17 March 2015

OneSavings Bank plc

Preliminary results for the year ended 31 December 2014

Financial highlights

- Underlying profit before taxation[1] more than doubled to £69.7m (2013: £30.0m)
- Loans and advances grew by 29% in 2014 to £3.9bn (2013: £3.0bn), with total assets now at £4.9bn, driven predominantly by £1.5bn in new business origination (2013: £794m)
- Strong income growth and continued focus on cost control drove significant reduction in cost:income ratio[2] to 28% (2013: 38%)
- Underlying return on equity[3] up over 9 percentage points to 31% (2013: 22%) on a higher equity base
- Declaration of a maiden final dividend[4] of 3.9 pence per share in respect of 2014 and in line with our target dividend policy
- Fully-loaded Common Equity Tier 1 (CET1) capital ratio[5] strengthened to 11.4% (2013: 8.4%)

Andy Golding, CEO of OneSavings Bank, said:

"I am delighted with our performance in 2014. We experienced strong growth in profitability across all of our business segments whilst maintaining tight control on costs and excellent levels of customer service. This has been a landmark year for OneSavings Bank and I would like to take the opportunity to thank all of our employees, customers and shareholders for their continued support.

Looking forward we believe the macroeconomic backdrop remains supportive for the overall housing market and we expect to see a continuation of the positive trends we experienced in our target markets during 2014. Whilst the broader mortgage market has seen increased levels of competition we remain confident in the outlook for our business and anticipate demand will remain strong as we continue to differentiate ourselves from the competition through the identification of high value, underserved markets."

Key Metrics

	2014	**2013**
Net Interest Margin[6] (bps)	291	211
Statutory Profit before Tax (£m)	63.7	31.4
Total Assets (£bn)	4.9	3.8
Underlying basic EPS[7] (pence)	24.4	13.4
Loan to deposit ratio (%)	90	93
3 Months+ Arrears[8] (%)	2.3	2.9
Loan loss ratio[9] (bps)	33	28
Customer Net Promoter Score (%)	38.9	32.4

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Analyst Presentation
A presentation for analysts will be held at 9:30am on Tuesday 17th March at Brunswick Group, 16 Lincoln's Inn Fields, WC2A 3ED. The UK dial in is 020 3427 1916 and the passcode is 9538053. The presentation will be webcast live at http://edge.media-server.com/m/p/gsdfxpb9

About OneSavings Bank plc

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

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

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

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[1] Before exceptional IPO expenses of £7.4m in 2014 and after deduction of coupons on equity Perpetual Subordinated Bonds (PSB's) of £1.5m in each period

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

[3] Underlying profit after taxation (profit after taxation excluding exceptional IPO expenses, including the tax effect, of £6.4m in 2014 and after deducting coupons on equity PSB's of £1.1m (after tax) in 2014 and £1.5m in 2013) as a percentage of average shareholders' equity (excluding equity PSB's of £22m)

[4] To be paid on 5 June 2015, subject to approval at the Annual General Meeting on 2 June 2015, with a record date of 15 May 2015

[5] Under Basel III CRDIV with 31 December 2013 estimated

[6] Net interest income, less coupons on equity PSB's as a percentage of average interest bearing assets

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

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

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

Chief Executive's Report

Introduction

The year ended 2014 has been a successful one for OneSavings Bank. Having laid the foundations for the future with a well received listing on the main market of the London Stock Exchange, we have gone on to deliver on our promises with a strong business performance across all key metrics.

Overview

Whilst OneSavings Bank was formed as recently as February 2011, it can trace its roots back over 150 years and its management team has substantial experience in the financial services sector. We have a straightforward business model comprising secured lending brands that have expertise and good reputations in underserved markets that offer risk-adjusted high margin returns. Our business is funded by an award winning retail savings franchise that focuses on attracting new and retaining existing savers by offering good value for the long term with a transparent savings proposition. Our priorities are to respond to customer needs, be straightforward to deal with and be well understood by our customers. This clear focus on our customers has consolidated our position as a leading bank in our markets, which is borne out by the 2014 results.

Results

The rigorous process of the Initial Public Offering (IPO) has prepared the Group well for the demands of being a listed company and has demonstrated the capability of its management team. We have a clear strategy, coupled with strong internal capabilities and confidence in our markets. As a result we believe that we are well placed for future growth. I am pleased to say that, without exception, we have performed consistently against the strategy we set at the start of the year and have delivered a strong set of results that exceeded all of our stated financial objectives.

