PILLAR 3 DISCLOSURES

For the year ended 31 December 2017

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Overview

This document sets out the consolidated Pillar 3 disclosures of OneSavings Bank plc (OSB) and its subsidiaries (the Group) as at 31 December 2017. 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 the company's website: www.osb.co.uk. All figures in these disclosures are consistent with the basis used for prudential regulatory reporting. The main differences in prudential regulatory reporting as compared to disclosures in the annual accounts are:

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

Pillar 3 Disclosure Policy

The Group is supportive of the overarching objectives of Pillar 3 disclosures, 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.

Materiality

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

Confidentiality

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

Verification

The information and figures contained in the Pillar 3 disclosure document have been subject to internal verification and are based on the financial statements and supporting schedules. Within the 2017 Pillar 3 disclosures there is additional reporting over what is presented in the statutory financial accounts and Common Reporting ("COREP") which is submitted to the Prudential Regulation Authority (PRA). The additional disclosures over the statutory financial accounts include code staff aggregate remuneration for 2017, 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), Leverage Ratio (Appendix IV) and disclosure on LCR (Appendix V). 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 2017, the Group provides a qualitative discussion and table of the four quarterly averages LCR on how it meets the LCR. For Net Stable Funding Ratio ("NSFR") the first reporting in the Group's Pillar 3 disclosures is scheduled for December 2018.

Basis and frequency of disclosure

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

Media and location of publication

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

Management and Board sign-off

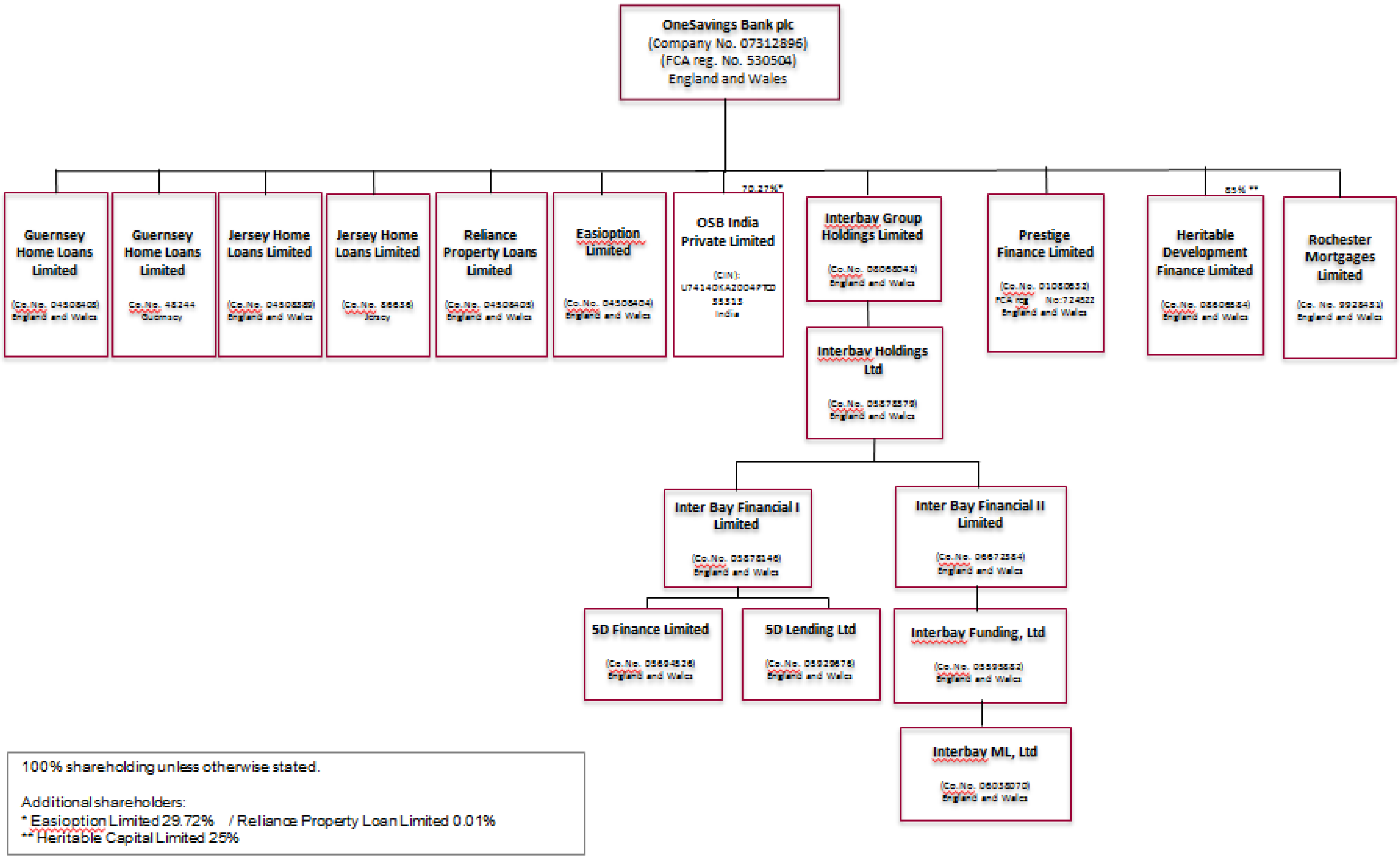
The Regulatory Governance Committee (a sub-committee of the Executive Committee) and the Audit Committee are responsible for assessing and confirming the appropriateness of the Pillar 3 disclosures, including their verification and frequency. The disclosures must convey the Group's risk profile comprehensively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

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

Scope

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

Figure 1: Group Structure as at 31 December 2017



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.

As at 31st December 2017 all subsidiaries are included within the solo consolidation with the exception of OSB India Private Limited and Rochester Mortgages Limited. There are no material differences in the basis of consolidation for accounting and prudential purposes.

Chief Risk Officer's report

Approach to Risk Management

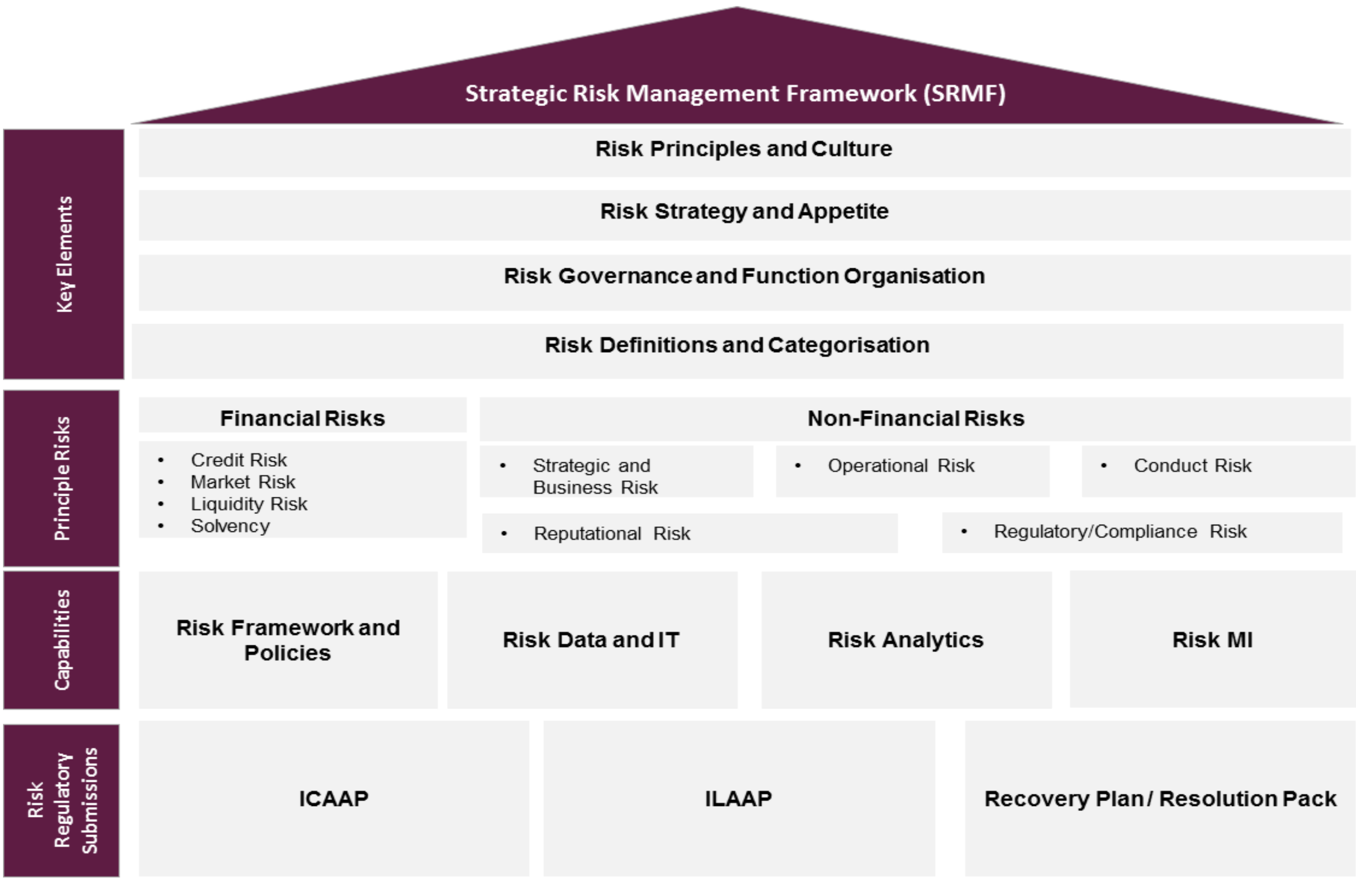
Ongoing risk identification, assessment, monitoring and reporting are the primary risk disciplines underpinning the Group's growth strategy and adherence to the prudential and conduct regulatory requirements. The Group's approach to risk management is outlined within the Strategic Risk Management Function (SRMF).

The SRMF is the overarching framework which enables the Board and senior management to actively manage and optimise the risk-reward profile within the constraints of the Group risk appetite. Specifically, the SRMF enables the Board and senior management to take informed decisions by appropriately balancing the interests and expectations of the various stakeholders and to manage potential trade-offs within the context of the risk appetite.

The SRMF is a structured approach to aligning the Board's overarching objectives against the risks assumed and the ongoing management of these risks. The SRMF enables the Board to articulate its expectations and tolerance in relation to the nature and level of risks it is willing to assume in pursuit of its strategic and business agenda. The Board also uses the SRMF to outline its expectations with respect to the appropriate level of risk management capabilities and the sophistication needed to actively manage the risk profile.

The modular construct of the SRMF provides for an agile approach to responding effectively to the evolving nature of the business and regulatory environment. The SRMF and its core modular components are subject to periodic review and approval by the Board and its oversight committees.

Figure 2: Strategic Risk Management Framework



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

Key Modular Component 1: Risk Principles and Culture

The Board adopted a principle based approach to articulating its expectations and guidance relating to how the Group should frame its risk management approach. The risk management principles are designed to set a clear 'tone from the top' with respect to the Group's risk culture and values. The risk principles also provide the background context in which to articulate the Group's risk management objectives, strategy and appetite.

The Risk Principles are:

- **Customer Outcomes:** Fair treatment and good customer outcomes are core business values which cannot be put at risk.
- **Proportionate and Scalable:** The approach to risk management needs to be commensurate with the complexity of the underlying risk profile and appropriately agile to respond to changing business and regulatory needs.
- **Actively Managed:** The risk profile needs to be actively managed within the Board approved risk appetite.
- **Comprehensive Coverage:** All risks and their underlying drivers impacting the Group's strategic, business, operational and regulatory objectives should be actively assessed, monitored and reported.
- **Segregation of Duties:** Risk taking, oversight and assurance responsibility to be organised in adherence to the 'three lines of defence' principle.
- **Integration and Usage:** Risk assessment should be a critical feature of decision making processes at all levels of the organisation.
- **Versatile and Progressive:** The approach to managing risks should be subject to continuous review and challenge to keep pace with emerging good practice and regulatory standards.

In adherence to the risk management principles, the Group Board and senior management have cultivated a risk culture which encourages a proactive, transparent and analytical approach to risk management. Risks are assumed in a balanced and considered manner, taking into account stakeholder expectations, good customer outcomes, risk management capabilities and controls.

Key Modular Component 2: Risk Strategy and Appetite

Risk Strategy

The Groups risk strategy is to create value through informed risk-based decisions and leveraging the Group's risk data and analytics in a timely and accurate manner to optimise the risk-reward profile. Risks are only to be assumed which can be effectively identified, assessed, measured and controlled across all phases of the risk life cycle.

This risk strategy is based on three key components:

- Creating value through generating returns which sufficiently exceed the cost of risk, funding costs and operating costs;
- Risks are only to be assumed where they are subject to a structured and disciplined approach to risk management;
- Risk management capabilities are scalable and agile enough to adequately address future evolution of the risk profile.

