PILLAR 3 DISCLOSURES

For the year ended 31 December 2015

Reliance House
Sun Pier
Chatham
Kent ME4 4ET

Table of contents

Tables

Figures

Overview

This document sets out the consolidated Pillar 3 disclosures of OneSavings Bank (OSB) and its subsidiaries (the Group) as at 31 December 2015. The disclosures have been prepared in accordance with the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR) together known as CRD IV, which came into force on 1 January 2014.

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

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

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

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

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

Pillar 3 Disclosure Policy

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

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

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

Materiality

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

Confidentiality

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

Verification

The information and figures contained in the Pillar 3 disclosure document have been subject to internal verification and are based on the financial statements and supporting schedules. For the 2015 Pillar 3 disclosures there is additional reporting over what is presented in the statutory financial accounts and Common Reporting ("COREP") which is submitted to the Prudential regulation Authority (PRA). The additional disclosures over the statutory financial accounts are the table showing code staff aggregate remuneration for 2015 and other remuneration disclosures, the table for disclosing the impact of the transitional rules from the current own funds capital to the final own funds capital under CRD IV (Appendix II - Own Funds), the main characteristics of capital instruments (Appendix III - Subordinated Debt Instruments), Asset Encumbrance (Appendix I - Disclosure on Asset Encumbrance) and Leverage Ratio (Appendix IV). The additional disclosures over the COREP are contained in the table illustrating the main features of capital instruments (Appendix III - Subordinated Debt Instruments).

For Liquidity Coverage Ratio (LCR) for December 2015, the Group provides a qualitative discussion on how it will meet 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 as soon at the same time as publication of the Group's Annual Report and Accounts.

Media and location of publication

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

Management and Board sign-off

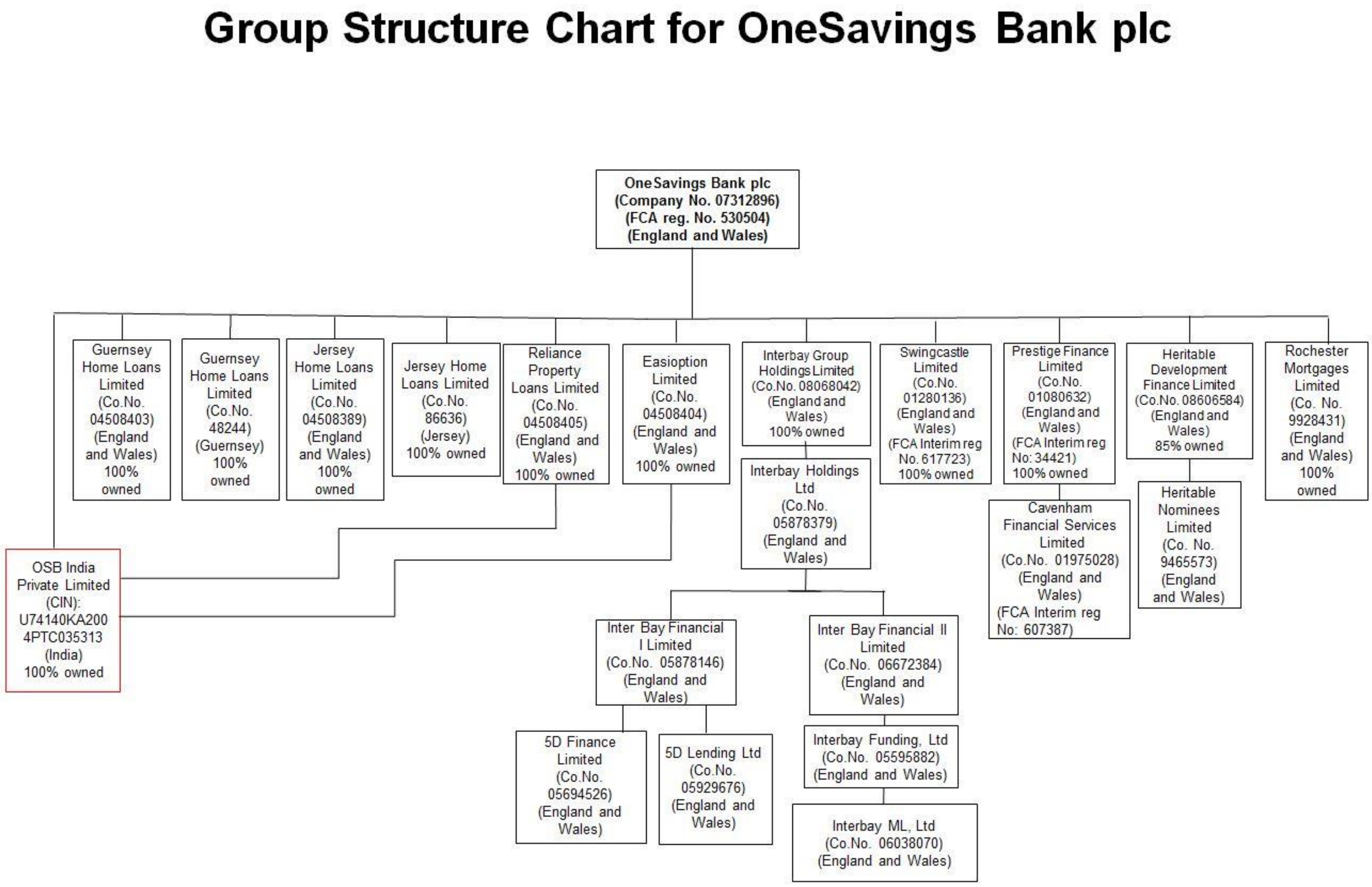
The Executive Committee and the Audit Committee are responsible for assessing and confirming the appropriateness of the Pillar 3 disclosures, including their verification and frequency. The disclosures must convey the Group's risk profile comprehensively to market participants as required under Part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

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

Scope

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

Figure 1: Group structure



Rochester Financing No.1 Plc, is not included above as the group has no legal ownership. The entity holds legal title to mortgages that have been securitised.

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

All subsidiaries are 100 per cent funded by the Group and solo consolidated with the Group with the exception as at 31st December 2015 of OSB India Private Limited, Heritable Development Finance Limited, Prestige Finance Limited, Rochester Mortgages Limited, Rochester Financing Ltd. (Rochester), Swingcastle Limited and Cavenham Financial Services Limited. Rochester Financing Ltd (Rochester) is the Group's securitisation vehicle, to which it has minimal exposure. There are no material differences in the basis of consolidation for accounting and prudential purposes.