The Group's loan book grew by 29% to £3.9bn in 2014 (2013: £3.0bn), driven predominantly by £1.5bn in new business origination (2013: £794m). Underlying pre-tax profit increased by 133% to £69.7m (2013: £30.0m).

The Group's underlying return on equity improved by 9 percentage points to 31% (2013: 22%) and we have strengthened our fully-loaded common equity tier 1 capital ratio to 11.4% (2013: 8.4% estimated under CRD IV) including net IPO proceeds of £35.8m. The Board is recommending a final dividend of 3.9p per share in line with our stated dividend policy.

Key drivers

We have continued to differentiate ourselves from the competition by offering well defined propositions into high margin, underserved markets, where we have the experience, as well as the internal and intermediary infrastructure, to successfully develop and service those markets. Each of our mainstream lending brands, Kent Reliance, InterBay Commercial and Prestige Finance, have extended the scope of their lending during 2014, growing both overall market share and also their reputation amongst intermediaries. I am also pleased that Heritable Development Finance has grown from its formation in December 2013 into a vibrant, high quality residential development lender, further adding to the Group's capabilities.

In our retail savings business, we have grown retail deposits by 33% to £4.3bn, (2013: £3.3bn) maintaining a loan to deposit ratio below 100% and delivering on our strategy to be primarily retail funded. Our customer-centric strategy of offering consumers good value for the long term with a transparent savings proposition has continued to deliver a dependable and loyal customer base, with 92% of maturing fixed rate bond and ISA balances in 2014 choosing to stay with Kent Reliance. We have welcomed 27,000 new savings customers to the Group during the year, demonstrating the improving brand recognition.

We have kept tight control on credit quality, as seen in our reportable arrears statistics: from more than 14,000 loans totalling £2.7bn of new organic originations since the bank's creation in February 2011, we only have 24 cases of arrears over three months in duration, with an aggregate balance of £4.5m and average LTV of 64%.

As the Group has grown, costs have been controlled in line with our stated targets. We have made planned investments in customer facing and back office infrastructure both in the UK and in our wholly-owned Indian operation, EasiProcess, which undertakes a range of primary processing services at a significantly lower cost than an equivalent UK-based operation. This, together with the positive "jaws" delivered between income and costs, has resulted in a significant improvement in the cost: income ratio to 28%, down from 38% in 2013 which is well within the Board's target of 35%.

I am particularly proud that we have achieved this while maintaining our focus on customers, borne out by a consistently high and increasing consumer Net Promoter Score (NPS) of 38.9% (2013 32.4%). This is also demonstrated by our numerous awards, such as What Mortgage Best Buy-to-Let Lender 2014, and by Kent Reliance being named as the savings account provider with the Best Customer Service in the UK by Which? in 2014.

I would like to thank our staff for their contribution to the results. I am delighted that over half of them have chosen to add to their IPO equity share award by participating in the OneSavings Bank Sharesave scheme demonstrating their commitment and pride in what is being achieved, as well as their confidence in the future.

New Chairman and Board changes

During 2014 we welcomed our new Non-Executive Chairman Mike Fairey, who brings 40 years' experience as a senior retail banker, and three new, independent Non-Executive Directors in Mary McNamara, Graham Allatt and Nathan Moss. They bring with them deep experience in strategy, commercial, risk and credit management leadership.

Market Outlook

The recovery in the UK economy has led to an improvement in the housing market. Whilst there are some threats to growth, our view is that the UK economy will withstand the headwinds and that growth will continue. That said, these headwinds have pushed back expectations of interest rate rises and market expectations are for interest rates to increase from late 2015.

We lend on high quality assets with strong resale and rental potential and restrict lending on new build flats. The average loan-to-value on our new lending in 2014 was 70% and on the total mortgage book is 62%, giving us protection against any unforeseen dip in house prices.

The Buy-to-Let market continues to exhibit growth, underpinned by strong tenant demand due to social and demographic changes, government policy, House Price Inflation (HPI) and reduced availability of finance for first-time buyers. We expect the growth that has been seen in the private rented sector since 2000 to continue. This, as expected, has led to a modest level of increased competition, however we remain confident that we can continue writing highly profitable business within our chosen markets.