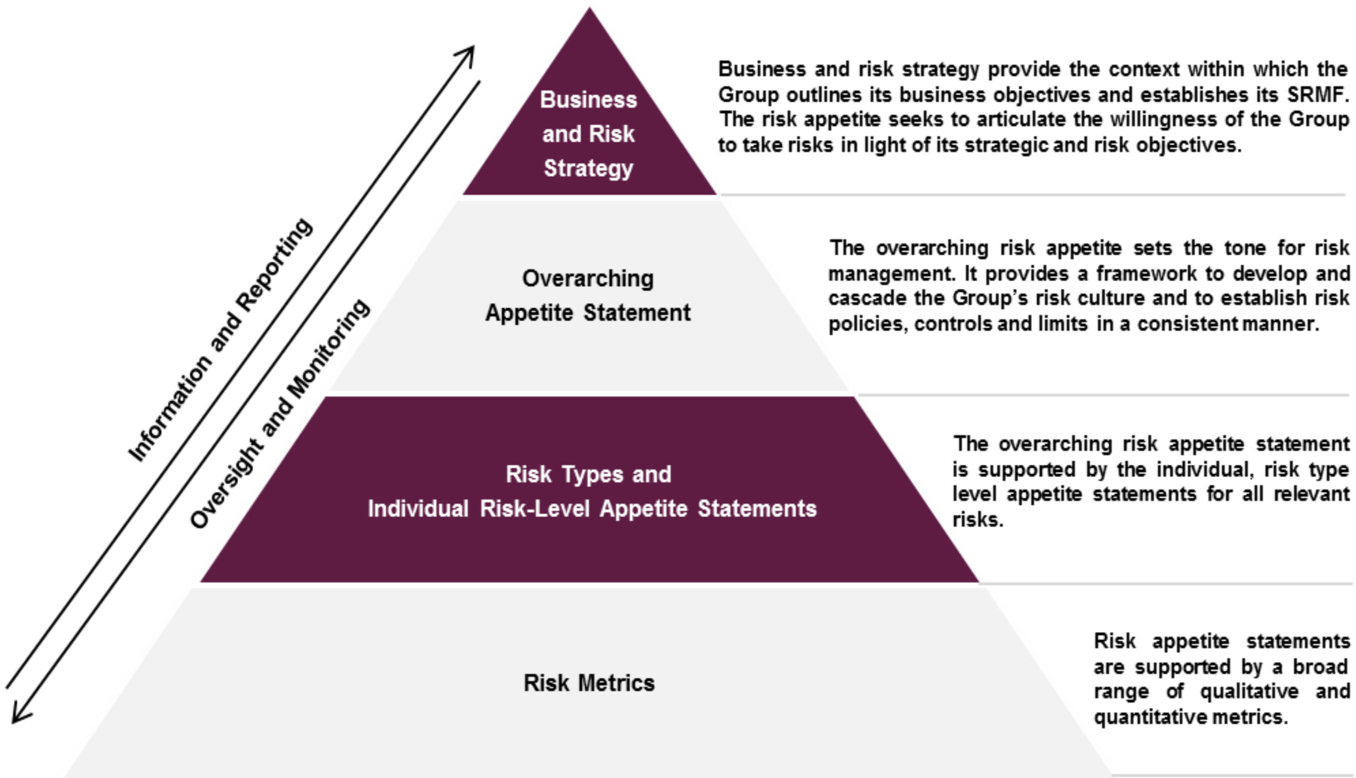
Risk Appetite

The Group effectively aligned its strategic and business objectives with its risk appetite, ensuring that the Board and senior management are able to monitor the underlying risk profile relative to the overarching risk principles, risk strategy and financial performance objectives of the Group. The risk appetite is a critical mechanism through which the Board and senior management are able to identify adverse trends and respond to unexpected developments in a timely and considered manner.

The risk appetite is calibrated to reflect the Group's strategic objectives, business operating plans, as well as external economic, business and regulatory constraints. In particular, the risk appetite is calibrated to ensure that the Bank continues to deliver against its strategic objectives and operates with sufficient financial buffers even when subjected to plausible but extreme stress scenarios. The objective of the Board risk appetite is to ensure that the strategy and business operating model is sufficiently resilient.

The risk appetite is calibrated using statistical analysis and stress testing to inform the process by which the Board set management triggers and limits against key risk indicators. The Board and senior management actively monitor actual performance against Board approved management triggers and limits to respond in a timely manner to adverse trends and breaches.

Figure 3: Risk Appetite



Risk Appetite Statements

Overarching Risk Appetite Statement

The Group has a prudent and proportionate approach to risk taking and management, which is reflective of its straightforward business model. The inherent resilience of the Group's business model is underpinned by the fact that the Group only lends on a secured basis, has established robust underwriting practices and relies on intermediary based distribution. The Group supports its lending activities by being predominantly reliant on stable retail funding, supported by strong and high quality financial buffers. The highly efficient business operating model is an important source of competitive advantage. The Group also places significant importance on its strong conduct and compliance culture as an important driver of its overall success.

Business and Strategic Risk Appetite Statement

The Group does not intend to undertake any long to medium term strategic actions which could put at risk the Group's vision of being a leading specialist lender in its chosen markets, supported by a strong and dependable savings franchise.

The Group aims to also maintain a resilient and sustainable business operating model under normal and stressed market conditions. In particular, the business operating model should be able to sustain an extreme but plausible stress of a 1 in 20 intensity stress without breaching its key business performance indicators.

Reputational Risk Appetite Statement

The Group has a very low risk appetite for reputational risks. The Group will not conduct its business or engage with stakeholders in a manner that could adversely impact its reputation or franchise value.

The Group seeks to protect and enhance its reputation at all times through on-going identification and assessment of reputational risk events, active engagement with the Board, establishment of clear mitigating plans and actions, including communication actions and crisis management plans.

Credit Risk Appetite Statement

The Group seeks to maintain a high quality lending portfolio that generates adequate returns, in benign and stressed operating environments.

Market Risk Appetite Statement

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

Liquidity and Funding Risk Appetite Statement

The Group will maintain sufficient liquidity to meet its liabilities as they fall due under normal and stressed business conditions; this will be achieved by maintaining a strong retail savings franchise, supported by a high quality liquid asset portfolio comprised of cash and readily-monetizable assets, and through access to pre-arranged secured funding facilities. The Board requirement to maintain balance sheet resources sufficient to survive a 1 in 20 severity stress is interpreted in terms of the Liquidity Coverage Ratio and corresponding Liquidity Ratio.

Solvency Risk Appetite Statement

The Group seeks to ensure that it retains a sufficient level and quality of capital to satisfy its minimum regulatory requirements to cover its prudential risks and support its growth objectives. The Group's solvency risk appetite is constrained within the leverage ratio. The Group also seeks to ensure its solvency levels do not fall below the risk appetite levels in a 1 in 20 stress scenario post management actions.

Operational Risk Appetite Statement

The Group aims to minimise operational risk arising from its ongoing business activities and operations and has no appetite for systemic operational failures which cause damage to its reputation, customers and financial performance.

Conduct Risk Appetite Statement

The Group aims to operate and conduct its business to the highest standards which ensure integrity and trust with respect to how the Group operates and manages its relationships with key stakeholders. In this respect the Group has no appetite to knowingly assume risks which may result in an unfair outcome for customers and/or cause disruptions in the market segments in which it operates.

Compliance and Regulatory Risk Appetite Statement

The Group views ongoing conformance with regulatory rules and standards across all the jurisdictions in which it operates as a critical facet of its risk culture. The Group does not knowingly accept compliance risk which could result in regulatory sanctions, financial loss or damage to its reputation. The Group will not tolerate any systemic failure to comply with applicable laws, regulations or codes of conduct relevant given its business operating model.

The Group acknowledges that regulatory rules and standards are subject to interpretation and subsequent translation into internal policies and procedures. The Group interprets requirements to ensure adherence with the intended purpose and spirit of the regulation whilst being cognisant of commercial considerations and good customer outcomes. To minimise regulatory risk, the Group proactively engages with its regulators, participates in industry forums and seeks external advice to validate its interpretations.

Key Modular Component 3: Risk Governance and Function Organisation

Risk governance refers to the processes and structures established by the Board, to ensure that risks are assumed and managed within the Board approved risk appetite, with clear delineation between risk taking, oversight and assurance responsibilities. The Group's risk governance framework is structured to adhere to the 'three lines of defence' model. All risk taking, oversight and assurance functions are allocated to accountable Executives.

The Board has the ultimate responsibility for the oversight of the Group's risk profile and management framework and where it deems it appropriate, it delegates its authority to its nominated committees. The Board and its Committees are provided with appropriate and timely information relating to the nature and level of the risks to which the Group is exposed and the adequacy of the risk controls and mitigants. The Internal Audit function provides independent assurance to the Board and its committees as to the effectiveness of the systems and controls and the level adherence with internal policies and regulatory requirements.

The Executive Committee has day-to-day responsibility for managing the Group's risk profile within the parameters of the Board approved risk appetite. The Executive Committee discharges its risk control and oversight responsibilities through a number of management level risk committees covering all principal risks. The Chief Risk Officer ('CRO') is the accountable executive responsible for establishing an effective risk management framework supported by appropriately organised Risk and Compliance functions. In discharging his duties, the CRO has dual reporting lines into the Group CEO and the Chair of the Risk Committee. The CRO ensures that the risk function is appropriately resourced and capable of identifying, assessing and reporting all principal risks to which the Group is exposed.

The various management level risk Committees (see table below) have been established to ensure a more focused approach to monitoring and managing the specific risks. Additional sub-committees and working groups have also been established to focus on specific risk initiatives or projects.

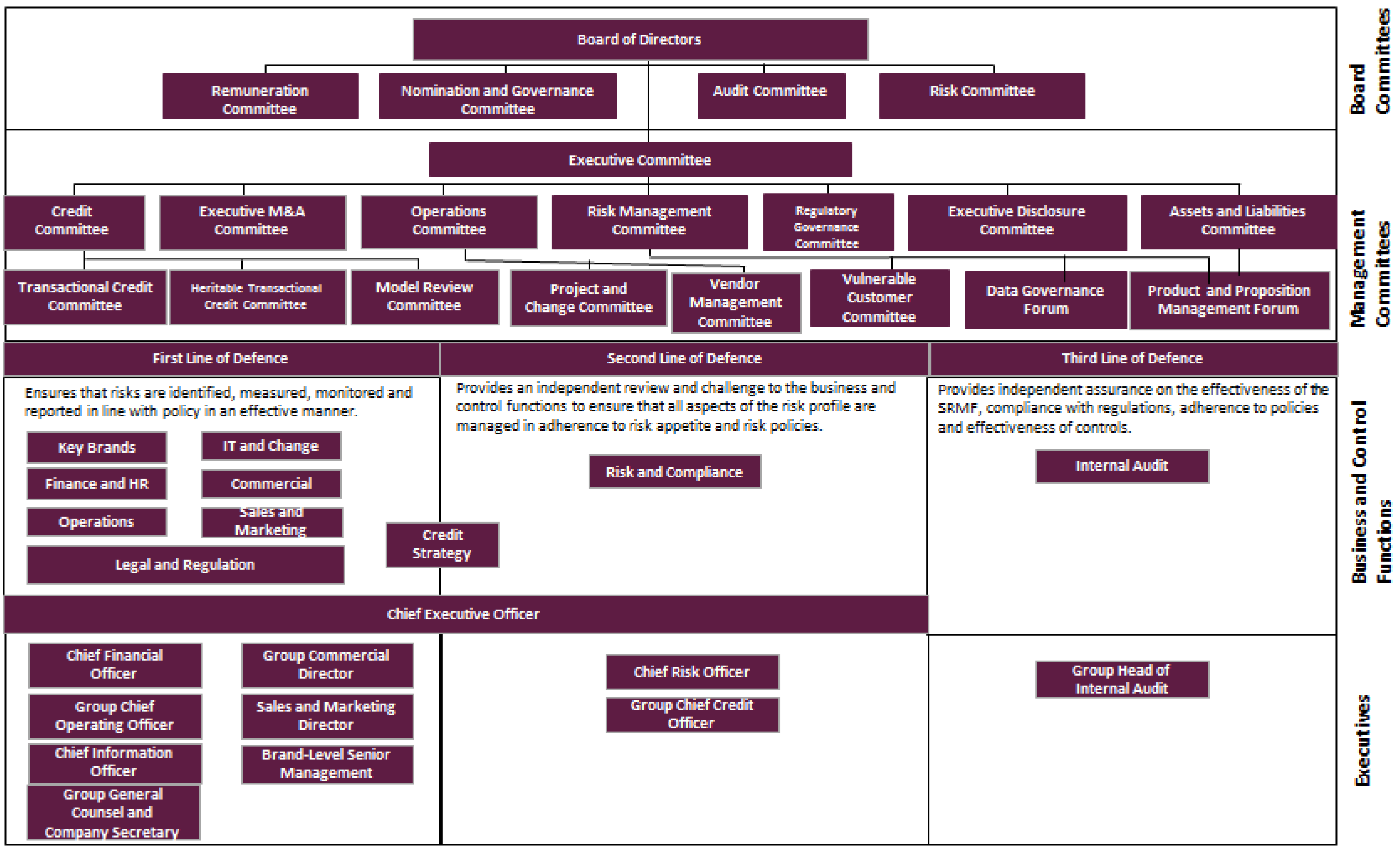
The OSB risk governance structure is detailed below:

Figure 4: Risk Governance Structure

Risk	Credit	Market	Liquidity	Operational	Regulatory	Conduct
Board governance	Board					
	Risk Committee					
Management governance	Executive Committee					
	Credit Committee	Assets and Liabilities Committee		Risk Management Committee	Regulatory Governance Committee	
	Chief Risk Officer					
Frameworks	Strategic Risk Management Framework, Stress Testing Framework					
Key policies and documents	Credit Risk Management Framework, Lending Policy, Arrears, Repossession and Forbearance Policies	Interest Rate Risk in the Banking Book Policy	Market & Liquidity Risk Management Framework, Treasury Policy, Funding & Liquidity Risk Policy	Operational Risk Management Framework, Operational Resilience Policy, Vulnerable Customer and Suicide Awareness Policy	Compliance Risk Management Framework, Financial Crime Risk Management Framework, Group Anti-Money Laundering and Counter Terrorist Financing Policy, SMR policies	Conduct Risk Management Framework, Conduct Risk Policy
	Risk Appetite Statement, ICAAP, Recovery Plan, Resolution Pack					
		ILAAP				
Management Information	Credit MI pack	ALCO MI pack		Operational Risk MI pack	Compliance and Financial Crime MI pack	Conduct Risk MI pack

The OSB risk organisational structure is detailed below:

Figure 5: Risk Governance and Organisational Structure



Key Modular Component 4: Risk Definitions and Categorisation

The Group's business activities, business model and external operating environment result in a unique risk profile. To ensure that the Group is actively monitoring and responding to the evolving nature of its risk profile, it has established a broad range of early warning indicators and maintains risk registers covering all principal risks. Outlined below are the various financial and non-financial risks which constitute the Group's risk profile.