Chief Risk Officer's report

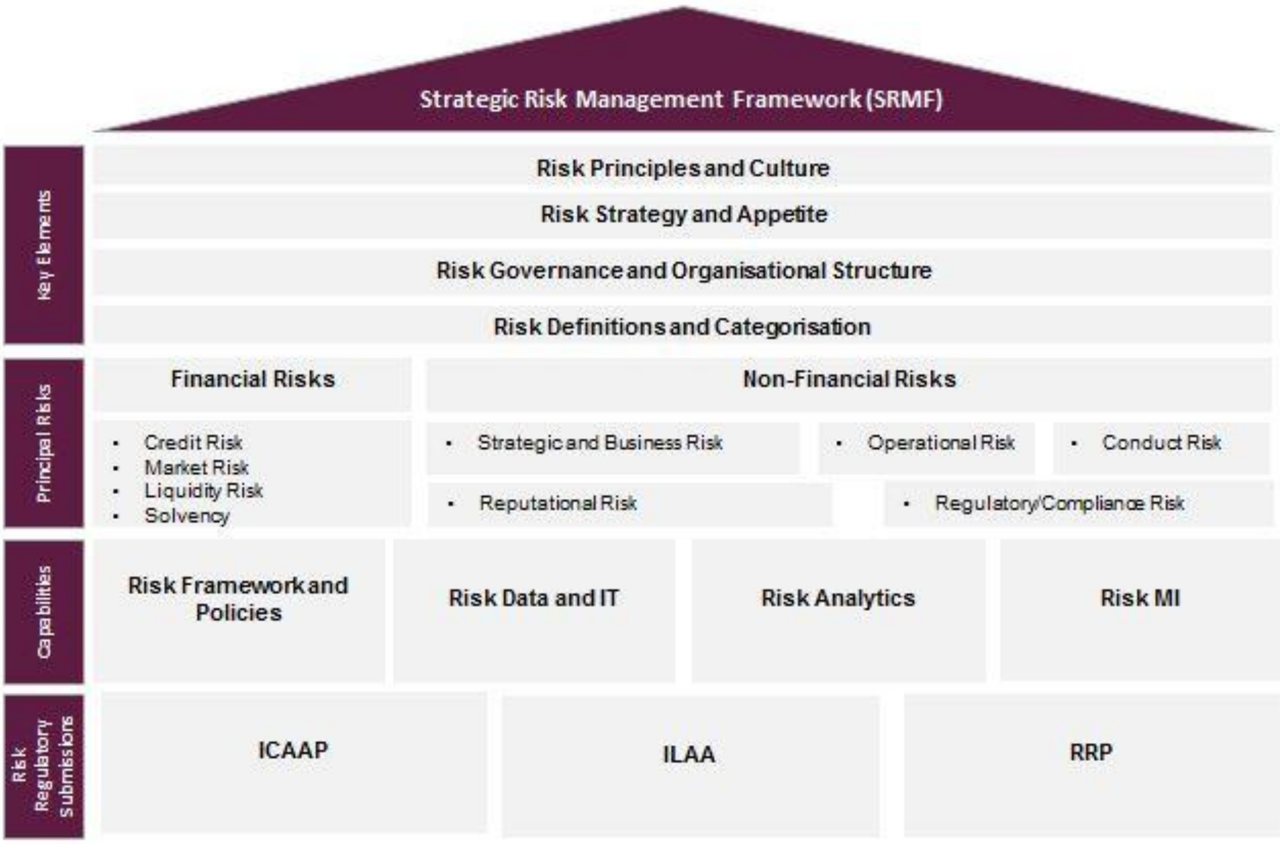
Strategic Risk Management Framework

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

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

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

Figure 2: Strategic Risk Management Framework



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

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

Risk Principles and Culture

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

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

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

Risk Strategy and Appetite

Risk Strategy

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

This risk strategy is based on three key components:

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

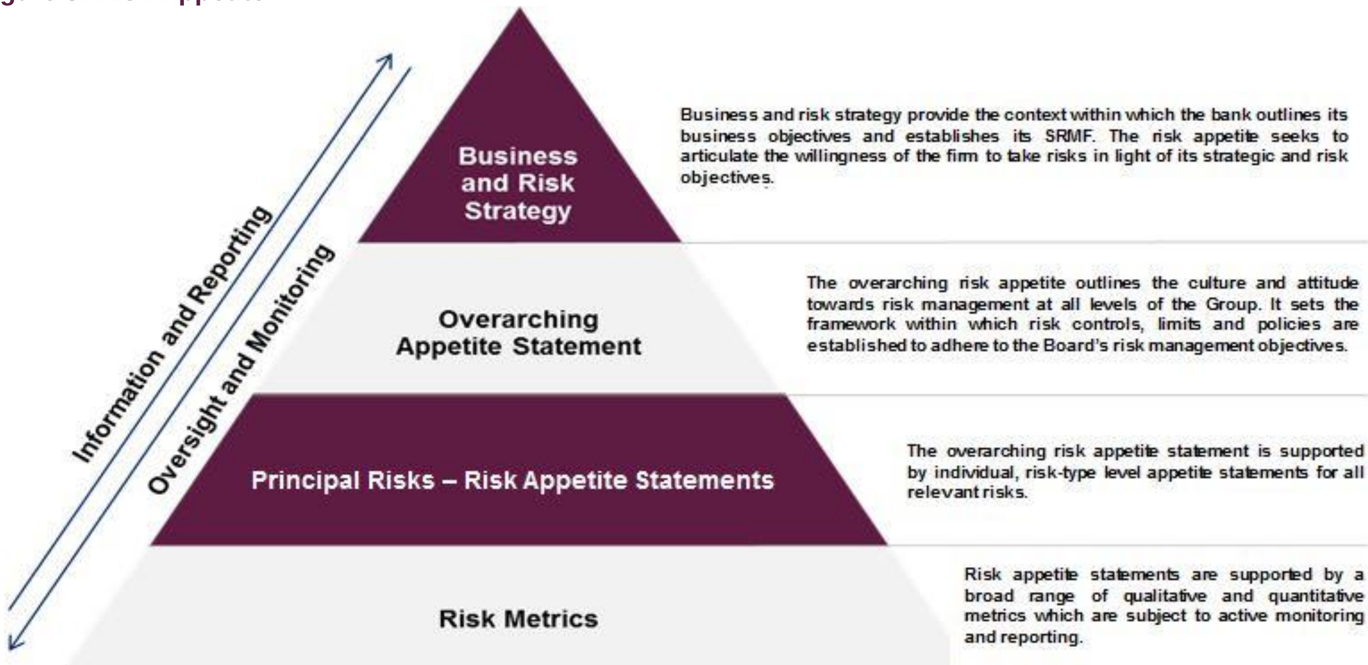
Risk Appetite

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

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

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

Figure 3: Risk Appetite



Risk Appetite Statements

Overarching Risk Appetite Statement

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

Business and Strategic Risk Appetite Statement

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

Reputational Risk Appetite Statement

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

Credit Risk Appetite Statement

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

Market Risk Appetite Statement

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

Liquidity Risk Appetite Statement

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

Operational Risk Appetite Statement

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

Conduct Risk Appetite Statement

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

Compliance and Regulatory Risk Appetite Statement

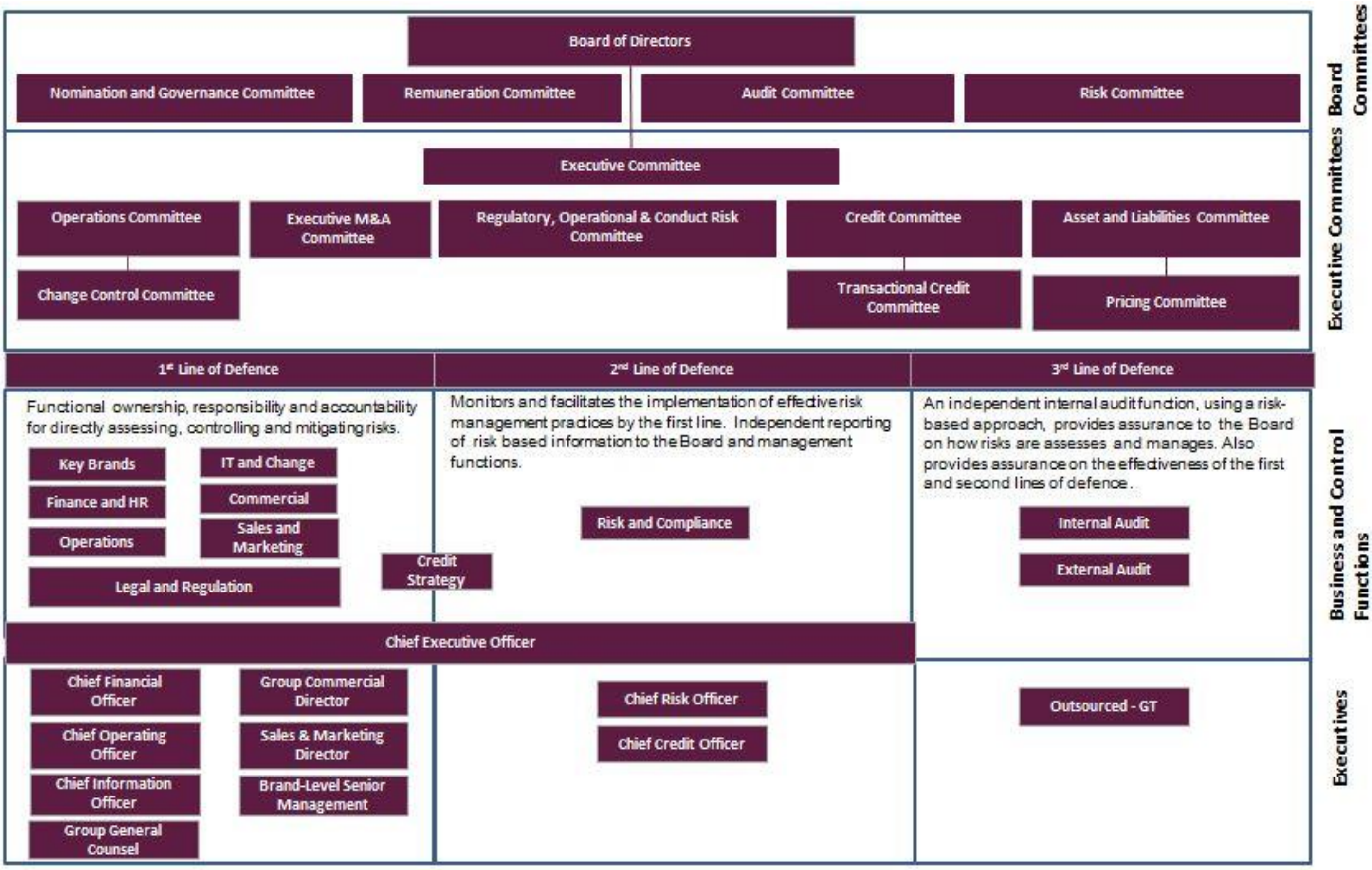
The Group will not tolerate systemic failures to comply with the relevant laws, regulations and codes of conduct applicable to its business activities. The Group's compliance culture and supporting procedures ensure adherence to all relevant regulation and it actively monitors and assesses changing and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

Risk Governance & Organisational Structure

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

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

Figure 4: Risk Governance and Organisational Structure



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

Figure 5: Risk Governance Structure

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

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

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

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

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

Risk Management Capabilities

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

Risk Frameworks and Policies

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

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

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

Risk Management Data

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

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

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

Risk Management Information

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

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

Risk Management Analytics

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

Stress Testing and Scenario Analysis

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

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

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

Credit Risk Modelling

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

Mortgage Pricing Model

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

Liquidity Cash Flow Modelling

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

2015 highlights

Credit Risk

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

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

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

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

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

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

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

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

• average LTV increased from 59% to 64% for new residential mortgage lending and remained stable at 72% for new Buy-to-let/SME lending;

• average loan to incomes (LTI) for residential mortgage lending reduced with 3.3% of new loans having LTIs over 4.5 in 2015 compared to 9.2% in 2014;

• portfolio arrears rate decreased from 2.3% to 2.1%; and

• legacy problem loans reduced from £31.1m to £17.8m.

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

(See the Group's Annual Report and Accounts, Risk management and financial instruments, Note 33).

Table 1: Forbearance measures undertaken during the financial year

Forbearance measures undertaken in 2015

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

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

1. Forbearance data based on all Group mortgages and does not include personal loans

2. First charge owner occupier includes shared ownership mortgages

Solvency Risk

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

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

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

(See the Group's Annual Report and Accounts, Capital management, Note 35).

Liquidity & Funding

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

The Bank has successfully utilised the Funding for Lending Scheme (FLS) to manage its liquidity in 2015. The Bank prepositioned mortgage collateral with the Bank of England since February 2015 in order to use the FLS and to access the Bank of England's liquidity insurance facilities, should that become necessary. In conjunction with the FLS, the Bank has continued to attract new retail savers and retain existing retail savers through product offerings which meet customer saving requirements.

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

(See the Group's Annual Report and Accounts, Risk management and financial instruments, Note 33).

Market Risk

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

Interest Rate Risk

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

The Group sets limits on the mismatch between fixed-rate assets and liabilities, taking into account interest rate swaps that are in place. The Group sets a limit on the sensitivity of the fair value of the portfolio as a whole to defined yield curve scenarios. These moves are specified in the Board-approved Interest rate and basis risk policy and capture parallel movement, twist, and flex in the yield curve. The stress scenario interest rate movements are scaled to approximate the potential move over one year at 99.9% two-tailed confidence interval.

Basis Risk

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

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

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

(See the Group's Annual Report and Accounts, Risk management and financial instruments, Note 33).

Operational Risk

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

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

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

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

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

Regulatory and Compliance Risk

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

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

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

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

Conduct Risk

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

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

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

Strategic & Business Risk

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

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

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

Risk Based Submissions

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

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

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

Table 2: Principal Risks and Uncertainties

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

Risk type and definition	Risk	Mitigation	Direction
Strategic and business risk The risk to the Bank's earnings and profitability arising from its strategic decisions, changes in business conditions, improper implementation of decisions or lack of responsiveness to industry changes.	Performance against strategic and business targets do 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 strategic and business performance against market commitments, the balanced business scorecard and the risk appetite. Use of stress testing to flex core business planning assumptions to assess potential performance under stressed operating conditions.	**Unchanged** The Group strategic and business operating environments are subject to on-going changes primarily driven by market competition, economic outlook and regulation.
Reputational risk The potential risk of adverse effects that can arise from the Bank's reputation being impacted by factors such as unethical practices, adverse regulatory actions, customer dissatisfaction and complaints or negative/adverse publicity. Reputational risk can arise from a variety of sources and is a second order risk – the crystallisation of a credit risk or operational risk can lead to a reputational risk impact.	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**

Risk type and definition	Risk	Mitigation	Direction
Credit risk Potential for loss due to the failure of a counterparty to meet its contractual obligation to repay a debt in accordance with the agreed terms.	**Individual borrower defaults**. Borrowers may encounter idiosyncratic problems in repaying their loans, for example due to the loss of a job or execution problems with a development project. While most of the Bank's lending is secured, some borrowers fail to maintain the value of the security.	All loans are extended only after thorough bespoke and expert underwriting to ensure ability and propensity of borrowers to repay and sufficient security in case of default. Should there be problems with a loan, the collections and recoveries team works with customers unable to meet their loan service obligations to reach a satisfactory conclusion while adhering to the principle of treating customers fairly. A summary of forbearance measures undertaken is presented on page 16. While information on arrangements to pay is not included in the forbearance data, the Bank typically finds that over 80% of arrangements made by the team meet the payment plan agreed. Our strategic focus on lending to professional landlords means that properties are likely to be well managed, with income from a diversified portfolio mitigating the impact of rental voids or maintenance costs. Lending to owner-occupiers is subject to a detailed affordability assessment, including the borrower's ability to continue payments if interest rates increase. Lending on commercial property is more based on security, and is scrutinised by the Group's independent Real Estate team as well as by external valuers. Development lending is extended only after a deep investigation of the borrower's track record and the specific project and requires approval by a dedicated Development Finance Transactional Credit Committee.	**Unchanged** The Group's Lending Policy, underwriting standards, and approach to collections and recoveries have seen no material change over the past year.
	Macroeconomic downturn A broad deterioration in the economy would adversely impact both the ability of borrowers to repay loans and the value of the Group's security. Credit losses would impact across the lending portfolio, so even if individual impacts were to be small, the aggregate impact on the Group could be significant.	The Group works within portfolio limits on LTV and affordability and name, sector, or geographic concentration that are approved by Risk Committee and the Board and reviewed at least annually. In addition, stress testing is performed as part of the ICAAP to ensure the Group maintains sufficient capital to absorb losses in an economic downturn and still meet its regulatory requirements.	**Unchanged** While the economic outlook remains uncertain, and particular concerns remain regarding contagion from China and geopolitical instability, the economic outlook for the UK has remained stable over the past year.