Residential mortgage lending is expected to strengthen further as the economy improves. Although the Mortgage Market Review (MMR) led to a modest level of disruption, we expect this to normalise as lenders, who initially reacted conservatively to the new regulations, adapt their criteria to a more appropriate level. We welcome moves to increase the level of regulation in the second charge mortgage market as a means of providing consumers with greater confidence that they will see good outcomes from the advice they receive. The inclusion of second charge lending within broader mortgage regulation will, we believe, support further growth in this market.

Competition within prime owner occupied residential mortgage lending intensified during 2014 and that market saw further margin compression. We remain confident that our focus on specialist, underserved areas of the market will stand us in good stead and help mitigate competitive pressures in the wider market.

Focus for upcoming year

Over the coming year, OneSavings Bank will maintain its focus on delivering its stated strategy and objectives. Organic lending will remain the key driver of growth in the loan book and we anticipate loans growing at a rate in line with organic capital generation, whilst maintaining a strong capital position. We will, however, continue to evaluate inorganic opportunities as and when they arise. We will concentrate the expertise that we bring to our chosen markets to deliver our target return on equity as we continue to focus on the quality of our new lending and enhance our customer reputation across our lending and savings brands.

Operating and Financial Review

Group Overview

OneSavings Bank delivered strong loan book and earnings growth in 2014 and exceeded all of its stated financial objectives as set out at IPO.

This strong performance reflects the continued successful delivery of our strategy to:

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

Business Highlights

Gross new organic lending of £1.5bn in 2014 was up 84% compared to £794m in 2013. We have continued to see strong opportunities for growth at risk-adjusted high returns, particularly in Buy-to-Let. Buy-to-Let/SME is now the Group’s largest segment comprising 52% of the gross loan book with Residential Mortgages at 45% and Personal Loans at 3% as at 31 December 2014.

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

Loans and advances grew by 29% in 2014 to £3.9bn as a result of this strong new organic origination, net of redemptions on the back book and acquired portfolios in run-off. This growth was supported by internal capital generation and the use of some of the net proceeds raised in the Bank’s IPO in June 2014. The Bank raised £41.5m of gross primary proceeds in the IPO, providing £35.8m of net primary proceeds after underwriting commissions and other IPO related costs. These net proceeds were used to increase Common Equity Tier 1 capital, support future loan book growth and for general corporate purposes.

The Group remains focused on organic origination as its core growth strategy, however, it continues to actively consider inorganic opportunities as they arise. To that end, the Group acquired one small portfolio of SME mortgages in the second half of 2014 for £20.4m with gross receivables of £25.6m (2013: total mortgage portfolio purchases of £133m with gross receivables of £182m and the purchase of a personal loan portfolio for £258m). The Group conducts extensive due diligence when considering any portfolio acquisitions. All of our acquired portfolios are performing in line with or better than the base case financial projections prepared prior to purchase.

The Group reported very strong profit growth in 2014 with underlying profit before taxation increasing by 133% to £69.7m, reflecting the strong balance sheet growth, improved net interest margin and continued focus on cost discipline and efficiency. On a statutory basis, profit before taxation more than doubled to £63.7m. Net Interest Margin improved by 80bps to 291bps in 2014 reflecting the positive impact of high margin new lending and a continued reduction in cost of funds.

Underlying return on equity strengthened to 31% (2013: 22%) as a result of this improved profitability despite the higher level of capital post IPO and underlying basic EPS strengthened to 24.4p (2013: 13.4p). On a statutory basis, basic EPS was 21.7p in 2014 (2013: 13.4p).

The Group remained predominantly retail funded during the year with a loan to deposit ratio of 90% as at 31 December 2014. Our customer-centric strategy of providing transparent savings products which offer long term value for money continues to deliver high levels of customer satisfaction and loyalty. We had a Net Promoter Score of 38.9% and a maturing fixed term bond and ISA balance retention rate of 92% in 2014 (2013: 32.4% and 88% respectively).

The Group joined the Bank of England's Funding for Lending (FLS) Scheme in January 2014 and was subsequently accepted as a mortgage collateral counterparty later in the year. The Group pre-positioned pools of mortgage collateral with the Bank of England in February 2015 and can now draw funding under the scheme to support growth in the loan book in 2015.