Figure 6: Risk Profile

Business model characteristics

- Specialist,and primarily secured lender to underserved sectors
- Desired levels of credit exposure to key segments (Buy-to-let/SME, residential)
- Potential for concentrations
- Also incurs exposure to potentially riskier sub-sectors (2nd charge, bridging and development finance)
- Manage infrastructure and operations to support its core business activities
- Performs activities to ensure regulatory compliance
- The Bank is subject to variations in the macroeconomic environment and movements in key variables (e.g. Gross Domestic Product (GDP), unemployment, interest rates)

Risk profile

Financial risks

Portfolio credit risk
The risk of losses due to one or more borrowers failing to meet all or part of their obligations towards the Bank. Credit risk also includes other elements such as pre-settlement and settlement risk, residual risk of credit risk mitigation and concentration risk.

Market risk (incl. IRRBB)
The risk of losses in on and off-balance sheet positions arising from adverse movements in market prices.

IRRBB - The current or prospective risk to both the earnings and capital, in respect of the banking book only, arising from adverse movements in interest rates. This risk arises when there is a mismatch between the risk profiles of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) and includes risks such as basis risk, yield curve risk etc.

Non-financial risks

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

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

Operational risk
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk but excludes strategic and reputational risk.

Conduct risk
Conduct risk as the risk that the firm's culture, organisation, behaviours and actions result in poor outcomes and detriment for customers and/or damage to consumer trust and integrity of the markets in which we operate.

Regulatory / compliance risk
The risk of failure due to non-adherence to provisions of the PRA handbook and all relevant prudential and conduct standards in the UK or non-compliance with reporting requirements or submission of incorrect information.

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

Liquidity and funding risk
The potential inability of the Bank to fund increases in assets, manage unplanned changes to funding sources and to meet obligations when required. It primarily arises due to the maturity mismatch associated with the Bank's assets and liabilities and the growth in mortgage lending.

Risk Profile Performance Overview

Credit Risk

The Group's credit profile performed strongly in 2017, driven by deep market knowledge of the specialist markets in which it operates, prudent lending policies and sound credit risk management.

During the year, the Group's portfolio composition mix continued to evolve with pre-2011 lending (prior to OneSavings Bank PLC being established) continuing to run off. Legacy problem loans reduced further in 2017 from £13.8m to £8.6m, following careful management by our experienced collections team. The Group's acquired portfolios also continued to perform in line with expectations in terms of run-off rates and credit profile performance.

The Group's funding lines and development finance businesses delivered a strong performance in 2017, with no impairment recognised across either segment.

Strong Group originations performance was observed in 2017, driven by performance across the Buy-to-Let/SME segment. Importantly, this lending was underwritten at sensible LTV levels, where underwriting policy, tightening post the United Kingdom's decision to leave the European Union, resulted in a greater clustering of LTV levels against the portfolio average. Post-2011 lending, incorporating enhanced lending criteria, continued to make up an increasing proportion of the Group's total loans and advances to customers, where 38,500 loans have been underwritten with only 137 loans being greater than three months arrears with aggregate loans totalling £18.4m with aggregate weighted average LTV of 63%.

This portfolio mix shift coupled with strong credit risk management and continuing favourable economic conditions supported the portfolio arrears rate reducing to 1.2% as at 31 December 2017 excluding legacy problem loans (31 December 2016: 1.4%).

Other key risk measures also performed strongly within the period:

Segment	Measure	31 Dec 2017	31 Dec 2016	Variance	Commentary
BTL/SME	New origination average LTV	70%	70%	0%	New lending average LTV remained stable
	Weighted average Interest Coverage Ratio for new lending	185%	171%	+14%	Resulting from a tightening of affordability rules
Residential lending	New origination average LTV	65%	66%	-1%	New lending average LTV reduced
	Percentage of new residential lending with a loan to income (LTI) greater than 4.5	3.2%	2.6%	+0.6%	Increase in cases with LTI > 4.5

- Exposure to semi-commercial/commercial lending remains low at £370.8m with weighted average LTV of 63%
- Exposure to residential development finance remains low at £151m with a further £78.3m committed with a weighted average LTV of 37.7%
- The Group has limited exposure to high LTV loans on properties worth more than £2m. In total only 4% of the Group's loan portfolio is secured on properties valued at greater than £2m with a LTV greater than 65%.

Forbearance

Where borrowers experience financial difficulties which impacts their ability to service their financial commitments under the loan agreement, forbearance may be used to achieve an outcome which is mutually beneficial to both the borrower and the Group.

By identifying borrowers who are experiencing financial difficulties pre-arrears or in arrears a consultative process is initiated to ascertain the underlying reasons and to establish the best course of action to enable the borrower to develop credible repayment plans and to see them through the period of financial stress.

The specific tools available to assist customers vary by product and the customers' status. The various treatments considered for customers are as follows:

- Temporary switch to interest only: a temporary account change to assist customers through periods of financial difficulty where arrears do not accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained.
- Interest rate reduction: the Group may in certain circumstances, where the borrower meets the required eligibility criteria, transfer the mortgages to a lower contractual rate. Where this is a formal contractual change the borrower will be requested to obtain independent financial advice as part of the process.
- Loan term extension: a permanent account change for customers in financial distress where the overall term of the mortgage is extended, resulting in a lower contractual monthly payment.
- Payment holiday: a temporary account change to assist customers through periods of financial difficulty where arrears accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained.
- Voluntary assisted sale: a period of time is given to allow borrowers to sell the property and arrears accrue based on the contractual payment.
- Reduced monthly payments: a temporary arrangement for customers in financial distress. For example, a short term arrangement to pay less that the contractual payment. Arrears continue to accrue based on the contractual payment.
- Capitalisation of interest: arrears are added to the loan balance and are repaid over the remaining term of the facility or at maturity for interest only products. A new payment is calculated which will be higher than the previous payment.
- Full or partial debt forgiveness: where considered appropriate, the Group will consider writing off part of the debt. This may occur where the borrower has an agreed sale and there will be a shortfall in the amount required to redeem the Group's charge, in which case repayment of the shortfall may be agreed over a period of time subject to an affordability assessment or where possession has been taken by the Group, and on subsequent sale where there has been a shortfall loss.

The Group aims to proactively identify and manage forborne accounts, utilising external credit reference bureau information to analyse probability of default and customer indebtedness trends over time, feeding pre-arrears watch list reports. Watch list cases are in turn carefully monitored and managed as appropriate.

Throughout 2017, the Group continued to observe low levels of accounts in forbearance.

Table 1: Forbearance measures undertaken during the financial year

Forbearance Type	Number of Accounts 2017	2017 Year End Balances £m	Number of Accounts 2016	2016 Year End Balances £m RESTATED	2017 vs. 2016 variance number of accounts	2017 vs. 2016 variance of balances (£m)
Interest only switch	35.0	3.8	60.0	6.3	(25.0)	(2.5)
Interest rate reduction	0.0	0.0	3.0	2.2	(3.0)	(2.2)
Term extension	29.0	5.0	31.0	5.9	(2.0)	(0.9)
Payment holiday	50.0	1.5	37.0	1.6	13.0	(0.1)
Voluntary assisted sale	2.0	0.7	0.0	0.0	2.0	0.7
Payment concession (reduced monthly payments)	42.0	0.8	58.0	3.5	(16.0)	(2.7)
Capitalisation	0.0	0.0	3.0	0.1	(3.0)	(0.1)
Full or partial debt forgiveness	0.0	0.0	0.0	0.0	0.0	0.0
Total	**158.0**	**11.8**	**192.0**	**19.6**	**(34.0)**	**(7.8)**

Loan Type	Number of Accounts 2017	2017 Year End Balances £m	Number of Accounts 2016	2016 Year End Balances £m	2017 vs. 2016 variance number of accounts	2017 vs. 2016 variance of balances (£m)
First charge owner occupier	55.0	4.5	117.0	12.3	(62.0)	(7.8)
Second charge owner occupier	77.0	1.6	60.0	1.3	17.0	0.3
Buy to let	26.0	5.6	14.0	5.5	12.0	0.1
Commercial	0.0	0.0	1.0	0.4	(1.0)	(0.4)
Total	**158.0**	**11.7**	**192.0**	**19.5**	**(34.0)**	**(7.8)**

Note: Please note the 2016 year end forbearance balances have been restated to remove the related first charge balance, to align to the enhanced approach adopted for 2017.

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

Fair value of collateral methodology

The Group ensures that security valuations are reviewed on an ongoing basis for accuracy and appropriateness. Commercial properties are subject to annual indexing, whereas residential properties are indexed against monthly house price index ('HPI') data. Where the Group identifies that an index is not representative, a formal review is carried out by the Group Real Estate function to ensure that property valuations remain appropriate.

The Group Real Estate function ensures that newly underwritten lending cases are written to appropriate valuations, where an independent assessment is carried out by an appointed, qualified surveyor accredited by the RICS.

Impairment Performance

Low arrears, sensible loan to values and growth in loans and advances to customers resulted in the Group observing a historically low impairment performance with a loan loss ratio of 0.07% (31 December 2016: 0.16%). Improved impairment performance was primarily driven by increased prudence in assumptions introduced in 2016 following the UK referendum vote to leave the EU, as well as lower underlying loan losses on acquired residential portfolios and the effect of increasing property values.

During the year, the Group made no changes to provisioning policy or methodologies utilised, however a number of key inputs and estimates used within the collectively assessed provisioning calculations were refreshed utilising the most recently available data and as per the standard governance process. This drove an increase in impairment provision during the six months from 30 June 2017 to 31 December 2017 of 0.09%, versus the annualised loan loss reported for the six month period to 30 June 2017 of 0.04%.
The Group continues to closely monitor impairment coverage levels:

Impairment coverage review	31 December 2017	31 December 2016
Gross loans and advances to customers £m	7,327.6	5,964.2
Provisions for impairment losses £m	21.6	25.0
Incurred loss remaining £m (1)	7.9	8.4
Coverage ratio versus loans and advances % (2)	0.4	0.6
Coverage ratio versus impaired balances % (3)	36.2	41.5

Notes:
1 Incurred loss is the expected loss of the portfolio at the point of acquisition and is offset against the modelled future cash flows to derive the effective interest rate for the book. The incurred loss protection is therefore recognised over the life of the book against the unwind of any purchase discount or premium through interest income. Incurred loss remaining is this protection reduced by the cumulative losses observed since acquisition.
2 Coverage ratio versus loans and advances is the total collective and specific provisions plus incurred losses remaining versus gross loans and advances.
3 Coverage ratio versus impaired balances is the total collective and specific provisions plus incurred losses remaining versus impaired balances. Impaired balances are defined as loans where a specific provision has been raised. Personal loans are not included in impaired balances.

The coverage ratio with respect to loans and advances to customers reduced to 0.40% from 0.6% as at 31 December 2017.

Solvency Risk

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

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

In 2017, the Group strengthened its (CET1) capital ratio by 0.4% to 13.7% and total capital ratio by 1.8% to 16.9% despite organic growth, demonstrating both the strength of internal capital generation capabilities through profitability and the ability to raise additional capital in the market.

Liquidity & Funding Risk

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

The Group has successfully utilised the Bank of England Funding for Lending Scheme (FLS) and Term Funding Scheme (TFS) secured funding facilities to manage its liquidity throughout 2017, and continues to attract new retail savers and retain existing customers through loyalty-based product offerings.

In 2017 the Group actively managed its liquidity and funding profile within the confines of its risk appetite as set out in the Individual Liquidity Adequacy Assessment Process (ILAAP). Its liquidity ratio at 15.2% and liquidity coverage ratio ('LCR') at 225% remain well above risk appetite and regulatory minimums.

Market Risk

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

Interest Rate Risk

The Group does not actively assume interest rate risk, does not execute client or speculative securities transactions for its own account, and does not seek to take a significant directional interest rate position. Limits have been set to allow management to run occasional unhedged positions in response to balance sheet dynamics and capital has been allocated for this. Exposure limits are calibrated in accordance with a statistically-derived risk appetite, and are calibrated in proportion to available CET1 capital in order to accommodate balance sheet growth.

The Group sets limits on the tenor and rate reset mismatches between fixed-rate assets and liabilities, including derivative hedges, with exposure and risk appetite assessed with reference to historic and potential stress scenarios cast at consistent levels of modelled severity.

Throughout 2017 the Group managed its interest rate risk exposure within its risk appetite limits. The Group has also made significant progress in a project to replace its current interest rate risk management system with a new system allowing greater functionality which will enhance the management of interest rate risk. Implementation of the new system is scheduled to be completed during the first half of 2018.

Basis Risk

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

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

Throughout 2017 the Group managed its basis risk exposure within its risk appetite limits.

Operational Risk

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

Where risks continue to exist, there are established processes to provide the appropriate levels of governance and oversight, together with an alignment to the level of risk appetite stated by the OSB Board.

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

Regulatory and Compliance Risk

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

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

In order to minimise regulatory risk, the Group maintains a proactive relationship with key regulators, engages with industry bodies such as UK Finance, and seeks external advice from our auditors and/or other third parties. The Group also assesses the impact of upstream regulation on OSB and the wider market in which we operate, and undertakes robust assurance assessments from within the Risk and Compliance functions.

Conduct Risk

The Group considers its culture and behaviour in ensuring the fair treatment of customers and in maintaining the integrity of the markets in which it operates to be a fundamental part of its strategy and a key driver to sustainable profitability and growth. The Group does not tolerate any systemic failure to deliver fair customer outcomes.