Risk type and definition	Risk	Mitigation	Direction
	Wholesale credit risk The Bank has wholesale exposures both through call accounts used for transactional and liquidity purposes and through derivative exposures used for hedging.	The Group transacts only with high-quality wholesale counterparties. Derivative exposures include collateral agreements to mitigate credit exposures.	**Decreased** The Group established a reserve account with the Bank of England, enabling it to eliminate credit risk on most of its liquidity portfolio.
Market risk Potential loss due to changes in market prices or values.	**Interest rate risk** An adverse movement in the overall level of interest rates could lead to a loss in value due to mismatches in the duration of assets and liabilities.	The Group's Treasury department actively hedges to match the timing of cash flows from assets and liabilities.	**Decreased** The Group has become more sophisticated in its assessment of interest rate risk, developing a better understanding of the potential impact of more complex movements in rates and enabling better hedging.
	Basis risk A divergence in market rates could lead to a loss in value, as assets and liabilities are linked to different rates	The Group strategically focuses on products linked to administered rates to keep control of yield. Where there is a mismatch of market rates in the portfolio (e.g. Base Rate vs. LIBOR), the Treasury department hedges the exposure.	**Unchanged** Product design and hedging has enabled the Group to maintain the overall level of basis risk through the year.
Liquidity risk The risk that the Group will be unable to meet its financial obligations as they fall due.	**Retail funding stress** As the Group is primarily funded by retail deposits, a retail run could put it in a position where it could not meet its financial obligations.	The Group's funding strategy is focused on a highly stable retail deposit franchise. The large number of depositors provides diversification, and c. 94% of balances are covered by the FSCS and so at no material risk of a retail run. In addition, the Group performs in-depth liquidity stress testing and maintains a liquid asset portfolio sufficient to meet obligations under stress. Finally, the Group has prepositioned mortgage collateral with the Bank of England, so that its FLS liquidity insurance facilities can be accessed in the unlikely event that should become necessary.	**Decreased** The Group has made continual improvements in both its regular liquidity forecasting and stress testing framework. In addition, it has gained access to the Bank of England liquidity insurance facilities and has additional collateral posted under FLS that can be drawn down on any working day.

Risk type and definition	Risk	Mitigation	Direction
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.	Key risks to solvency arise from balance sheet growth and unexpected losses which can result in the bank's capital requirements increasing or capital resources being depleted such that it no longer meets the solvency ratios as mandated by the PRA and Board risk appetite. The regulatory capital regime is subject to change and could lead to increases in the level and quality of capital that the Group needs to hold to meet regulatory requirements.	Currently the bank operates from a strong capital position and a consistent record of strong profitability. The bank actively monitors its capital requirements and resources against financial forecasts and plans and undertakes stress testing analysis to subject its solvency ratios to extreme but plausible scenarios. The bank also holds prudent levels of capital buffers based on CRDIV requirements and expected balance sheet growth. The Group engages actively with regulators, industry bodies, and advisors to keep abreast of potential changes and provide feedback through the consultation process.	**Unchanged** Solvency risk is proactively monitored and where appropriate management actions are taken to ensure that the bank operates within its risk appetite. Recent changes implemented as part of CRD IV have resulted in requirements for more and higher quality capital, though elements of these requirements are being phased in.
Operational risk The risk of loss or negative impact to the Group resulting from inadequate or failed internal processes, people, or systems or from external events.	**Mortgage fraud** Applicants may provide false information or documentation to obtain a mortgage they might not otherwise be offered. In extreme cases, funds could be borrowed against an inflated valuation or even a non-existent property.	Experienced underwriters perform thorough checks on application information, including credit checks, ID checks, address checks, and Land Registry checks and checks against the National Hunter anti-fraud data sharing system. Brokers, valuers, and solicitors are managed through panels and are subject to regular review.	**Unchanged** There has been no material change to the Group's approach to mortgage fraud risk.

Risk type and definition	Risk	Mitigation	Direction
	Network/system intrusion If hackers were to penetrate the Group's IT system, consequences could range from the diversion of funds to the theft of customer data.	An outsourced agency monitors the Bank's infrastructure for known threats and reports when they are being executed. This was extended to subsidiaries in 2015. Third-party tools are used regularly for penetration testing on the Bank's systems. Anti-virus software is installed to detect viruses and malware. An IT security governance forum regularly reviews activity.	**Unchanged** As the Group has increased its profile and developed its online offering, it has likely become more of a target for hackers. At the same time, its security measures have continued to improve and have performed very well under testing.
	Data risk Data risk arises from inappropriate usage, lack of data quality and security which can result in inaccurate reporting, customer detriment and reputational damage.	The Bank has established and continues to invest in and enhance its data management architecture, systems, governance and controls.	**Increased** The increase in data risk has been primarily driven by the increased scale of operations and the multiple sources from which data is derived.
	Model risk An error in a model could be missed and lead the Group to overpay for a purchase or undercharge for a loan. If this were to happen on a large transaction, the absolute impact could be significant.	Models are subject to independent review and robust controls. Developers and users of the models have extensive industry experience and provide 'sanity checking' that will prevent any large errors.	**Increased** More models have been established in the business, meaning less new development and fewer chances to introduce errors. At the same time, the Group continues to pursue some relatively large transactions, particularly portfolio acquisitions, where a small model error could have a large absolute impact. The net impact of these changes is a broadly unchanged exposure.
	People risk The risk that the Bank will be unable to meet its future resource requirements through a combination of higher-than-expected staff attrition and / or the inability to identify and hire candidates with the necessary skills.	The Bank has a series of initiatives that are intended to respond to this risk. This includes the introduction of a range of development programmes intended to improve retention and increase the population of in-house developed talent.	**Unchanged** As the business continues to grow the need for additional resources increases the pressure on hiring. In a number of specialist areas the issue is exacerbated by the wider industry demands for individuals with the relevant skills. However the Bank is adopting a proactive approach to ensure future resource requirements can be met.

Risk type and definition	Risk	Mitigation	Direction
	Operational Resilience Banks should have business resiliency and continuity monitoring and plans in place to ensure an ability to operate on an ongoing basis and limit losses in the event of severe business disruption.	The Bank carries out scenario based business continuity planning (BCP), has crisis management procedures and recovery and contingency funding plans. The BCP is periodically tested to ensure operability.	**Increased** Increasing scale and globalisation of operations. The Bank continues to be reliant on systems and third party service providers. This is reducing with book migrations in-house. The sophistication of cyber crime continues to evolve.
Conduct risk The risk that the Group's culture, organisation, behaviours, and actions result in unfair, unreasonable, or unexpected customer outcomes and detriment.	**Lending products** While the Group's products are simple, the size of a mortgage loan for a typical customer and the general lack of experience with such transactions means that customers may find themselves exposed to unfavourable outcomes.	The Group has a strategic dedication to simple, customer-friendly products. In addition, distribution is through intermediaries, who take on the role of advising customers, though the Group does review their performance. Finally, a robust conduct risk framework and product assessment tool is in place.	**Decreased** There has been little change in the Group's product offering from a conduct standpoint over the past year. A conduct risk framework and product risk tool have been introduced. A review of the product suite has confirmed that risk is low, and any risk in new product development has been further reduced.
	Back book The Group has a substantial back book of loans that were originated in a different conduct risk environment. The back book has not yet been reviewed in its entirety, and it is possible that there are some product features that could lead to customer detriment.	A thorough review of the back book is underway to identify conduct risk issues and remediate as appropriate.	**Unchanged** The issues highlighted through the back book review have so far been limited to a small number of cases, and, after investigation, the impact has proven to be limited.