Financial Objectives

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

Financial Objectives 2014-2016[1]

		2014 Result
Funding/Liquidity strength	Maintain loan to deposit ratio of <100%[2]	90%
Cost discipline	Cost:income ratio of <35%	28%
Capital strength	CRD IV CET 1 ratio >10%	11.4%
Shareholder returns	RoE of >25%	31%
Dividend policy	Pay-out ratio of >= 25%[3]	25%

[1] Objectives relate to the current financial planning cycle that lasts until the end of 2016. This does not represent any forecast, target or expectation as to future results or performance and there can be no assurance that the objective will be met

[2] Excluding the impact of any drawdown under the Funding for Lending Scheme (FLS).

[3] Pay-out ratio of at least 25 per cent of underlying profit after taxation

The Bank remains predominantly retail funded with a strong loan to deposit ratio of 90% as at 31 December 2014. The retail savings market has in the past demonstrated more stability across the economic cycle than wholesale funding markets providing a sustainable funding source to support the Group's growth.

Our focus on cost discipline and efficiency as we grow continued throughout 2014, helping to deliver a very strong cost:income ratio of 28% for the year, comfortably below our financial objective of 35% including further investment in the Bank's IT infrastructure, software and operations during the year.

The Bank ended the year with a fully-loaded CET1 Capital ratio of 11.4% having strengthened its capital position at IPO, raising net primary proceeds of £35.8 million.

At this higher level of capital the Group delivered a very strong underlying RoE of 31% or 29% on a pro forma basis, assuming that the net IPO proceeds were in place at the start of the year.

The Board is recommending a dividend of 3.9 pence per share in line with the Bank's dividend pay-out policy, representing a two-thirds final dividend on 25% of underlying profit after taxation.

SEGMENTAL REVIEW

The following table shows the Group's loans and advances and contribution to profit by segment[1]

31 December 2014, £m	**BTL/SME**	**Residential mortgages**	**Personal loans**	**Total**
Gross loans to customers	2,064.9	1,763.4	117.1	3,945.4
Provision for impairment losses	(15.4)	(2.6)	(8.0)	(26.0)
Net loans to customers	2,049.5	1,760.8	109.2	3,919.4
Risk weighted assets	989.7	738.2	101.3	1,829.2

31 December 2013, £m	**BTL/SME**	**Residential mortgages**	**Personal loans**	**Total**
Gross loans to customers	1,098.8	1,764.6	205.3	3,068.8
Provision for impairment losses	(22.4)	(3.1)	(2.1)	(27.5)
Net loans to customers	1,076.5	1,761.6	203.2	3,041.2
Risk weighted assets	520.8	739.1	162.6	1,422.5

2014, £m	**BTL/SME**	**Residential mortgages**	**Personal loans**	**Central[1]**	**Total**
Net interest income	50.3	57.1	17.7	-	125.2
Other income / (expense)	(1.0)	(6.1)	(1.5)	2.3	(6.3)
Total income	49.4	51.0	16.3	2.3	118.9
Impairment losses	(4.7)	(1.1)	(5.9)	-	(11.7)
Contribution to profit	44.6	49.9	10.4	2.3	107.2
Adjusted contribution to profit[2]	45.4	50.3	10.4	2.3	108.4

2013, £m	**BTL/SME**	**Residential mortgages**	**Personal loans**	**Central**	**Total**
Net interest income	17.2	42.3	11.2	-	70.8
Other income / (expense)	(0.5)	(4.0)	(0.8)	-	(5.3)
Total income	16.7	38.3	10.4	-	65.4
Impairment losses	(4.7)	(0.5)	(2.1)	-	(7.3)
Contribution to profit	12.0	37.8	8.3	-	58.1
Adjusted contribution to profit[2]	15.1	38.8	8.3	-	62.2

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

[2] Adjusted contribution to profit excludes impairment losses relating to the workout of the legacy problem loan book

Buy-to-Let/SME

We provide Buy-to-Let mortgages secured on residential property held for investment purposes by experienced and professional landlords and commercial mortgages secured on commercial and semi-commercial properties held for investment purposes or for owner occupation. We also provide residential development finance to small and medium sized developers and secured funding lines to other lenders.

The Group increased its volume of new organic lending in this segment to £1.2bn, an increase of 108% on 2013 new lending of £567m. This included strong growth in Buy-to-Let particularly in London and the South East where we saw strong growth opportunities at risk-adjusted high returns.

The Group was focused on organic origination as its core growth strategy during the year, however, we also purchased a small portfolio of SME loans in October 2014 and we will continue to actively consider inorganic opportunities in this segment as they arise. This portfolio was migrated onto the InterBay platform.