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

The Group considers effective conduct risk management to be a product of the positive behaviour of all employees, influenced by the culture throughout the organisation and therefore continues to promote a strong sense of awareness and accountability.

Strategic & Business Risk

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

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

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

Reputational Risk

The Group considers reputational risk to be a second order risk which is likely to be the result of a failure related to one of its other principal risks. The Group monitors reputational risk through tracking media coverage, customer satisfaction scores, the share price and net promoter scores provided by brokers.

Risk Based Submissions

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

The Group also reviews and updates its Recovery Plan and its Resolution Pack on an annual basis. The recovery plan process is designed to ensure that the Group's recovery plan is credible and can be implemented in a time of stress. The Group's recovery options are assessed for feasibility and time to implementation under stressed conditions. The Group leverages its risk appetite and stress testing procedures to identify a suite of early warning indicators and triggers which inform the nature and type of recovery options which would be put in place.

The Group’s Resolution Pack provides the regulatory authorities with information and analysis on the Group's businesses, organisation and structures to facilitate an orderly resolution should it become necessary.

Table 2: Principal Risks and Uncertainties

The Board has carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that could threaten its strategic objectives, business operating model, future financial performance and regulatory compliance commitments. The principal risks and uncertainties are outlined in the table below:

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

Risk Appetite Statement	Risk	Mitigation and controls	Direction
The Group's strategic and business risk appetite states that the Group does not intend to undertake any long to medium-term strategic actions that would put at risk its vision of being a leading specialist lender, backed by a strong and dependable saving franchise. The Group adopts a long-term sustainable business model which, while focused on niche sub-sectors, is capable of adapting to growth objectives and external developments.	**Performance against targets** Performance against strategic and business targets does not meet stakeholder expectations. This has the potential to damage the Group’s franchise value and reputation.	Regular monitoring by the Board and the Executive Committee of business and financial performance against strategic agenda and risk appetite. The balanced business scorecard is the primary mechanism to support the Board and assesses management performance against key targets. Use of stress testing to flex core business planning assumptions to assess potential performance under stressed operating conditions.	**Increased** The Group's strategic and business operating environments are subject to on-going changes primarily driven by market competition, economic outlook and regulation.
	Regulatory and economic environment The regulatory and economic environment are important factors impacting the strategic and business risk profile. In particular, the emerging	The Group’s robust underwriting standards and its focus on professional landlords have helped mitigate the impact of the regulatory changes and enabled to Group to continue to grow its share	**Increased** The Group’s strategic and business risk profile is impacted by the uncertainty surrounding Brexit negotiations and potential future changes to regulatory standards.

	regulatory underwriting standards and tax changes impacting the Buy-to-let sector have resulted in a general slowdown in the sector.	of the sector. The Group has continued to utilise and enhance its stress testing capabilities to assess and minimise potential areas of macroeconomic vulnerabilities.	
	Term Funding Scheme withdrawal The withdrawal of the Term Funding Scheme ('TFS') could potentially increase competition for retail savings resulting in increased funding costs.	The Group's funding plan ensures a diverse funding profile and initiatives have been put in place to replace TFS with a comprehensive Retail Mortgage Backed Securities ('RMBS') programme.	**Increased** The full impact of the TFS withdrawal remains uncertain.
	Regulatory requirements The potential for emerging regulatory requirements to increase the demands on the Group's operational capacity and increase the cost of compliance.	The Group continues to invest in its IT and data management capabilities to increase the ability to respond to regulatory change. A structured approach to change management and fully leveraging internal and external expertise allows the Group to respond effectively to regulatory change.	**Increased** The level and sophistication of emerging regulatory requirements place increasing demands on the Group's operational capacity.

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

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

Credit risk

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

Risk Appetite Statement	Risk	Mitigation and controls	Direction
The Group seeks to maintain a high quality lending portfolio that generates adequate returns, under normal and stressed periods. The portfolio is actively managed to operate within set criteria and limits based on profit volatility, focusing on key sectors, recoverable values, and affordability and exposure levels. The Group aims to continue to generate sufficient income and control credit losses to a level such that it remains profitable even when subjected to a credit portfolio stress of a 1 in 20 intensity stress scenario.	**Individual borrower defaults** Borrowers may encounter idiosyncratic problems in repaying their loans, for example loss of a job or execution problems with a development project. While most of the 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. Our strategic focus on lending to professional landlords means that properties are likely to be well managed, with income from a diversified portfolio mitigating the impact of rental voids or maintenance costs. Lending to owner-occupiers is subject to a detailed affordability assessment, including the borrower's ability to continue payments if interest rates increase. Lending on commercial property is more based on security, and is scrutinised by the Group's independent Real Estate team as well as by external valuers. Development lending is extended only after a deep investigation of the borrower's track record and stress testing the economies of the specific project. The Group's Transactional Credit Committee actively reviews and approves larger or more complex mortgage applications.	**Unchanged** The Group continues to observe strong and stable credit profile performance.

	Macroeconomic downturn A broad deterioration in the economy would adversely impact both the ability of borrowers to repay loans and the value of the Group's security. Credit losses would impact across the lending portfolio, so even if individual impacts were to be small, the aggregate impact on the Group could be significant.	The Group works within portfolio limits on LTV, affordability, name, sector and geographic concentration that are approved by Risk Committee and the Board. These are reviewed on a semi-annually basis. In addition, stress testing is performed to ensure the Group maintains sufficient capital to absorb losses in an economic downturn and continue to meet its regulatory requirements.	**Unchanged** Although the UK economy has remained stable during 2017, the economic outlook is uncertain with the final terms of BREXIT to be confirmed.
	Wholesale credit risk The Group has wholesale exposures both through call accounts used for transactional and liquidity purposes and through derivative exposures used for hedging.	The Group transacts only with high-quality wholesale counterparties. Derivative exposures include collateral agreements to mitigate credit exposures.	**Unchanged** The Group continues to utilise a reserve account with the Bank of England, enabling it to eliminate credit risk on most of its liquidity portfolio.

Market risk

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

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

Liquidity and funding risk

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

Risk Appetite Statement	Risk	Mitigation and controls	Direction
The Group actively manages stable and efficient access to funding and liquidity to support its ongoing operations. It also maintains an appropriate level and quality of liquid asset buffer so as to withstand market and idiosyncratic liquidity-related stresses.	**Retail funding stress** As the Group is primarily funded by retail deposits, a retail run could put it in a position where it could not meet its financial obligations.	The Group's funding strategy is focused on a highly stable retail deposit franchise. The large number of depositors provides diversification, with a high proportion of balances covered by the FSCS and so at no material risk of a retail run. In addition, the Group performs in-depth liquidity stress testing and maintains a liquid asset portfolio sufficient to meet obligations under stress. The Group holds prudential liquidity buffers to manage funding requirements under normal and stressed conditions. The Group proactively manages its savings proposition through both the Liquidity Working Group and the ALCO. Finally, the Group has prepositioned mortgage collateral with the Bank of England which allows it to consider other alternative funding sources to ensure it is not solely reliant on retail savings.	**Increased** The end of the Bank of England Term Funding Scheme ("TFS") may create increased competition for retail and wholesale funding.
	Term Funding Scheme withdrawal The potential impact of the withdrawal of the TFS programme is uncertain.	The Group's funding plan ensures a diverse funding profile and initiatives have been put in place to replace TFS with a comprehensive Retail Mortgage Backed Securities ('RMBS') programme.	**Increased** The end of the Bank of England Term Funding Scheme ("TFS") may create increased competition for retail and wholesale funding.

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

Risk Appetite Statement	Risk	Mitigation and controls	Direction
The Group seeks to ensure that is able to meets its Board level capital buffer requirements under a 1 in 20 stress scenario. The Group's solvency risk appetite is constrained within the leverage ratio related requirements. We manage our capital resources in a manner which avoids excessive leverage and allows us flexibility in raising capital.	Key risks to solvency arise from balance sheet growth and unexpected losses which can result in the Group's capital requirements increasing or capital resources being depleted such that it no longer meets the solvency ratios as mandated by the PRA and Board risk appetite. The regulatory capital regime is subject to change and could lead to increases in the level and quality of capital that the Group needs to hold to meet regulatory requirements.	Currently the Group operates from a strong capital position and has a consistent record of strong profitability. The Group actively monitors its capital requirements and resources against financial forecasts and plans and undertakes stress testing analysis to subject its solvency ratios to extreme but plausible scenarios. The Group also holds prudent levels of capital buffers based on CRD IV requirements and expected balance sheet growth. The Group engages actively with regulators, industry bodies, and advisers to keep abreast of potential changes and provide feedback through the consultation process.	**Decreased** The Group has improved both its CET1 capital and total capital position increasing its resilience against unexpected losses. In particular, the Group’s capital position was strengthened in May 2017 by the issuance of £60m of Additional Tier 1 Capital (“AT1 securities”).

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

Risk Appetite Statement	Risk	Mitigation and controls	Direction
The Group's operational processes, systems and controls are designed to minimise disruption to customers, damage to the Group’s reputation and any detrimental impact on financial performance. The Group actively promotes the continual evolution of its operating environment through the identification, evaluation and mitigation of risks, whilst recognising that the complete elimination of operational risk is not possible.	**Cyber/data security risk** The risk of a loss of customer or proprietary data as a result of theft or through ineffective data management.	A series of tools designed to identify and prevent network / system intrusions are deployed across the Group. The effectiveness of the controls is overseen by a dedicated IT Security Governance Committee, with specialist IT Security staff employed by the Group.	**Increased** Whilst the Group has made a series of enhancements to its defences in respect to IT security threats during 2017 it recognises that the threats to the industry continue to grow both in respect to the volume and the level of sophistication.

	Data risk The use of inaccurate, incomplete or outdated data may result in a range of risks impacting risk management and reporting services.	The Group continues to invest in and enhance its data management architecture, systems, governance and controls.	**Increased** The increase in data risk has been primarily driven by the increased scale of operations and the multiple sources from which data is derived.
	Regulatory risk The operational risks arising from the management of a significant volume of regulatory change.	The Group operates a series of controls to identify any relevant regulatory change at an early stage. Regulatory related changes are appropriately prioritised and resourced in order to ensure the timely implementation of any operational changes required.	**Increased** The increase in regulatory change has to date been offset by the increase in the Group's Change Management capacity. Regulatory change continues to be well managed with the appropriate level of focus and oversight.
	Operational resilience Banks should have business resiliency, continuity monitoring and plans in place to ensure an ability to operate on an ongoing basis and limit losses in the event of severe business disruption.	The Group has established an Operational Resilience Programme that is delivering a Group wide approach in respect to planning and testing. In addition the Programme is designed to highlight any areas of specific vulnerability.	**Increased** The increasing scale and globalisation of operations together with dependencies on a number of third party service and network providers. The sophistication of cyber-crime continues to evolve.

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

Risk Appetite Statement	Risk	Mitigation and controls	Direction
The Group considers its culture and behaviours in ensuring the fair treatment of customers and in maintaining the integrity of the markets in which it operates a fundamental part of its strategy and a key driver to sustainable profitability and growth. The Group does not tolerate any systemic failure to deliver fair customer outcomes. On an isolated basis incidents can result in detriment owing to human and / or operational failures. Where such incidents occur they are thoroughly investigated, and the appropriate remedial actions are taken to address any customer	**Product suitability** Whilst the Group's originates relatively simple products, there remains a risk that (primarily legacy) products may be deemed to be unfit for their original purpose in line with the current regulatory definitions.	The Group has a strategic commitment to provide simple, customer-focused products. In addition a Product Governance framework is established to oversee both the origination of new products and to revisit the ongoing suitability of the existing product suite. A dedicated Product Governance team which is part of an independent Conduct Risk team serves to effectively manage this risk.	**Decreased** Whilst this risk has reduced in 2017 as a result of increased awareness and dedicated oversight, the Group remains aware of the changes to the regulatory environment and their possible impact on product suitability.

detriment and to prevent recurrence.			
	Data protection The risk that customer data is accessed inappropriately either as a consequence of network / system intrusion or through operational errors in the management of the data.	In addition to a series of network / system controls (documented within as part of the operational risks) the Group performs extensive root cause analysis of any data leaks in order to ensure that the appropriate mitigating actions are taken.	**Unchanged** Despite a number of additional controls being introduced in 2017 the network / system threats continue to evolve in both volume and sophistication.

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

Risk Appetite Statement	Risk	Mitigation and controls	Direction
The Group views ongoing conformance with regulatory rules and standards across all the jurisdictions in which it operates as a critical facet of its risk culture. The Group does not knowingly accept compliance risk which could result in regulatory sanctions, financial loss or damage to its reputation. The Group will not tolerate any systemic failure to comply with applicable laws, regulations or codes of conduct relevant given its business operating model.	Key compliance regulatory changes that impacted the Group included PRA's Buy-to-let underwriting standards, certification regime under the SM&CR, PSD2, GDPR, Criminal Finances Act, European Fourth Money Laundering Directive, FCA guidance on automatic capitalisation for residential mortgage customers.	The Group has an effective horizon scanning process to identify regulatory change. All significant regulatory initiatives are managed by structured programmes overseen by the change management team and sponsored at Executive management level. The Group has proactively sought external expert opinions to support interpretation of the requirements and validation of its response.	**Increased** The Group has historically responded effectively to regulatory changes, however the level and sophisticated of emerging regulation continues to increase.
	Conduct regulation Regulatory changes focused on the conduct of business could force changes in the way the Group carries out business and impose substantial compliance costs. For example, the Financial Policy Committee's increased focus on Buy-to-Let lending or tax changes such as the Bank corporation tax surcharge must be considered.	The Group has a programme of regulatory horizon scanning linking into a formal regulatory change management programme. In addition, the focus on simple products and customer oriented culture means that current practice may not have to change significantly to meet new conduct regulations.	**Increased** The regulatory environment has tightened and this is likely to continue, exposing the Group to increased risk.