Risk type and definition	Risk	Mitigation	Direction
Compliance / Regulatory risk The risk that a change in legislation or regulation or an interpretation that differs from the Group's will adversely impact the Group.	Key compliance based regulatory changes that the bank is subject to include EMCD, Senior Managers Regime (SMR) and potential macro prudential controls of the BTL sector. Further proposals currently under discussion, including the Basel Committee consultation on standardised risk weights, could lead to significant increases in the Group's capital requirements.	The bank has adopted the EMCD and SMR in an effective and timely manner. The adoption of MMR and the lending policy requirements around affordability mean that the bank should be well placed to respond to any macro prudential regulation of the BTL sector. The Basel proposals will be subject to extensive consultation and the eventual outcome could be materially different to those initially proposed. The adoption of the eventual changes may take a number of years to implement. The Group intends to migrate to IRB.	**Increased** The bank has historically responded effectively to regulatory changes and does not believe that future changes represent a heightened level of compliance risk. Recent changes implemented as part of CRD IV have resulted in requirements for more and higher quality capital, though elements of these requirements are being phased in. Further proposals currently under discussion, including the Basel Committee standardised risk weight consultation, could lead to significant increases in the Group's capital requirements.
	Conduct regulation Regulatory changes focused on the conduct of business could force changes in the way the Group carries out business and impose substantial compliance costs. For example, the Financial Policy Committee's increased focus on BTL lending or tax changes such as the bank profits surcharge must be considered.	The Group has a programme of regulatory horizon scanning linking into a formal regulatory change management programme. In addition, the focus on simple products and customer oriented culture means that current practice may not have to change significantly to meet new conduct regulations.	**Increased** The regulatory environment has tightened and this is likely to continue, exposing the Group to increased risk.

Outlook for 2016

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

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

The Board of Directors

Role

The ultimate control of the Group rests with the Board. Under the articles of association of the Group, the Directors direct its business and may exercise powers that are not reserved to its members in general meetings. The Group's purpose is outlined in the articles of association. The Board will set the Group's aims and objectives, and it is the Board's responsibility to ensure that the necessary financial and human resources are in place to enable the Group to meet those objectives. The Board is also responsible for reviewing management performance. The Board specifies the Group's risk appetite statement and its supporting quantitative limits, and delegates authority to subcommittees to act in specific areas, including the approval of certain policies and limits, as discussed under Board subcommittees below.

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

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

Board subcommittees

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

Table 3: Board subcommittees

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

The Business

Role

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

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

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

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

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

Executive subcommittees

The Executive Committee has delegated specific responsibilities to a number of sub-committees which report directly into it, as listed in Table 4.

Table 4: Executive committees

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

Table 4: Executive committees (Cont'd)

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

Risk and Compliance

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

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

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

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

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

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

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

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

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

Recovery and Resolution Plan (RRP)

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

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

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

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

Capital Resources

Table 5 summarises the composition of regulatory capital resources as of 31 December 2015. 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 2014 and December 2015.

Table 5: Capital resources

		Group 2015 £'000	Group 2014 £'000
Common equity tier 1 capital			
	Called up share capital	2,431	2,431
	Share premium / Capital contribution	164,392	162,369
	Retained earnings	122,924	60,886
	Transfer reserve	(12,818)	(12,818)
	Other reserves	(115)	785
Deductions from common equity tier 1 capital			
	Intangible assets	(2,908)	(2,305)
	Deferred tax asset	(1,919)	(3,563)
	Investments in subsidiaries	-	-
	Common equity tier 1 capital	**271,987**	**207,785**
Additional Tier 1 capital			
	Convertible preference shares	-	-
	Share premium on preference shares	-	-
Total Tier 1 Capital		**271,987**	**207,785**
Tier 2 capital			
	Subordinated debt	50,666	54,219
	Collective Provisions	9,073	9,876
	Deductions from tier 2 capital	(3,000)	(2,000)
Total Tier 2 Capital		**56,739**	**62,095**
Total regulatory capital		**328,726**	**269,880**

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

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

The Group's Recovery and Resolution Plan discusses options for raising capital in a stress 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.

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

Table 6 shows the terms of PSBs, Subordinated Liabilities and Bonds are detailed below:

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

Subordinated liabilities	**Group 2015 £'000**	**Group 2014 £'000**
Linked to LIBOR (London Interbank Offered Rate):		
Floating rate Subordinated Liabilities 2015	-	3,001
Floating rate Subordinated Liabilities 2016	3,003	3,003
Floating rate Subordinated Liabilities 2017	5,655	5,655
Floating rate Subordinated Loans 2022	710	708
Linked to the average standard mortgage rate of the five largest building societies:		
Floating rate Subordinated Liabilities 2017	5,047	5,047
Fixed rate:		
Subordinated Liabilities 2024	10,159	10,159
	24,574	**27,573**
Perpetual subordinated bonds		
Sterling perpetual subordinated bonds	**15,308**	**15,234**
Total subordinated liabilities and bonds	**39,882**	**42,807**

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 5, 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 ICG are met at all times. As a result the Group maintains capital adequacy ratios above minimum regulatory requirements.

Pillar 1 requirements

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

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

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

Table 7: Pillar 1 capital requirements

	2015		2014	
Standardised Exposure Classes	**Risk Weighted Assets £'000**	**Capital Requirement £'000**	**Risk Weighted Assets £'000**	**Capital Requirement £'000**
Central government and central banks	-	-	-	-
Regional governments or local authorities	-	-	-	-
Administrative bodies and non-commercial	-	-	-	-
Multilateral development banks	-	-	-	-
International organisations	-	-	-	-
Institutions[1]	6,176	494	47,367	3,789
Corporates[2]	7,930	634	-	-
Retail	31,512	2,521	78,822	6,306
Secured by mortgages on residential property	1,798,890	143,911	1,328,153	106,252
Secured by mortgages on commercial real estate	194,184	15,535	140,248	11,220
Past due[3]	147,482	11,799	161,531	12,922
Regulatory high-risk categories	-	-	-	-
Covered bonds	-	-	-	-
Securitisation positions	-	-	-	-
Short-term claims on institutions and corporates	-	-	-	-
Collective Investment Undertakings (CIUs)	-	-	-	-
Other items	26,147	2,092	15,009	1,201
Total Credit Risk	**2,212,321**	**176,986**	**1,771,129**	**141,690**
Counterparty Credit Risk	**1,439**	**115**	**1,569**	**126**
Operational Risk - Basic Indicator Approach	**125,209**	**10,017**	**55,730**	**4,458**
Current Valuation Adjustment	**569**	**46**	**730**	**58**
Total Pillar 1 /Risk Weighted Assets	**2,339,539**	**187,164**	**1,829,158**	**146,332**

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

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

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

Large Exposures

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

As of 31 December 2015, 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 subject to detailed review. While the emphasis is on non-performing assets where the Group's actions will have the most impact, large performing connections are also monitored closely to help anticipate any problems.

An integral part of the underwriting process is a review of large exposures by the Transactional Credit Committee. The Transactional Credit Committee considers specific applications for sign off where sign off of the case is outside the mandate of the underwriters or where the approval of an application would be an exception to the Lending Policy, including applications where the total exposure is greater than £3.0 million.

*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 Internal Capital Adequacy Assessment Process (ICAAP). Based on the results of the ICAAP the PRA determines the Group's required Individual Capital Guidance (ICG) and 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.

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

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

Capital Buffers

The Group’s business is predominantly in the United Kingdom where the countercyclical capital buffer was zero as of 31 December 2015. For capital conservation buffer the Group is transitioning to the required 2.5% of CET1 capital by 2018.

Counterparty risk

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

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

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

Credit risk

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

Definition of past due and impaired

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The following tables analyse impaired loans as treated for accounting purposes and past due loans as treated for regulatory purposes as at 31 December 2015.

