Bank Plc									
If write-down, write-down trigger(s)	-	-	-	-	-	-	-	-	-	-
If write-down, full or partial	-	-	-	-	-	-	-	-	-	-
If write-down, permanent or temporary	-	-	-	-	-	-	-	-	-	-
If temporary write-down, description of write-up mechanism	-	-	-	-	-	-	-	-	-	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	-	-	-	-	-	-	-	-	-	-
Non-compliant transitioned features	No	No	No	No	No	No	No	No	No	No
If yes, specify non-compliant features	-	-	-	-	-	-	-	-	-	-

Appendix IV – Leverage Ratio

As at 31 December 2014	**£000**
Total assets as per published financial statements	4,936,527
Adjustment for derivative instruments	4,732
Adjustment for off-balance sheet items	57,324
Other adjustments	(5,868)
Leverage ratio exposure	**4,992,716**
Leverage ratio common disclosure	
On-balance sheet exposures (excl. derivatives and SFTs)	
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	4,935,590
Asset amounts deducted in determining Tier 1 Capital	(5,868)
Total on-balance sheet exposures	**4,929,722**
Derivative exposures	
Replacement cost associated with derivatives transactions	703
Add-on amounts for PFE associated with derivative transactions	4,966
Total derivative exposures	**5,669**
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	262,452
Adjustments for conversion to credit equivalent amounts	(205,127)
Total off-balance sheet exposures	**57,325**
Capital and Total Exposure	
Tier 1 capital	207,785
Total Exposures	**4,992,716**
Leverage Ratios	
Year end leverage ratio	4.2%

OneSavings Bank plc
Incorporated in England and Wales
Registered Number: 07312896

Registered office:
Reliance House
Sun Pier
Chatham
Kent ME4 4ET
United Kingdom