The Group proactively scans for emerging horizon risks which may have an impact on its ongoing operations and strategy. The Group considers its top emerging risks to be:

Emerging Risks	Description	Mitigation Action
Political and Macro-Economic Uncertainty	As a result of the UK government triggering article 50 and subsequent general election result during the period to 30 June 2017, there is an increased likelihood of a period of macro-economic uncertainty. The Groups lending activity is solely focused in the United Kingdom and as such will be impacted by any risks emerging from changes in the macro economic environment.	The Group has implemented robust monitoring processes and via various stress testing activity (i.e. ad hoc, risk appetite and ICAAP) understands how the Group performs over a variety of macro-economic stress scenarios and has subsequently developed a suite of early warning indicators which are closely monitored to identify changes in the economic environment.
General Data Usage	From the 25 May 2018 the Group will have to comply with proposed changes to the General Data Protection Regulation ("GDPR"). This will result in increased regulatory requirements with respect to processing personal customer, employee and other data in the course of day to day business activities.	The Group has mobilised a project (with dedicated resources) to implement GDPR as required.

Key achievements during 2017

The Group further enhanced and integrated its Strategic Risk Management Framework ('SRMF') to inform, guide and support business and strategic decision making. The Group generated shareholder value through the optimisation of its risk and reward profile within the constraints of its risk appetite.

The Group's approach to setting its risk appetite was enhanced through the use of improved borrower and loan level risk assessment, greater alignment with the financial planning process and the use of stress testing. The Board actively guided the process of setting risk appetite, ensuring that the risk appetite is fully reflective of the Board's attitude and tolerance for risks to its objectives.

The IFRS 9 programme continued to progress according to plan with the core processes being subject to a full parallel run throughout 2017. An independent validation of all underlying models, implementation standards and governance arrangements was performed. The Group was fully prepared to begin reporting under the IFRS 9 regime on 1 January 2018, the 'go-live' date.

The Group's secured business model, sensible loan to value profile and strong arrears performance result in a manageable day one impact post adoption of the IFRS9 standard of circa £4m. For arrears balances purchased via the portfolio acquisition process, the Group conservatively assesses expected loss at the point of acquisition which is offset against the modelled future cash flows to derive the effective interest rate for the book. This incurred loss protection is therefore recognised over the life of the book against the unwind of any purchase discount or premium through interest income providing further protection.

The Internal Ratings Based ('IRB') programme was formally established to enable the Group to transition to the advanced approach to measuring its credit risk based capital requirements. The programme progressed in accordance with the Board approved plan and the Group is well placed to commence parallel running its IRB models and capital calculation engine. The Group completed an internal self-assessment exercise against the Capital Requirements Regulation ('CRR') to develop detailed plans and a roadmap of key steps towards a formal regulatory application. The Group will be engaging actively with the PRA and external subject matter experts to ensure successful delivery of the programme.

As the Group increased the use of risk based analytics and models, it also improved model validation, monitoring and back-testing. Appropriate controls were established to assess the ongoing robustness and usage of all risk models. The Group established Board and senior management oversight and governance procedures through a Board approved model risk policy.

A Group-wide programme was established to enhance the Group's approach to data governance and controls in the context of industry good practice and regulatory standards. The programme is overseen by a senior level Steering Committee with cross functional executive sponsorship. The programme is designed to deliver improved data controls and models, aggregation capabilities and end user reporting capabilities. The programme will support other strategic and regulatory initiatives including IRB, GDPR and securitisation.

To ensure a holistic and integrated approach to operational resilience, the Group established an Operational Resilience Programme to align its current approach to emerging industry good practice and regulatory standards. The programme will help to deliver an integrated approach to the ongoing assessment of critical operational functions and key dependencies, assessment of potential points of vulnerability and business continuity planning and crisis management.

The Group continued to enhance its Internal Capital Adequacy Assessment Process ('ICAAP'), through improved risk based capital assessments and the use of stress testing. The Group worked with industry experts and engaged with the PRA to ensure that its ICAAP adheres to regulatory standards and represents an important mechanism by which the Board and senior management assess the adequacy and effectiveness of the Group's business and capital plans under normal and stressed operating conditions. Fully integrated funding and liquidity planning and stress testing analysis is being used to support the Internal Liquidity Assessment Process ('ILAAP'). The Group also enhanced its Recovery Plan through active assessment of risk drivers, identification of business model vulnerabilities and development of credible and reliable business recovery options.

Risk based management information has been an important area of continued improvement. Through the use of a broad range of early warning indicators and risk drivers, a more forward looking approach to risk identification and management was established. In particular, enhancements were made to the credit portfolio risk triggers by leveraging credit bureau data to supplement internal risk assessments. The Group is actively using its early warning risk indicators and risk assessment capabilities to identify and analyse any emerging trends, particularly during the current period of economic and market uncertainty.

Improved Financial Crime and Compliance team structures were implemented with continued investments made to materially build out specialist capabilities in relation to monitoring, testing and assurance.

Priority areas for 2018

The priority for both the Risk and Compliance functions during 2018 is to further embed the risk management frameworks into the culture and decision making processes at all levels of the organisation. Both functions intend to utilise the enhanced level of specialist risk and compliance resources to deliver on a number of key initiatives including:

- Delivery of an enhanced and integrated data governance and controls framework. Improved data aggregation, analytics and distributions channels to support ongoing business reporting requirements as well as key strategic and regulatory initiatives
- Continued progress against the Group's IRB plan, with particular focus on delivery of second generation credit risk models, improved adherence to emerging regulatory requirements and meeting the 'use-test' requirements. Improved model governance and controls, supported by an extensive training and awareness programme
- Continued improvements to the underlying risk forecasting and stress testing capabilities support the Group ICAAP and ILAAP, including the roll-out of IRB and IFRS 9 compliant stress testing capabilities
- The Group's operational resilience programmes to deliver an integrated approach to operational resilience assessment and improved aligned to Business Continuity Plan (BCP) development and testing, through the leveraging of an integrated system solutions.

The Board and senior management are providing an appropriate level of oversight across all key initiatives. The Group also engages external subject matter experts and consults with supervisory authorities to ensure appropriate levels of transparency and successful outcomes are achieved.

The Board of Directors

The role and structure of the Board

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

The Board is also responsible for setting the tone from the top in relation to conduct, culture and values; and for ensuring continuing commitment to treating customers fairly, carrying out business honestly and openly and preventing bribery, corruption, fraud and the facilitation of tax evasion.

The Board operates in accordance with the Company's Articles of Association (the Articles) and its own written terms of reference. The Board has established a number of Committees as indicated in the table on page 33. Each Committee has its own terms of reference which are reviewed at least annually.

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

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

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

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

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

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

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

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

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

Board Committees

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

Table 3: Board Committees

Subcommittee	Objectives
Audit Committee	• Assist the Board in overseeing the system of internal control and external financial reporting across the Group • Ensure the external and internal audit arrangements are appropriate and effective • Ensure that fraud prevention and whistleblowing arrangements are established • Ensure that the annual report and accounts, related internal control disclosures, and any other publicly available financial information are reviewed and scrutinised
Nomination and Governance Committee	• Lead the process for Board appointments • Ensure the Board and its Committees have an appropriate balance of skills, experience, availability, independence, and knowledge of the Group to enable them to discharge their respective responsibilities effectively • Oversight of corporate governance arrangements and sustainability
Remuneration Committee	• Advise the Board on developing policy on executive remuneration • Fix the remuneration packages of individual directors and members of the Executive Team
Risk Committee	• Oversight of the Group's risk appetite, risk monitoring, and capital and liquidity management • Ensure the compliance arrangements are appropriate and effective • Provide oversight and advice to the Board on current risk exposures and future risk strategy • Assist the Board to foster a culture within the Group that emphasises and demonstrates the benefits of a risk-based approach to internal control and management of the Group • Approve lending up to 20% of CET1 capital at the connection level • Approve asset purchases and secured funding lines up to £80m investment with RWA not exceeding £50m at any point under a base case scenario

The Business

Executive Committee

The CEO chairs the Executive Committee (ExCo), whose other members are the Chief Financial Officer, the Group Chief Operating Officer, Chief Risk Officer, Group General Counsel and Company Secretary (advisory), Group Commercial Director, Chief Information Officer, Group Chief Credit Officer, Sales and Marketing Director and Group Head of Internal Audit (advisory). The ExCo is supported by Management Committees.

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

- The development and implementation of the strategic plan as approved by the Board.
- The development, implementation and oversight of a strong operating model that supports the strategic plan.
- The development and implementation of systems and controls to support the strategic plan.
- To review and oversee operational and financial performance.
- To prioritise and allocate the Group's resources in accordance with the strategic plan
- To oversee the development of a high performing senior management team.
- To oversee the customer proposition and experience consistent with the Group's obligation to treat customers fairly.
- To oversee the appropriate protection and control of private and confidential data.

The ExCo's activities during the year included:

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

Executive subcommittees

Table 4: Executive subcommittees

Committee	Main objectives and responsibilities
Assets and Liabilities Committee (ALCO)	• Reports to Executive Committee • 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
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
Operations Committee	• Oversee operational management of business • Provide operational inputs into larger projects • Structure and manage smaller operational projects • Oversee Indian Operations
Risk Management Committee (RMC)	• Review legal risk register to ensure risk remains within the Board stated risk appetite, agree mitigation plans and monitor progress against those plans • Propose and regularly review the implementation and effectiveness of the operational risk policy and statement of operational risk appetite • Propose and regularly review the implementation and effectiveness of the group's conduct risk policy and statement of conduct risk appetite
Regulatory Governance Committee	• Revising approaches, treatments and management subjective decisions on regulatory reporting practice • Act as Project Change Governance Committee for changing reports, reporting processes and approval for spends
Executive M&A Committee (EMAC)	• Coordinate internal stakeholders for inorganic agenda • Ensure that due diligence covers all relevant aspects • After completion, oversee delivery of the integration plan
Executive Disclosure Committee	• Determine in accordance with the Disclosure and Communication Policy and Market Abuse Regulation whether specified information is inside information which requires disclosure to the market • Reviewing scheduled and ad-hoc announcements to market • Keeping accurate records of evaluations and decisions around inside information including any decision to delay disclosure • Monitoring business activity and incidents and reporting any matters deemed sufficiently material to the Board

Risk and Compliance

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

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

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

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

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

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

Internal Audit

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

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

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

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

Capital Resources

Table 5 summarises the composition of regulatory capital resources as of 31 December 2017. 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 2017 and December 2016.

Table 5: Capital resources

	Group 2017 £m	Group 2016 £m
Common equity tier 1 capital		
Called up share capital	2.4	2.4
Share premium / Capital contribution and share-based payment reserve	169.8	166.0
Retained earnings	337.5	240.7
Transfer reserve	(12.8)	(12.8)
Other reserves	(0.1)	0.1
Total equity excluding equity bonds	496.8	396.4
Foreseeable dividends	(22.6)	(18.5)
Solo consolidation adjustments	(4.8)	(5.3)
Deductions from common equity tier 1 capital		
Intangible assets	(6.8)	(4.7)
Deferred tax asset	(2.5)	(2.3)
Common equity tier 1 capital	**460.1**	**365.6**
Additional Tier 1 capital		
AT1 Securities	60.0	-
Total Tier 1 Capital	**520.1**	**365.6**
Tier 2 capital		
Subordinated debt and PSBs	47.7	48.5
Collective Provisions	2.0	1.6
Deductions from tier 2 capital	(2.5)	(2.0)
Total Tier 2 Capital	**47.2**	**48.1**
Total regulatory capital	**567.3**	**413.7**

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

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

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

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

	Group 2017 £m	Group 2016 £m
Subordinated liabilities		
Linked to LIBOR (London Interbank Offered Rate):		
Floating rate Subordinated Liabilities 2017	-	5.7
Floating rate Subordinated Loans 2022	0.7	0.7
Linked to the average standard mortgage rate of the five largest building societies:		
Floating rate Subordinated Liabilities 2017	-	5.0
Fixed rate:		
Subordinated Liabilities 2024	10.2	10.2
	10.9	**21.6**
Perpetual subordinated bonds		
Sterling Perpetual Subordinated Bonds	**15.3**	**15.3**
Total subordinated liabilities and bonds	**26.2**	**36.9**

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

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

Capital requirements

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

Pillar 1 requirements

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

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

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

Table 7: Pillar 1 capital requirements

	2017		2016	
Standardised Exposure Classes	**Risk Weighted Assets £m**	**Capital Requirement £m**	**Risk Weighted Assets £m**	**Capital Requirement £m**
Central government and central banks (4)	6.5	0.5	-	-
Regional governments or local authorities	-	-	-	-
Administrative bodies and non-commercial	-	-	-	-
Multilateral development banks	-	-	-	-
International organisations	-	-	-	-
Institutions (1)	11.3	0.9	7.7	0.6
Corporates (2)	25.4	2.0	19.7	1.6
Retail	0.7	0.1	6.7	0.5
Secured by mortgages on residential property	2,412.3	193.0	1,922.3	153.8
Secured by mortgages on commercial real estate	293.7	23.5	229.7	18.4
Past due (3)	108.5	8.7	95.3	7.6
Regulatory high-risk categories	215.7	17.3	212.5	17.0
Covered bonds	-	-	-	-
Securitisation positions	-	-	-	-
Short-term claims on institutions and corporates	-	-	-	-
Collective Investment Undertakings (CIUs)	-	-	-	-
Other items	21.8	1.7	30.2	2.4
Total Credit Risk	**3,095.9**	**247.7**	**2,524.1**	**201.9**
Counterparty Credit Risk	**5.1**	**0.4**	**1.4**	**0.1**
Operational Risk (5)	**241.6**	**19.3**	**216.8**	**17.3**
Current Valuation Adjustment	**5.8**	**0.5**	**0.7**	**0.1**
Total Pillar 1/Risk Weighted Assets	**3,348.5**	**267.9**	**2,743.0**	**219.4**

Notes:
1 Excluding those assessed as short-term claims on institutions.
2 Excluding those assessed as short-term claims on corporates. Includes funding line secured by non mortgage assets and intercompany balances outside the solo consolidated group.
3 Past due are accounts which are over 90 days in default or with a specific provision.
4 In 2017 deferred tax asset moved to Central Government and Central Banks recognising HMRC as the counterparty. In 2016 this was included within Other Items.
5 2017 is under the Standardised Approach for Operational Risk and 2016 was the Basic Indicator Approach for Operational Risk.