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

2015 Counterparty type	**Gross impaired loans £'000**	**Gross past due loans £'000**	**Impairment provisions £'000**	**Charges for impairment provisions during the year £'000**
Corporates	45,533	138,207	19,949	7,690
Retail	-	7,450	7,332	2,926
Other	-	-	-	-
Total	**45,533**	**145,657**	**27,281**	**10,616**

2014 Counterparty type	**Gross impaired loans £'000**	**Gross past due loans £'000**	**Impairment provisions £'000**	**Charges for impairment provisions during the year £'000**
Corporates	39,983	130,697	18,068	5,814
Retail	-	8,389	7,969	5,871
Other	-	-	-	-
Total	**39,983**	**139,086**	**26,037**	**11,685**

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

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

2015 Geographic area	**Gross impaired loans £'000**	**Gross past due loans** £'000	**Impairment provisions £'000**	**Charges for impairment provisions during the year £'000**
UK	31,554	121,021	24,051	10,017
Channel Islands	13,979	24,636	3,230	599
Rest of the World	-	-	-	-
Total	**45,533**	**145,657**	**27,281**	**10,616**

2014 Geographic area	**Gross impaired loans £'000**	**Gross past due loans** £'000	**Impairment provisions £'000**	**Charges for impairment provisions during the year £'000**
UK	34,121	101,242	22,798	10,270
Channel Islands	5,862	37,844	3,239	1,415
Rest of the World	-	-	-	-
Total	**39,983**	**139,086**	**26,037**	**11,685**

Table 10: Reconciliation of changes in provisions for impaired exposures

2015 Impairment provisions	**£'000**
Opening balance as at 1 January 2015	26,037
Charge/(credit) for the year net of recoveries	10,616
Write offs in year	(9,372)
31 December 2015	**27,281**

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

Note: Impairment provisions include both collective and specific provisions

Credit risk exposure breakdowns

The following tables show the Group's credit risk exposure as at 31 December 2015.

Table 11: Year end and average exposure by exposure class

Standardised Exposure Classes	**Exposure at 31/12/2015 £'000**	**Average exposure[1] in 2015 £'000**	**Exposure at 31/12/2014 £'000**	**Average exposure[1] in 2014 £'000**
Central government and central banks	670,800	637,469	604,138	506,443
Regional governments or local authorities	-	-	-	-
Administrative bodies and non-commercial	-	-	-	-
Multilateral development banks	34,182	67,814	101,446	99,112
International organisations	-	-	-	-
Institutions[2]	15,592	110,406	205,221	141,582
Corporates[3]	7,930	3,965	-	-
Retail	42,016	75,606	109,195	154,183
Secured by mortgages on residential property	4,777,796	4,173,490	3,569,183	3,088,021
Secured by mortgages on commercial real estate	249,607	216,828	184,049	166,046
Past due[4]	137,673	130,299	122,925	126,639
Regulatory high-risk categories	-	-	-	-
Covered bonds	-	-	-	-
Securitisation positions	-	-	-	1,808
Short-term claims on institutions and corporates	-	-	-	-
Collective Investment Undertakings (CIUs)	-	-	-	-
Other items	23,240	19,124	15,009	20,481
Total	**5,958,836**	**5,435,001**	**4,911,166**	**4,304,315**

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

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

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

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

Table 12: Exposures by geographic area and material exposure classes

2015

Standardised Exposure Classes[1]	UK £'000	Channel Islands £'000	Rest of the World £'000	Total £'000
Central government and central banks	670,800	-	-	**670,800**
Regional governments or local authorities	-	-	-	**-**
Administrative bodies and non-commercial	-	-	-	**-**
Multilateral development banks	-	-	34,182	**34,182**
International organisations	-	-	-	**-**
Institutions[2]	15,592	-	-	**15,592**
Corporates[3]	7,930	-	-	**7,930**
Retail	42,016	-	-	**42,016**
Secured by mortgages on residential property	4,374,651	403,145	-	**4,777,796**
Secured by mortgages on commercial real estate	233,011	16,596	-	**249,607**
Past due[4]	106,726	30,947	-	**137,673**
Regulatory high-risk categories	-	-	-	**-**
Covered bonds	-	-	-	**-**
Securitisation positions	-	-	-	**-**
Short-term claims on institutions and corporates	-	-	-	**-**
Collective Investment Undertakings (CIUs)	-	-	-	**-**
Other items	23,240	-	-	**23,240**
Total	**5,473,966**	**450,688**	**34,182**	**5,958,836**

2014

Standardised Exposure Classes[1]	UK £'000	Channel Islands £'000	Rest of the World £'000	Total £'000
Central government and central banks	604,138	-	-	**604,138**
Regional governments or local authorities	-	-	-	**-**
Administrative bodies and non-commercial	-	-	-	**-**
Multilateral development banks	-	-	101,446	**101,446**
International organisations	-	-	-	**-**
Institutions[2]	205,221	-	-	**205,221**
Corporates[3]	-	-	-	**-**
Retail	109,195	-	-	**109,195**
Secured by mortgages on residential property	3,098,427	470,756	-	**3,569,183**
Secured by mortgages on commercial real estate	165,543	18,505	-	**184,049**
Past due[4]	88,325	34,600	-	**122,925**
Regulatory high-risk categories	-	-	-	**-**
Covered bonds	-	-	-	**-**
Securitisation positions	-	-	-	**-**
Short-term claims on institutions and corporates	-	-	-	**-**
Collective Investment Undertakings (CIUs)	-	-	-	**-**
Other items	15,009	-	-	**15,009**
Total	**4,285,858**	**523,861**	**101,446**	**4,911,166**

Notes:
[1] 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.

Table 13: Exposures by significant counterparty type and exposure classes

2015

Standardised Exposure Classes	Corporate £'000	Retail £'000	Other £'000	Total £'000
Central government and central banks	670,800	-	-	**670,800**
Regional governments or local authorities	-	-	-	**-**
Administrative bodies and non-commercial	-	-	-	**-**
Multilateral development banks	34,182	-	-	**34,182**
International organisations	-	-	-	**-**
Institutions[1]	15,592	-	-	**15,592**
Corporates[2]	7,930	-	-	**7,930**
Retail	-	42,016	-	**42,016**
Secured by mortgages on residential property	-	4,777,796	-	**4,777,796**
Secured by mortgages on commercial real estate	-	249,607	-	**249,607**
Past due	-	137,673	-	**137,673**
Regulatory high-risk categories	-	-	-	**-**
Covered bonds	-	-	-	**-**
Securitisation positions	-	-	-	**-**
Short-term claims on institutions and corporates	-	-	-	**-**
Collective Investment Undertakings (CIUs)	-	-	-	**-**
Other items	-	-	23,240	**23,240**
Total	**728,504**	**5,207,092**	**23,240**	**5,958,836**

2014

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

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

Table 14: Exposures by residual maturity breakdown

2015

Standardised Exposure Classes	< 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Central government and central banks	331,462	339,338	-	-	**670,800**
Regional governments or local authorities	-	-	-	-	**-**
Administrative bodies and non-commercial	-	-	-	-	**-**
Multilateral development banks	5,010	-	29,172	-	**34,182**
International organisations	-	-	-	-	**-**
Institutions[1]	15,592	-	-	-	**15,592**
Corporates[2]	-	-	-	7,930	**7,930**
Retail	858	9,826	31,275	57	**42,016**
Secured by mortgages on residential property	155,733	110,459	270,724	4,240,880	**4,777,796**
Secured by mortgages on commercial real estate	4,346	6,703	32,942	205,616	**249,607**
Past due	14,043	1,971	21,912	99,747	**137,673**
Regulatory high-risk categories	-	-	-	-	**-**
Covered bonds	-	-	-	-	**-**
Securitisation positions	-	-	-	-	**-**
Short-term claims on institutions and corporates	-	-	-	-	**-**
Collective Investment Undertakings (CIUs)	-	-	-	-	**-**
Other items	872	9,651	-	12,717	**23,240**
Total	**527,916**	**477,948**	**386,025**	**4,566,947**	**5,958,836**