Large Exposures

The Group tracks its exposures by connection and regularly reports on its largest exposures, those exceeding £3.0m, to the Credit Committee, Risk Committee, and Board*.
As of 31 December 2017, there were seventy-one connections over £3.0m with a total net exposure of £411m. Of these, two were allocated specific provisions and had a total carrying value of £14.8m and provision of £4.2m. Connections within the large exposure list are reviewed monthly by the Credit Committee. While the emphasis is on non-performing assets where the Group's actions will have the most impact, the credit profile of large performing connections is also monitored closely to help anticipate any problems.

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

Overall Pillar 2 Rule

Additional capital is held under Pillar 2 for risks either not captured or not fully captured under Pillar 1.
At least annually the Group undertakes a detailed, forward-looking assessment of capital adequacy in order to assess the Pillar 2 capital requirement. This exercise is known as the ICAAP. Based on the results of the ICAAP the PRA determines the Group's required ICG and supervisory buffers which include the countercyclical capital buffer, the capital conservation buffer and the PRA buffer. It is the Group's policy to hold capital resources in excess of its ICG plus its supervisory buffers.
Capital is allocated to businesses in the Board approved Capital Strategy and Plan. The Capital Strategy and Plan is updated at least annually with the associated capital forecasts updated on a monthly basis and reviewed by the ALCO, Risk Committee and Board. The refreshed forecasts reflect the impact of actual performance to that time and any actual or anticipated changes in the business, capital requirements or other changes. Capital forecasts are also produced in circumstances where a potential impact to capital may occur such as revised budget forecasts or in the course of evaluating a substantial acquisition.

Capital Buffers

The Group's business is predominantly in the United Kingdom where the countercyclical capital buffer was zero as of 31 December 2017. For capital conservation buffer the Group is transitioning to the required 2.5% of CET1 capital by the end of 2018.

Counterparty risk

Group wholesale counterparty risk through Treasury dealing is concentrated in two main areas. Deposits with institutions and to a lower extent mark to market exposures with derivative counterparties.
Cash deposit exposures are controlled through Board approved limits to banks and selected building societies rated at least investment grade. Counterparty ratings are monitored by Treasury and reviewed monthly by ALCO.
Counterparty risk is mitigated with derivative counterparties that have Collateral Service Agreements (CSA) in place. Regular derivative valuations allow the Group to assess exposures and call for margin when it exceeds threshold tolerances.

Credit risk

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

Definition of past due and impaired

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

Impairment of financial assets

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

The Group individually assesses for impairment loans over £0.5m which are more than three months in arrears, where LPA receivers are appointed, the property is taken in possession or there are any other events that suggest a high probability of credit loss. Loans are considered at a connection level, i.e. including all loans belonging to and connected to the customer.

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

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

If the present value of estimated future cash flows discounted at the original EIR is less than the carrying value of the loan, a specific provision is recognised for the difference. Such loans are classified as impaired. If the present value of the estimated future cash flows exceeds the carrying value no specific provision is recognised.
All loans which have not been individually assessed are subsequently assessed for impairment collectively with each loan being assigned a one year probability of default (‘PD’) and a loss given default (‘LGD’) generally consistent with the requirements of the internal ratings based (‘IRB’) approach, leading to the expected loss (‘EL’). The provision is the sum of all ELs. The calculation uses indexed valuations from ONS statistics applied at a postcode level. All provisions on loans greater than three months in arrears are treated as a specific provision as they are considered to be impaired. Loans less than three months in arrears are assigned a collective provision.

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

The Group has been contacting owner-occupied residential customers with upcoming interest-only loan maturities and tracking responses and outcomes through specific campaigns since 2014. There is no provision for the non-repayment risk of these loans.

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

Incurred but not reported losses (‘IBNR’), where a loss trigger has occurred but the borrower has not yet missed a payment, are captured through the Group’s collective provisioning process. PD rates are calculated for loans that are not in arrears based on historic loss data and a provision value is calculated for these accounts. The calculation of PD rates incorporates assumptions for emergence periods (‘EP’), cure rates and forbearance. The Group conducts detailed analysis to calculate the time taken for a customer to fall into arrears post a loss event occurring (i.e. loss of employment). This EP is then considered within a wider observation period utilised to model the time taken post loss event for the customer to reach a default state.

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

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

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

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

The following tables analyse impaired loans as treated for accounting purposes and past due loans as treated for regulatory purposes as at 31 December 2017.

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

2017 Counterparty type	Gross impaired loans £m	Gross past due loans £m	Impairment provisions £m	Charges for impairment provisions during the year £m
Corporates	61.9	106.9	11.3	2.1
Retail	19.7	20.5	10.3	2.3
Other	-	-	-	-
Total	**81.6**	**127.4**	**21.6**	**4.4**

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

Notes:
- For 2017, counterparty type classification is based on mapping all relevant loans to either Corporates or Retail as classified by the PRA. For 2016, counterparty type is based on unsecured loans being classified as retail and secured loans being classified as corporate.
- Impairment provisions include both collective and specific provisions
- Gross past due loans is presented on the regulatory basis where contractual payment is due for more than three months or the loan has a specific provision applied.
- Gross impaired loans are defined as loans with a specific provision against them at the reporting date.
- For 2017, the gross impaired loans include loans in possession. For 2016, the gross impaired loans excludes loans in possession which is the £13m variance between statutory gross impaired loans (£125m) and COREP gross impaired loans (£112m) .

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

2017 Geographic area	Gross impaired loans £m	Gross past due loans £m	Impairment provisions £m	Charges for impairment provisions during the year £m
UK	58.8	102.0	16.0	2.3
Channel Islands	22.8	25.5	5.6	2.1
Total	**81.6**	**127.5**	**21.6**	**4.4**

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

Table 10: Reconciliation of changes in provisions for impaired exposures

2017 Impairment provisions	**£m**
Opening balance as at 1 January 2017	25.0
Write offs in year	(7.8)
Disposals	-
Charge/(credit) for the year net of recoveries	4.4
31 December 2017	**21.6**

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

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 2017.

Table 11: Year end and average exposure by exposure class

Standardised Exposure Classes	**Exposure at 31/12/2017 £m**	**Average exposure (1) in 2017 £m**	**Exposure at 31/12/2016 £m**	**Average exposure (1) in 2016 £m**
Central government and central banks	1,149.5	656.1	513.6	592.2
Regional governments or local authorities	-	-	-	-
Administrative bodies and non-commercial	-	-	-	-
Multilateral development banks	19.1	21.1	29.1	31.7
International organisations	-	-	-	-
Institutions (2)	23.1	32.3	18.3	17.0
Corporates (3)	25.4	25.6	19.7	13.8
Retail	0.9	3.6	9.0	25.5
Secured by mortgages on residential property	6,726.3	5,992.9	5,475.9	5,126.8
Secured by mortgages on commercial real estate	394.8	348.2	266.2	257.9
Past due (4)	108.0	103.9	88.6	113.1
High risk	143.8	145.5	141.7	70.8
Covered bonds	-	-	-	-
Securitisation positions	-	-	-	-
Short-term claims on institutions and corporates	-	-	-	-
Collective Investment Undertakings (CIUs)	-	-	-	-
Other items	21.6	57.0	27.4	25.3
Total	**8,612.5**	**7,386.2**	**6,589.5**	**6,274.1**

Notes:
[1] 2017 is a simple average of quarterly figures. 2016 is a simple average of starting and year end figures.
[2] Excluding those assessed as short-term claims on institutions.
[3] Excluding those assessed as short-term claims on corporates. Includes funding line secured by non mortgage assets and intercompany balances outside the solo consolidated group.
[4] Past due are accounts which are over 90 days in default or with a specific provision and are shown net of specific provision.

Table 12: Exposures by geographic area and material exposure classes

2017

Standardised Exposure Classes (1)	UK £m	Channel Islands £m	Rest of the World £m	Total £m
Central government and central banks	1,149.5	-	-	1,149.5
Regional governments or local authorities	-	-	-	-
Administrative bodies and non-commercial	-	-	-	-
Multilateral development banks	-	-	19.1	19.1
International organisations	-	-	-	-
Institutions (2)	23.1	-	-	23.1
Corporates (3)	25.4	-	-	25.4
Retail	0.9	-	-	0.9
Secured by mortgages on residential property	6,464.6	261.7	-	6,726.3
Secured by mortgages on commercial real estate	383.1	11.7	-	394.8
Past due (4)	87.9	20.1	-	108.0
High risk	143.8	-	-	143.8
Covered bonds	-	-	-	-
Securitisation positions	-	-	-	-
Short-term claims on institutions and corporates	-	-	-	-
Collective Investment Undertakings (CIUs)	-	-	-	-
Other items	15.7	-	5.9	21.6
Total	**8,294.0**	**293.5**	**25.0**	**8,612.5**

2016

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

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

Table 13: Exposures by significant counterparty type and exposure classes

2017

Standardised Exposure Classes	Corporate (3) £m	Retail (3) £m	Other £m	Total £m
Central government and central banks	1,149.5	-	-	1,149.5
Regional governments or local authorities	-	-	-	-
Administrative bodies and non-commercial	-	-	-	-
Multilateral development banks	19.1	-	-	19.1
International organisations	-	-	-	-
Institutions (1)	23.1	-	-	23.1
Corporates (2)	25.4	-	-	25.4
Retail	-	0.9	-	0.9
Secured by mortgages on residential property	1,552.0	5,174.3	-	6,726.3
Secured by mortgages on commercial real estate	200.9	193.9	-	394.8
Past due	10.3	97.7	-	108.0
High risk	143.8	-	-	143.8
Covered bonds	-	-	-	-
Securitisation positions	-	-	-	-
Short-term claims on institutions and corporates	-	-	-	-
Collective Investment Undertakings (CIUs)	-	-	-	-
Other items	-	-	21.6	21.6
Total	**3,124.1**	**5,466.8**	**21.6**	**8,612.5**

2016

Standardised Exposure Classes	Corporate (3) £m	Retail (3) £m	Other £m	Total £m
Central government and central banks	513.6	-	-	513.6
Regional governments or local authorities	-	-	-	-
Administrative bodies and non-commercial	-	-	-	-
Multilateral development banks	29.1	-	-	29.1
International organisations	-	-	-	-
Institutions (1)	18.3	-	-	18.3
Corporates (2)	19.7	-	-	19.7
Retail	-	9.0	-	9.0
Secured by mortgages on residential property	-	5,475.9	-	5,475.9
Secured by mortgages on commercial real estate	-	266.2	-	266.2
Past due	-	88.6	-	88.6
High risk	-	141.7	-	141.7
Covered bonds	-	-	-	-
Securitisation positions	-	-	-	-
Short-term claims on institutions and corporates	-	-	-	-
Collective Investment Undertakings (CIUs)	-	-	-	-
Other items	-	-	27.4	27.4
Total	**580.7**	**5,981.4**	**27.4**	**6,589.5**

Notes:
[1] Excluding those assessed as short-term claims on institutions.
[2] Excluding those assessed as short-term claims on corporates. Includes funding line secured by non mortgage assets intercompany balances outside the solo consolidated group.
[3] For 2017, a counterparty is classified as retail when they meet the regulatory definition of retail and are classified as corporate when they do not meet the regulatory definition of retail. In 2016, counterparties that are not secured by property are classified as corporate except for unsecured personal loans that meet the regulatory definition of retail which are classified as retail counterparties; and counterparties that are secured by property are classified as retail.

Table 14: Exposures by residual maturity breakdown

2017

Standardised Exposure Classes	< 3 months £m	3 months to 1 year £m	1 to 5 years £m	> 5 years £m	Total £m
Central government and central banks	1,146.9	-	2.6	-	1,149.5
Regional governments or local authorities	-	-	-	-	-
Administrative bodies and non-commercial	-	-	-	-	-
Multilateral development banks	-	-	19.1	-	19.1
International organisations	-	-	-	-	-
Institutions (1)	23.1	-	-	-	23.1
Corporates (2)	0.7	24.7	-	-	25.4
Retail	-	0.1	0.8	-	0.9
Secured by mortgages on residential property	135.0	96.1	225.0	6,270.2	6,726.3
Secured by mortgages on commercial real estate	33.2	7.4	71.7	282.5	394.8
Past due	8.2	1.8	9.9	88.1	108.0
High risk	49.2	46.5	48.1	-	143.8
Covered bonds	-	-	-	-	-
Securitisation positions	-	-	-	-	-
Short-term claims on institutions and corporates	-	-	-	-	-
Collective Investment Undertakings (CIUs)	-	-	-	-	-
Other items	21.1	-	-	0.5	21.6
Total	**1,417.4**	**176.6**	**377.2**	**6,641.3**	**8,612.5**

2016

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

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

Use of External Credit Assessment Institutions (ECAIs)

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

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

Table 15: Exposures by Credit Quality Step

Institutions (incl. banks) *						
Credit Quality Step	**Fitch**	**Moody**	**S&P**	**Risk Weight**	**Exposure 2017 £m**	**Exposure 2016 £m**
1	AAA to AA-	AAA to AA-	Aaa to Aa3	20%	1.3	2.4
2	A+ to A-	A+ to A-	A1 to A3	50%	32.4	15.9
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					**33.7**	**18.3**

* 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 2017 £m	Exposure 2016 £m
1	AAA to AA-	AAA to AA-	Aaa to Aa3	20%	-	-
2	A+ to A-	A+ to A-	A1 to A3	20%	-	-
3	BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	20%	-	-
4	BB+ to BB-	BB+ to BB-	Ba1 to Ba3	50%	-	-
5	B+ to B-	B+ to B-	B1 to B3	50%	-	-
6	CCC+ and below	CCC+ and below	Caa1 and below	150%	-	-
Total					**-**	**-**

Interest Rate Risk in the Non-trading Book

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

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

The Group measures Interest Rate risk using 14 different interest rate curve shift scenarios designed to emulate a full range of market movements. These 14 scenarios are defined by ALCO and are based on three ‘shapes’ of curve movement (shift, twist and flex) with movements in rates scaled to approximate the potential move over one year at 99.9% two-tailed confidence interval with interest rates floored to zero. In addition, the regulatory scenario of an unfloored parallel shift of 200bps in both directions is applied. After taking into account the derivatives entered into by the Group, the maximum loss under these scenarios as at 31 December 2017 would have been £3.2m (2016: £1.9m) and the maximum gain £1.2m (2016: £2.1m). Against a parallel interest rate movement of 2%, the impact would have been a £2.8m loss (2016: £5.9m gain) in the statement of profit or loss.

Exposure is mitigated on a continuous basis through the use of derivatives within limits set by the ALCO and the Board (currently 1.5% of Common Equity Tier 1 Capital). After taking into account the derivatives entered into by the Group and reserve allocations, a parallel interest rate increase of 2% would have been a £2.8m loss (2016: £3.9m gain) in the profit or loss.

Asset Encumbrance

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

Operational Risk

For 2017 onwards, the operational risk capital requirement is calculated under the Standardised Approach which is calculated as a blend of 12 per cent of the three-year average of the Group’s annual gross income relating to its retail business as defined by the CRR and of 15 per cent of the three-year average of the Group’s annual gross income relating to its commercial business.

For 2016 and prior years, the operational risk capital requirement is calculated under the Basic Indicator Approach as 15 per cent of the three-year average of the Group's annual gross income, excluding any negative or zero values.

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

Remuneration

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

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

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

Decision-making process

The Remuneration Committee of the Board of OneSavings Bank plc is responsible for governance of remuneration for Executive Directors and other Code Staff/Material Risk Takers. The Remuneration Committee (the Committee) currently comprises three independent Non-Executive Directors; Mary McNamara (Chair), Andrew Doman and Rod Duke.

The Committee met seven times during the financial year 2017.

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/Material Risk Takers. 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). The terms of reference of the Committee are available at www.osb.co.uk.

The Committee obtains independent external advice from Korn Ferry, a consultancy specialising in executive remuneration design. Korn Ferry does not have any other connection to the Company. The Committee also considers advice from the Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Group Head of Human Resources, Chief Risk Officer, Risk Committee and the Group General Counsel and Company Secretary as relevant (though not in relation to their own remuneration). The Committee takes account of the overall approach to reward employees in the Company as a whole when designing the pay structures for Executive Directors and other Code Staff/Material Risk Takers. The Committee engages proactively with major shareholders through consultation on material changes to remuneration policy relating to Executives Directors.

The link between pay and performance

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

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

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

Remuneration Structures and their purpose

This section sets out the key elements of pay for Code Staff/Material Risk Takers, 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/Material Risk Takers are paid fixed pay components of base salary, pension contribution (or equivalent cash allowance) and fringe benefits which may include a car allowance, medical and life insurance or income protection. These elements are set at a level so as to ensure that there is not an excessive dependence on variable remuneration.

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

Members of the Executive Committee are eligible to receive awards under the Executive Bonus Scheme. The purpose of the Executive Bonus Scheme is to incentivise and reward individuals for the achievement of pre-defined annual financial and operational objectives which are approved by the Committee and 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/Material Risk Takers is set by reference to the role and grade within the organisation, but no employee is eligible for a bonus above 100% of salary. Under this scheme, a minimum of 75% of the award is subject to achievement against the Business Balanced Scorecard (“BBS”). The BBS contains a broad range of metrics so as to provide a comprehensive reflection of performance in all key areas of the business, including a strong focus on customer, staff and quality indicators. The remaining proportion of the award is based on personal performance targets.

Prior to approving awards under the Executive Bonus Scheme, the Committee receives confirmation from the Risk Committee to confirm that the Company has operated within the Board's approved risk framework for the year under review and that the indicative award is appropriate in this context.

For 2017, the performance conditions for Executive Directors in the (“BBS”) which comprised 75% of the award were:

- 35% Company financial (profitability, growth, capital, return on equity, cost and income ratios); and
- 15% Customer (Satisfaction & Retention)
- 15% Quality (Compliance, Credit Risk & Operational)
- 10% Staff (Diversity and Employee Engagement)

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

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

While the Committee is committed to ensuring that Executive remuneration is dependent on the long-term success of the Company, some elements of Remuneration Code (SYSC SYSC 19D.3.56R (Retained shares and other instruments), Deferral (SYSC 19D.3.59R) and SYSC 19D.3.61R–SYSC19D.3.62R) (Performance adjustment)) has been disapplied in accordance with the FCA’s General guidance on proportionality: The Dual-regulated firms Remuneration Code (SYSC 19D) 2017.

Annual bonus

Below the Executive Committee, other Code Staff/Material Risk Takers participate in the management bonus plan. Under this plan, performance is assessed against a matrix of individual and corporate performance factors. In 2014, for the majority of Code Staff, 25% of any bonus earned under this plan was deferred for 12 months.
From 2015, the majority of other Code Staff will defer 50% of their bonus into shares under the DSBP, to be held for three years.

Performance Share Plan

Members of the Executive Committee are eligible for awards under the Performance Share Plan (PSP), although this is not cascaded to all Code Staff/Material Risk Takers. 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 performance conditions will continue to be partly driven by EPS (40% weighting), and TSR (40% weighting) and, for the 2018 PSP award, a new return measure based on return on equity will be introduced (20% weighting) to drive and reward the efficient use of capital. This new measure will be alongside the focus on profitable growth (EPS) and continued stock market outperformance (relative TSR vs the FTSE250 constituents). The addition of a third measure will mean the executives will have to deliver performance across a higher number of metrics to receive the increase in PSP quantum, making it harder to receive the higher quantum. The performance targets are:

Performance level	EPS element (40% of total award)	TSR element (40% of total award)	Return on Equity (20% of total award)	% of that part of the award vesting
Below 'threshold'	Less than 6% CAGR	Below median	Below median	0%
'Threshold'	6% CAGR	Median	Median	25%
'Stretch'	12% CAGR	Upper quartile	Upper quartile	100%
Pro-rata vesting in between the above points				

At the time of vesting, the Committee will assess whether the formulaic vesting outcome is aligned with the underlying financial and non-financial performance, risk appetite and individual conduct over the period.

Share ownership requirements

Members of the Executive Committee are also required to build and maintain a shareholding in the Company. The CEO is required to accumulate and maintain 250%, the Chief Financial Officer 200% and other members of the Executive Committee 100% of base salary. 50% of any vested share awards must be retained until the guideline is achieved.

Malus & Clawback

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

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

Ratios between fixed and variable remuneration

The shareholders of OneSavings Bank plc have approved an increase to the variable pay of its Code Staff/Material Risk Takers to two times fixed pay, where legislation requires that pay is capped.

Additional information on Directors' remuneration

Additional guidance on Directors' remuneration is available on pages 81-95 of OneSavings Bank plc's 2017 Annual Report and Accounts.

Aggregate quantitative information on remuneration

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

Table 16: Code staff aggregate remuneration

2017

2017 Remuneration		Executive Directors	Non-Executive Directors	Retail Banking	Independent Control Functions	Corporate Functions
Senior management	Total Remuneration	£2,529,036	£697,084	£2,456,920	£946,174	£828,724
	Number of Staff	2	10	4	2	2
Other Code Staff	Total Remuneration	-	-	£3,043,649	£685,937	£1,639,114
	Number of Staff	-	-	19	7	11

2016

2016 Remuneration		Executive Directors	Non-Executive Directors	Retail Banking	Independent Control Functions	Corporate Functions
Senior management	Total Remuneration	£2,232,867	£767,339	£2,117,987	£741,122	£544,470
	Number of Staff	2	12	4	3	2
Other Code Staff	Total Remuneration	-	-	£2,642,968	£437,625	£1,499,534
	Number of Staff	-	-	15	5	11

Appendix I - Disclosure on Asset Encumbrance

Template A - Assets

2017

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		£m	of which notionally eligible EHQLA and HQLA	£m	of which notionally eligible EHQLA and HQLA	£m	of which EHQLA and HQLA	£m	of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	**Assets**	1,862.3	1,812.9			5,645.2	620.4		
030	Equity instruments					0.5			
040	Debt securities					19.1	19.1	19.1	19.1
050	of which: covered bonds								
060	of which: asset-backed securities								
070	of which: issue by general governments								
080	of which: issue by financial corporations					19.1	19.1	19.1	19.1
090	of which: issue by non-financial corporations								
120	Other assets					72.7			
121	of which: ...								

Template B - Collateral received

		Fair value of encumbered collateral received or own debt securities issued		Fair value of collateral received or own debt securities issued available for encumbrance	
		£m	of which notionally eligible EHQLA and HQLA	£m	of which EHQLA and HQLA
		010	030	040	060
130	**Collateral received**	25.0		908.3	908.3
140	Loans on demand				
150	Equity instruments				
160	Debt securities	25.0		389.6	389.6
170	of which: covered bonds				
180	of which: asset-backed securities				
190	of which: issue by general governments	25.0		389.6	389.6
200	of which: issue by financial corporations				
210	of which: issue by non-financial corporations				
220	Loans and advances other than loans on demand			551.3	551.3
230	Other collateral received				
231	of which: ...				
240	**Own debt securities issued other than own covered bonds or ABSs**				
241	**Own covered bonds and asset-backed securities issued and not yet pledged**				
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	1,860.3	1,812.9		

Template C-Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent £m	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £m
		010	030
010	**Carrying amount of selected financial liabilities**	**686.3**	**1336.1**
011	of which …	686.3	1336.1

2016

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		£m	of which notionally eligible EHQLA and HQLA	£m	of which notionally eligible EHQLA and HQLA	£m	of which EHQLA and HQLA	£m	of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	**Assets**	1,278.4	1,212.7			5,128.3	533.7		
030	Equity instruments					0.5		0.5	
040	Debt securities					328.6	348.3	328.6	328.6
050	of which: covered bonds								
060	of which: asset-backed securities								
070	of which: issue by general governments					299.5	319.2	299.5	299.5
080	of which: issue by financial corporations					29.1	29.1	29.1	29.1
090	of which: issue by non-financial corporations								
120	Other assets					93.6			
121	of which: …								

		Fair value of encumbered collateral received or own debt securities issued		Fair value of collateral received or own debt securities issued available for encumbrance	
		£m	Of which notionally eligible EHQLA and HQLA	£m	Of which EHQLA and HQLA
		010	030	040	060
130	**Collateral received**	25.0	25.0	525.8	
140	Loans on demand			1.3	
150	Equity instruments				
160	Debt securities	25.0	25.0	524.9	
170	of which: covered bonds				
180	of which: asset-backed securities				
190	of which: issue by general governments	25.0	25.0	524.9	
200	of which: issue by financial corporations				
210	of which: issue by non-financial corporations				
220	Loans and advances other than loans on demand				
230	Other collateral received				
231	of which: ...				
240	**Own debt securities issued other than own covered bonds or ABSs**				
241	**Own covered bonds and asset-backed securities issued and not yet pledged**				
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	1,306.7	1,222.2		

		Matching liabilities, contingent liabilities or securities lent £m	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £m
		010	030
010	**Carrying amount of selected financial liabilities**	**53.2**	**53.2**
011	of which ...	53.2	53.2

Note: 2017 is a median of four quarter end balances. 2016 has been restated to be on the same basis.

Template D- Information on importance of encumbrance

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

Appendix II - Own Funds

Disclosure of the Group's own funds for the current year comparing the transitional rules position to the final CRD IV rules. The main difference is the grandfathering of £10,000k of tier 2 instruments that are amortising down to nil by 2024.