2014

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

[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 2015 £'000**	**Exposure 2014 £'000**
1	AAA to AA-	AAA to AA-	Aaa to Aa3	20%	-	-
2	A+ to A-	A+ to A-	A1 to A3	50%	7,615	-
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					**7,615**	**-**

* 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 2015 £'000	Exposure 2014 £'000
1	AAA to AA-	AAA to AA-	Aaa to Aa3	20%	-	-
2	A+ to A-	A+ to A-	A1 to A3	20%	-	153,220
3	BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	20%	-	-
4	BB+ to BB-	BB+ to BB-	Ba1 to Ba3	50%	-	-
5	B+ to B-	B+ to B-	B1 to B3	50%	-	-
6	CCC+ and below	CCC+ and below	Caa1 and below	150%	-	-
Total					**-**	**153,220**

Interest Rate Risk in the Non-trading Book

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

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

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

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

Securitisation Treatment

As of 31 December 2015, the Group had pledged under its securitisation programme mortgages with a carrying value of £285.0m (2014: £328.0m). The Group continues to recognise these loans on balance sheet, and risk weights them accordingly. This treatment results from the Group's retention of exposure to substantially all of the credit risk and rewards of the residual benefit of the underlying loan. Thus, Article 243 of CRR is not applicable when calculating risk weighted assets on the securitised loans, and no further disclosures are necessary.

Asset Encumbrance

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

Operational Risk

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

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

Remuneration

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

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

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

Decision-making process

The Remuneration Committee of the Board of OneSavings Bank plc (the Group) is responsible for governance of remuneration for Executive Directors and other Code Staff. The Committee currently comprises three independent non-executive directors.

During 2015, the members of the Committee were:

- Mary McNamara (Committee Chairman)
- Malcolm McCaig
- Nathan Moss

The Committee met 5 times during the financial year 2015. Going forwards, they will hold a minimum of three meetings in each financial year, with additional meetings held where appropriate to do so.

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

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

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

The link between pay and performance

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

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

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

Remuneration Structures and their purpose

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

Fixed pay

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

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

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

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

Prior to approving payouts under the Executive Bonus Scheme, the Committee receives reports from the Chief Risk Officer and the Group Head of Compliance, so as to confirm that the Company has operated within the Board's approved risk framework for the year under review and that the indicative payout is appropriate in this context.
For 2015, the performance conditions in the Business Balanced Scorecard (“BBS”) which comprised 75% of the award were:

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

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

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

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

Annual bonus

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

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

Performance Share Plan

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

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

The 2015 awards under the Performance Share Plan are subject to an EPS and TSR performance condition. The performance targets are:

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

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

Share ownership requirements

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

Malus & Clawback

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

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

Ratios between fixed and variable remuneration

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

Additional information on Directors' remuneration

Additional guidance on Directors' remuneration is available on pages 68-81 of OneSavings Bank plc's 2015 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 for 2015

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

Outstanding deferred remuneration change during the year:					
As at 31 December 2014:					
Outstanding unvested	5	4,482	17	1,746	Calculated using 31/12/15 Intraday Share Price of £3.537
Outstanding vested but unexercised	2	659	-	-	Calculated using 31/12/15 Intraday Share Price of £3.537
Total		5,141		1,746	
Changes during the year:					
Awarded in March 2015 - Performance Share Plan	9	1,341	-	-	Calculated using Grant Day Share price of £2.19
Awarded in March 2015 - re 2014 Deferred Share Bonus Plan	9	701	-	-	Calculated using Grant Day Share Price of £2.19
Lapsed due to performance outcomes or adjustments	-	-	-	-	
Lapsed due to leaving service	1	910	1	75	Calculated using mix of 31/12/15 Intraday Share Price of £3.537 and Grant Day Share Price of £2.19
Vested and exercised	2	1,845	13	221	Calculated using 31/12/15 intraday Share Price of £3.537
As at 31 December 2015					
Outstanding unvested	8	3,769	3	1,450	Calculated using mix of 31/12/15 Intraday Share Price of £3.537 and Grant Day Share Price of £2.19
Outstanding vested but unexercised	2	659	-	-	Calculated using 31/12/15 Intraday Share Price of £3.537
Total		4,428		1,450	

Remuneration Code staff aggregate for 2014

	Senior Management (ExCo & NED's)		Other Code staff		Notes
	No. of recipients	£'000	No. of recipients	£'000	
Fixed remuneration during 2014	20	2,738	10	798	Includes basic salary, employer pension contribution, car allowances and PMI
Variable remuneration awarded for 2014 performance					
Cash (Paid in Year)	9	701	9	175	
Cash (Deferred for 12 months)	-	-	8	37	
Shares (Awarded in 2015 and deferred for 3 years)	9	701	-	-	
Nil cost share options					
IPO Awards	9	4,073	8	1,210	Calculated using IPO Share Price of 1.70
Sign-on payments or awards	1	93	-	-	
Severance payments	0	-	-	-	
Total Remuneration		**8,306**		**2,220**	

Outstanding deferred remuneration change during the year:					
As at 31 December 2013:					
Outstanding unvested	-	-	-	-	
Outstanding vested but unexercised	-	-	-	-	
Total		-		-	
Changes during the year:					
Awarded (As per IPO Awards above)	9	4,073	8	1,210	Calculated using IPO Share Price of 1.70
Lapsed due to performance outcomes or adjustments	-	-	-	-	
Lapsed due to leaving service	-	-	1	11	Calculated using year end 2014 Share Price of 2.145
Vested	9	1,919	4	353	Calculated using IPO Share Price of 1.70
Exercised	9	1,398	4	353	Calculated using IPO Share Price of 1.70
As at 31 December 2014:					
Outstanding unvested	5	2,718	7	1,070	Calculated using year end 2014 Share Price of 2.145
Outstanding vested but unexercised	3	657	-	-	Calculated using year end 2014 Share Price of 2.145
Total		3,375		1,070	

Table 17: Code staff aggregate remuneration of EUR 1m or more for 2015

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

Remuneration includes base salary, pension contribution (or allowance), fringe benefits, and variable pay granted for 2015 performance.

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

No code staff received total remuneration in excess of €1 million in 2014.

Appendix I - Disclosure on Asset Encumbrance

Template A - Assets

2015

		Carrying amount of encumbered assets £'000	Fair value of encumbered assets £'000	Carrying amount of unencumbered assets £'000	Fair value of unencumbered assets £'000
		010	040	060	090
010	**Assets**	1,138,124		4,856,210	
030	Equity instruments	-	-	977	977
040	Debt securities	-	-	393,382	393,382
120	Other assets	-		100,547	

2014

		Carrying amount of encumbered assets £'000	Fair value of encumbered assets £'000	Carrying amount of unencumbered assets £'000	Fair value of unencumbered assets £'000
		010	040	060	090
010	**Assets**	459,271		4,456,262	
030	Equity instruments	-	-	-	-
040	Debt securities	119,600	19,984	36,303	36,218
120	Other assets[2]	-		836,972	

Template B - Collateral received

2015

		Fair value of encumbered collateral received or own debt securities issued £'000	Fair value of collateral received or own debt securities issued available for encumbrance £'000
		010	040
130	**Collateral received**	-	162,056
150	Equity instruments	-	-
160	Debt securities	-	160,679
230	Other collateral received	-	-
240	**Own debt securities issued other than own covered bonds or ABSs**	-	-

[2] 2014 restated to exclude loans and advances, reserve bank account with Bank of England and cash at bank.

The asset encumbrance disclosures the solo consolidation position of the Group which excludes amounts from certain subsidiaries and the Rochester Finance plc securitisation vehicle.

2014

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

Template C-Encumbered assets/collateral received and associated liabilities

2015

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

2014

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

Template D- Information on importance of encumbrance

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

Appendix II - Own Funds

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

OneSavings Bank plc	**£'000**	**£'000**	**£'000**	**£'000**
Common Equity Tier 1 capital: instruments and reserves	**31/12/2015**	**Final CRD IV**	**31/12/2014**	**Final CRD IV**
Capital instruments and the related share premium accounts	**166,823**	**166,823**	**164,800**	**164,800**
of which: Common shares	2,431	2,431	2,431	2,431
Retained earnings	122,924	122,924	60,886	60,886
Accumulated other comprehensive income (and any other reserves)	(12,933)	(12,933)	(12,033)	(12,033)
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**276,814**	**276,814**	**213,653**	**213,653**
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
Goodwill and Other intangible assets (net of related tax liability)	(2,908)	(2,908)	(2,305)	(2,305)
Deferred tax assets that rely on future profitability excluding those arising from temporary difference	(1,919)	(1,919)	(3,563)	(3,563)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(4,827)**	**(4,827)**	**(5,868)**	**(5,868)**
Common Equity Tier 1 (CET1) capital	**271,987**	**271,987**	**207,785**	**207,785**
Additional Tier 1 (AT1) capital	-	-	-	-
Tier 1 capital (T1 = CET1 + AT1)	**271,987**	**271,987**	**207,785**	**207,785**
Tier 2 (T2) capital: instruments and provisions				
Subordinated loans	**50,666**	**50,666**	**54,219**	**54,219**
Credit risk adjustments	9,073	9,073	9,876	9,876
Tier 2 (T2) capital before regulatory adjustment	**59,739**	**59,739**	**64,095**	**64,095**
Tier 2 (T2) capital: regulatory adjustments				
of which holdings existing before 1 January 2013	(3,000)	(10,000)	(2,000)	(10,000)
Total regulatory adjustments to Tier 2 (T2) capital	**(3,000)**	**(10,000)**	**(2,000)**	**(10,000)**
Tier 2 (T2) capital	**56,739**	**49,739**	**62,095**	**54,095**
Total capital (TC = T1 + T2)	**328,726**	**321,726**	**269,880**	**261,880**
Total risk-weighted exposures	2,339,539	2,339,539	1,829,157	1,829,157
Capital ratios and buffers				
Common Equity Tier 1 ratio	11.6%	11.6%	11.4%	11.4%
Tier 1 ratio	11.6%	11.6%	11.4%	11.4%
Total capital ratio	14.1%	13.8%	14.8%	14.3%
Applicable caps on the inclusion of provisions in Tier 2				
Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	9,073	9,073	9,876	9,876
Cap on inclusion of credit risk adjustments in T2 under standardised approach	27,654	27,654	22,139	22,139
Capital instruments subject to phase-out arrangements (applicable between 1 Jan 2014 and 1 Jan 2022)				
- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	(3,000)	(10,000)	(2,000)	(10,000)

Appendix III - Subordinated Debt Instruments

Capital instruments' main features template									
Issuer	OneSavings Bank plc	OneSavings Bank plc	OneSavings Bank plc	OneSavings Bank plc	OneSavings Bank plc	OneSavings Bank plc	OneSavings Bank plc	OneSavings Bank plc	OneSavings Bank plc
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	-	-	-	GB00B67JQX63	GB00B61ZXL72	-	-	-	-
Governing law(s) of the instrument	England	England	England	England	England	England	England	England	England
Regulatory treatment									
Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Ineligible	Tier 2	Tier 2	Tier 2
Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated	Solo consolidated
Instrument type (types to be specified by each jurisdiction)	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt
Amount recognised in regulatory capital (£)	568,144	693,100	806,928	15,000,000	22,000,000	10,000,000	1,358,160	137,351	102,247
Nominal amount of instrument (£)	3,000,000	2,800,000	2,850,000	15,000,000	22,000,000	10,000,000	5,000,000	403,000	300,000
Issue price	Par	Par	Par	Par	Par	Par	Par	Par	Par
Redemption price	Par	Par	Par	Par	Par	Par	Par	Par	Par
Accounting classification	Liabilities	Liabilities	Liabilities	Liabilities	Equity	Liabilities	Liabilities	Liabilities	Liabilities
Original date of issuance	11 December 2006	27 March 2007	31 May 2007	27 August 2004	07 March 2006	30 September 2009	09 May 2009	14 September 2012	14 September 2012
Perpetual or dated	Dated	Dated	Dated	Perpetual	Perpetual	Dated	Dated	Dated	Dated
Original maturity date	11 December 2016	27 March 2017	31 May 2017	N/A	N/A	30 September 2024	10 May 2017	13 September 2022	13 September 2022
Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Optional call date, contingent call dates, and redemption amount	-	-	-	-	-	-	-	-	-
Subsequent call dates, if applicable	-	-	-	-	-	-	-	-	-
Coupons / dividends	-	-	-	-	-	-	-	-	-
Fixed or floating dividend/coupon	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Floating	Floating
Coupon rate and any related index	2.12688	2.04000	5.98840%	2.19000%	6.59100%	6.45000%	6.70000%	3.05181%	6.05181%
Existence of a dividend stopper	No	No	No	No	No	No	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory
Existence of step up or other incentive to redeem	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Noncumulative or cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger(s)	-	-	-	-	-	-	-	-	-
If convertible, fully or partially	-	-	-	-	-	-	-	-	-
If convertible, conversion rate	-	-	-	-	-	-	-	-	-
If convertible, mandatory or optional conversion	-	-	-	-	-	-	-	-	-
If convertible, specify instrument type convertible into	-	-	-	-	-	-	-	-	-
If convertible, specify issuer of instrument it converts into	-	-	-	-	-	-	-	-	-
Write-down features	-	-	-	-	-	-	-	-	-
If write-down, write-down trigger(s)	-	-	-	-	-	-	-	-	-
If write-down, full or partial	-	-	-	-	-	-	-	-	-
If write-down, permanent or temporary	-	-	-	-	-	-	-	-	-
If temporary write-down, description of write-up mechanism	-	-	-	-	-	-	-	-	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	-	-	-	-	-	-	-	-	-
Non-compliant transitioned features	No	No	No	No	No	Yes	No	No	No
If yes, specify non-compliant features	-	-	-	-	-	-	-	-	-

Appendix IV - Leverage Ratio

As at 31 December 2015	**2015 £'000**	**2014 £'000**
Total assets as per published financial statements	5,970,357	4,936,527
Adjustment for derivative instruments	(53,949)	(64,006)
Adjustment for off-balance sheet items	67,814	57,325
Other adjustments	(4,827)	(5,868)
Leverage ratio exposure	**5,979,395**	**4,923,978**

Leverage ratio common disclosure

On-balance sheet exposures (excl. derivatives and Securities Financing Transactions)		
On-balance sheet items (excluding derivatives and Securities Financing Transactions, but including collateral)	5,911,204	4,866,852
Asset amounts deducted in determining Tier 1 Capital	(4,827)	(5,868)
Total on-balance sheet exposures	**5,906,377**	**4,860,984**
Derivative exposures		
Replacement cost associated with derivatives transactions	167	703
Add-on amounts for PFE associated with derivative transactions	5,037	4,966
Total derivative exposures	**5,204**	**5,669**
Off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	339,067	262,452
Adjustments for conversion to credit equivalent amounts	(271,253)	(205,127)
Total off-balance sheet exposures	**67,814**	**57,325**
Capital and Total Exposure		
Tier 1 capital	271,987	207,785
Total Exposures	**5,979,395**	**4,923,978**
Leverage Ratios		
Year end leverage ratio	**4.5%**	**4.2%**

The adjustments for derivative instruments for 2014 has been restated to reflect the reversal of accounting value of fair value hedges - assets of £68,738k previous adjustments for derivative instruments was £4,732k.

The on-balance sheet items (excluding derivatives and securities finance but including collateral, previously the on balance sheet items was £4,935,590k).