OneSavings Bank plc	£m	£m	£m	£m
Common Equity Tier 1 capital: instruments and reserves	**31/12/2017**	**Final CRD IV**	**31/12/2016**	**Final CRD IV**
Capital instruments and the related share premium accounts	**172.2**	**172.2**	**168.4**	**168.4**
of which: Common shares	2.4	2.4	2.4	2.4
Retained earnings	310.0	310.0	217.0	217.0
Accumulated other comprehensive income (and any other reserves)	-12.8	-12.8	-12.8	-12.8
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**469.4**	**469.4**	**372.6**	**372.6**
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
Goodwill and Other intangible assets (net of related tax liability)	-6.8	-6.8	-4.7	-4.7
Deferred tax assets that rely on future profitability excluding those arising from temporary difference	-2.5	-2.5	-2.3	-2.3
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-9.3	-9.3	-7.0	-7.0
Common Equity Tier 1 (CET1) capital	**460.1**	**460.1**	**365.6**	**365.6**
Additional Tier 1 (AT1) capital	60.0	60.0	-	-
Tier 1 capital (T1 = CET1 + AT1)	**520.1**	**520.1**	**365.6**	**365.6**
Tier 2 (T2) capital: instruments and provisions				
Subordinated loans	**47.7**	**47.7**	**48.5**	**48.5**
Credit risk adjustments	2.0	2.0	1.6	1.6
Tier 2 (T2) capital before regulatory adjustment	**49.7**	**49.7**	**50.1**	**50.1**
Tier 2 (T2) capital: regulatory adjustments				
of which holdings existing before 1 January 2013	-2.5	-10.0	-2.0	-10.0
Total regulatory adjustments to Tier 2 (T2) capital	-2.5	-10.0	-2.0	-10.0
Tier 2 (T2) capital	**47.2**	**39.7**	**48.1**	**40.1**
Total capital (TC = T1 + T2)	**567.3**	**559.8**	**413.7**	**405.7**
Total risk-weighted exposures	3,348.5	3,348.5	2,743.0	2,743.0
Capital ratios and buffers				
Common Equity Tier 1 ratio	13.74%	13.74%	13.30%	13.30%
Tier 1 ratio	15.53%	15.53%	13.30%	13.30%
Total capital ratio	16.94%	16.72%	15.10%	14.80%
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)	2.0	2.0	1.6	1.6
Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	-	-	-
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)	-2.5	-10.0	-2.0	-10.0

Appendix III - Subordinated Debt Instruments

Capital instruments' main features template							
Issuer	OneSavings Bank plc	OneSavings Bank plc	OneSavings Bank plc	OneSavings Bank plc	OneSavings Bank plc	OneSavings Bank plc	OneSavings Bank plc
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
Regulatory treatment							
Transitional CRR rules	AT1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
Post-transitional CRR rules	AT1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated
Instrument type (types to be specified by each jurisdiction)	Additional Tier 1	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt
Amount recognised in regulatory capital (£)	60,000,000	15,000,000	22,000,000	2,500,000	5,000,000	403,000	300,000
Nominal amount of instrument (£)	60,000,000	15,000,000	22,000,000	5,000,000	5,000,000	403,000	300,000
Issue price	Par	Par	Par	Par	Par	Par	Par
Redemption price	Par	Par	Par	Par	Par	Par	Par
Accounting classification	Equity	Liabilities	Equity	Liabilities	Liabilities	Liabilities	Liabilities
Original date of issuance	25 May 2017	27 August 2004	07 March 2006	30 September 2016	30 September 2016	14 September 2012	14 September 2012
Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated	Dated
Original maturity date	N/A	N/A	N/A	30 September 2024	27 September 2024	13 September 2022	13 September 2022
Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Optional call date, contingent call dates, and redemption amount	-	-	-	-	-	-	-
Subsequent call dates, if applicable	-	-	-	-	-	-	-
Coupons / dividends	-	-	-	-	-	-	-
Fixed or floating dividend/coupon	Fixed	Fixed	Fixed	Fixed	Fixed	Floating	Floating
Coupon rate and any related index	9.125000%	2.19000%	6.59100%	6.45000%	7.45000%	3.05181%	6.05181%
Existence of a dividend stopper	No	No	No	No	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Mandatory	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory
Existence of step up or other incentive to redeem	No	Yes	Yes	Yes	Yes	Yes	Yes
Noncumulative or cumulative	Non-cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
Convertible or non-convertible	Convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger(s)	CET1 capital ratio falls below 7.00%	-	-	-	-	-	-
If convertible, fully or partially	Partially	-	-	-	-	-	-
If convertible, conversion rate	Optional at holders' discretion	-	-	-	-	-	-
If convertible, mandatory or optional conversion	Optional at holders' discretion	-	-	-	-	-	-
If convertible, specify instrument type convertible into	Ordinary shares	-	-	-	-	-	-
If convertible, specify issuer of instrument it converts into	OneSavings Bank plc	-	-	-	-	-	-
Write-down features	-	-	-	-	-	-	-
If write-down, write-down trigger(s)	-	-	-	-	-	-	-
If write-down, full or partial	-	-	-	-	-	-	-
If write-down, permanent or temporary	-	-	-	-	-	-	-
If temporary write-down, description of write-up mechanism	-	-	-	-	-	-	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated debt	-	-	-	-	-	-
Non-compliant transitioned features	No	No	No	Yes	Yes	No	No
If yes, specify non-compliant features	-	-	-	-	-	-	-

Appendix IV: Leverage Ratio

Summary reconciliation of accounting assets and leverage ratio exposures

Item		2017 CRR leverage Ratio Exposure £m	2016 CRR leverage Ratio Exposure £m
1	Total assets as per published accounts	8,589.1	6,580.9
4	Adjustments for derivative financial instruments	(38.5)	(45.8)
5	Adjustment for securities financing transactions (SFTs)		
6	Adjustment for off-balance sheet items (ie conversation to credit equivalent amounts of off-balance sheet exposures)	98.7	60.5
7	Other adjustments	(17.9)	(6.1)
8	**Leverage ratio total exposure**	**8,631.4**	**6,589.5**

Leverage ratio common disclosure

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

Item		2017 CRR leverage Ratio Exposure £m	2016 CRR leverage Ratio Exposure £m
	On-balance sheet items (excluding derivatives and , SFT's)		
1	On-balance sheet items (excluding derivatives, SFT's and fiduciary assets, but including collateral)	8,528.4	6,533.2
2	Asset amounts deducted in determining Tier 1 capital	(6.8)	(7.1)
3	**Total on-balance sheet exposures (excluding derivatives, SFT's and fiduciary assets)**	**8,521.6**	**6,526.1**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	6.3	-
5	Add-on amounts of PFE associated with all derivatives transactions (mark-to-market method)	4.8	2.9
11	**Total derivatives exposures**	**11.1**	**2.9**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	530.2	295.2
18	(Adjustments for conversion to credit equivalent amounts)	(431.5)	(234.7)
19	**Other off-balance sheet exposures**	**98.7**	**60.5**
	Capital and total exposures		
20	**Tier 1 capital**	**520.1**	**365.6**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 19)**	**8,631.4**	**6,589.5**
	Leverage ratio		
22	**Leverage ratio**	**6.0%**	**5.5%**
EU-23	**Choice on transitional arrangements for the definition of the capital measure**	Fully phased in	Fully phased in

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

		2017 CRR leverage Ratio Exposure £m	2016 CRR leverage Ratio Exposure £m
EU-1	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**8,631.4**	**6,589.5**
EU-2	Trading book exposures		-
EU-3	Banking book exposures of which:	8,631.4	6,589.5
EU-5	Exposures treated as sovereigns	1,149.5	513.6
EU-6	Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns	19.1	29.1
EU-7	Institutions	34.2	18.3
EU-8	Secured by mortgages of immovable properties	7,121.1	5,883.8
EU-9	Retail exposures	0.9	9.0
EU-10	Corporate	25.4	19.7
EU-11	Exposures in default	108.0	88.6
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligations)	173.2	27.4

1	Description of the processes used to manage the risk of excessive leverage	The Group's Capital Plan and Risk Appetite statements set out the Leverage ratio limits, targets, notification points, decisions and action plans including supporting forecasts and stress scenarios that the Group manages to remain in compliance at all times. The Group's SRMF sets out the governance framework for the management and procedures for establishing and changing the limits, targets, notification points, decisions and actions plans for leverage ratio set out in the Capital Plan and Risk Appetite Statements. This involves the Risk Committee and ultimately the Board in making these changes to the policy. The Group's ALCO provides the oversight that evaluates and monitors the Group's compliance with the Capital Plan and Risk Appetite policy on an ongoing basis.
2	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	The Group's leverage ratio increased 0.5% from 5.5% at 31 December 2016 to 6.0% at 31 December 2017 driven by Tier 1 capital increasing by £153.5m due to the continued retention of up to 75% of underlying profit after tax in retained earnings and the AT1 issuance in the year. Net total assets (Leverage exposures) increased 31% during the year driven predominately by increases loans and advances through organic lending through the Groups various brands and increase in loans and advances to credit institutions.

Appendix V: Disclosure on LCR

2017

		Total adjusted value £m			
		Q1 2017	Q2 2017	Q3 2017	Q4 2017
21	LIQUIDITY BUFFER	923.8	933.9	991.2	1,127.0
22	TOTAL NET CASH OUTFLOWS	451.2	457.9	498.3	492.5
23	LIQUIDITY COVERAGE RATIO (%)	204.9%	204.6%	199.3%	229.4%

2016

		Total adjusted value £m			
		Q1 2016	Q2 2016	Q3 2016	Q4 2016
21	LIQUIDITY BUFFER	928.1	1,263.5	1,127.3	1,083.1
22	TOTAL NET CASH OUTFLOWS	527.2	321.5	421.2	462.6
23	LIQUIDITY COVERAGE RATIO (%)	179.2%	393.2%	267.9%	234.3%

Note: Figures quoted are average of the three month end reporting positions within the quarter.

EU LIQA on liquidity risk management

	Comment
Strategies and processes in the management of the liquidity risk	The Group adopts a thorough approach to risk management ensuring the effective identification, assessment, monitoring and management of all risks as defined by the Group's Strategic Risk Management Framework ("SRMF"). Liquidity and funding risk are both principal risks included with the SRMF. The Group's Risk Framework ensures that internal and external expectations (including the Prudential Regulation Authority Rulebook and Basel Committee on Banking Supervision Principles for Sound Liquidity Risk Management and Supervision) are met and liquidity usage is optimised. This includes the reporting of metrics including the Liquidity Coverage Ratio ("LCR") and Liquidity Ratio ("LQ"). A set of Standard Operating Procedures ("SOP") sit below the policies. These are a formal set of instructions to be followed when executing out an analytical or reporting process.
Structure and organisation of the liquidity risk management function (authority, statute, other arrangements)	The Market and Liquidity Risk Framework articulates how Group manages market and liquidity risk and is developed based on the principles, structure and ethos of the Strategic Risk Management Framework. The Internal Liquidity Adequacy Assessment Process ("ILAAP") is a key regulatory submission requirement and is underpinned by the liquidity risk governance structures in place across the Bank, in conjunction with reporting how the liquidity and funding profile influences the liquidity requirements of the Group. The Group utilises a hierarchical committee structure to oversee and manage market and liquidity risk. Key decisions are reviewed and challenged at all of the

	Group's committees, including; The Board, Risk Committee, and ALCO.
Scope and nature of liquidity risk reporting and measurement systems	In order to understand the risk which the Group is exposed to, and to provide information to the Board, Senior Management and external parties that the Group is operating within its market and liquidity risk limits, regular and accurate liquidity risk management information, reporting, and analytics are produced. These include; • **Cash flow forecasting**: Daily cash flow forecasting to ensure the Group will continue to meet risk appetite and regulatory requirements. • **Advances, redemptions and rollovers**: The Group model expected fixed rate savings rollovers and mortgage advances and redemptions based on historical information, seasonality and key future events such as repricing periods and reversion to SVR. Advances, redemptions and rollovers are monitored on a weekly basis and reported monthly to ALCO. • **Stress Testing**: Stress tests are conducted on a regular basis by Risk to identify sources of potential liquidity stress. The stress testing considers the potential impact of institution-specific, market-wide and combined alternative scenarios. Different time periods and varying degrees of stressed conditions are considered. • **ALCO Reporting**: The Group's key market and liquidity risk report is the ALCO pack, which is reviewed by the Committee on a monthly basis and extracts from the pack are provided to the Risk Committee.
Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	Interest rate risk and basis risk are mitigated through three main approaches, natural hedges (i.e. matching assets and liabilities with similar repricing timing or index rates), Fixed-Floating (or Floating-Fixed) interest rate swaps, and allocation of reserves. The target for interest rate risk and basis risk is broadly neutral. Exposures are monitored on a regular basis and must remain within Board approved risk appetite.
A declaration approved by the management body on the adequacy of liquidity risk management arrangements of the institution providing assurance that the liquidity risk management systems put in place are adequate with regard to the institution's profile and strategy	The Board approves the liquidity risk appetite and the ILAAP document on an at least annual basis.
A concise liquidity risk statement approved by the management body succinctly describing the institution's overall liquidity risk profile associated with the business strategy. This statement shall include key ratios and figures (other than those already covered in Annex II of these guidelines) providing external stakeholders with a comprehensive view of the institution's management of liquidity risk, including how the liquidity risk profile of the institution interacts with the risk tolerance set by the management body	The Group will maintain sufficient liquidity to meet its liabilities as they fall due under normal and stressed business conditions; this will be achieved by maintaining a strong retail savings franchise, supported by a high quality liquid asset portfolio comprised of cash and readily-monetizable assets, and through access to prearranged secured funding facilities. The Board requirement to maintain balance sheet resources sufficient to survive a 1 in 20 severity stress is interpreted in terms of the Liquidity Coverage Ratio and corresponding Liquidity Ratio.

Template on qualitative information on LCR, which complements the LCR disclosure template

	Comment
Concentration of funding and liquidity sources	In addition to the regulatory ALMM metrics, the Group ensures that funding diversification is measured on a regular basis, paying particular attention to the split between sources of funding (retail, wholesale, central bank facilities etc.) and any concentrations by maturity, customer, and product type in its internal risk metrics. These monitoring metrics are reported on a regular basis and escalated to the appropriate levels for review.
Derivative exposures and potential collateral calls	The Group maintains the capability to value all derivative trades as often as daily if necessary. Margin calls are assessed and made in line with the Group's Treasury Risk Policy. The Policy also sets out the limits around changes in valuations. OSB also considers the impact of external factors to its derivative margin and looks at the impact of shifts in the yield curve.
Currency mismatch in the LCR	Due to the simple nature of the Groups balance sheet, currency mismatch does not pose a significant risk.
A description of the degree of centralisation of liquidity management and interaction between the group's units	Liquidity Risk management is carried out on a consolidated Group level, which encompasses all entities. Funding of different business lines and the reporting of risk monitoring metrics are therefore carried out on a holistic basis.
Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile	In its ILAAP, the Group has taken into consideration a range of risk factors that may not be captured by the regulatory LCR disclosure. As defined in its ILAAP document, these include; Intraday Liquidity Risk, Off Balance Sheet Risk, Concentration & Correlation Risk, and LAB Monetisation.