The total Buy-to-Let/SME net loan book grew by 90% in 2014 to £2.0bn (2013: £1.1bn) due to the gross new lending in the year, partially offset by back book redemptions, and is now the Group's largest segment. Buy-to-Let/SME made a contribution to profit of £44.6m in 2014, up 272% compared to £12.0m in 2013, reflecting the positive impact of high margin organic origination since the start of 2013 and a continued reduction in the Bank's cost of retail funds.

The Buy-to-Let/SME segment's contribution to profit was £45.4m in 2014 (2013: £15.1m) on an adjusted basis, excluding impairment losses of £0.8m in 2014 (2013: £3.1m) on the ring-fenced legacy problem portion of the loan book inherited from KRBS. Loan losses on this book in 2013 reflected the accelerated workout of the legacy problem book.

The Group continued to see good opportunities in 2014 for risk-adjusted high return lending in each of its Buy-to-Let/SME sub-segments; Buy-to-Let, Commercial and Residential Development Finance.

The largest growth opportunity in 2014 was in Buy-to-Let lending to experienced and professional portfolio landlords through the Kent Reliance and InterBay brands. We distribute via a tightly controlled and limited panel of intermediaries throughout England and Wales with a bias on properties in London and the South-East where the demand supply gap is widest and most sustainable. The overall Buy-to-Let market grew in 2014 and capacity withdrawn by lenders no longer active in this segment provided consistently strong opportunities to refinance portfolio landlords during the year.

The Group also grew its commercial and semi-commercial lending through the InterBay brand in 2014. Through this brand we provide mortgages to limited companies and individuals secured on commercial and semi-commercial properties held for investment purposes or for owner occupation. InterBay's customers include professional landlords with investment portfolios holding both Buy-to-Let and commercial properties.

In December 2013, the Group hired a team of specialist underwriters with an average of more than 15 years' experience in the residential development sector and established Heritable Development Finance (HDF), which commenced lending in early 2014. HDF provides financing for residential development projects undertaken by experienced small to medium sized developers with strong track records, who value our levels of service and expertise.

The Group initiated secured funding lines to other lenders in this segment in 2014, including providing funding for development finance.

The Group remains highly focused on the credit quality of new lending as demonstrated by the average LTV in the Buy-to-Let/SME segment as at 31 December 2014 of 68% (31 December 2013: 71%) with 2% of loans exceeding 90% LTV (31 December 2013: 5%).

Residential Mortgages

We lend to owner-occupiers with a geographical bias towards London and the South East. OneSavings Bank offers bespoke residential first charge, second charge and shared-ownership mortgages through specialist brokers. We also provide secured funding lines to other lenders.

During the year the Group increased its volume of gross organic residential lending to £286m (2013: £227m) as it saw opportunities to lend at risk-adjusted high returns.

Between 2011 and 2013, the Group purchased a number of residential mortgage portfolios. These were purchased at significant discounts and have generated high yields that have diluted the impact of the low yielding book inherited from KRBS. These purchases included a number of residential mortgage portfolios acquired in 2013 for a total of £133m with gross receivables of £182m. All of the acquired mortgage portfolios are performing in line with or better than the base case financial expectations prepared prior to purchase. In 2014, the Group was focused on organic origination as its core growth strategy in this segment and made no residential portfolio purchases during the year. We will however continue to actively consider inorganic opportunities as they arise.

The total net residential loan book remained flat at £1.8bn as at 31 December 2014 as gross new origination was offset fully by redemptions on the back book and acquired mortgage books in run-off.

Residential Mortgages made a contribution to Group profit of £49.9m in 2014 up 32% compared to £37.8m in 2013, reflecting the positive impact of high margin organic origination and portfolio purchases since the start of 2013 and a continued reduction in the Bank's cost of retail funds. The Residential Mortgages segment's contribution to profit was £50.3m in 2014 (2013: £38.8m) on an adjusted basis, excluding impairment losses of £0.4m (2013: £1.0m) on the ring-fenced legacy problem portion of the loan book inherited from KRBS. Loan losses on this book in 2013 reflected the accelerated workout of the legacy problem book.

The Group continued to see good opportunities in 2014 for risk-adjusted high return lending in each of its Residential Mortgages sub-segments: bespoke first charge, second charge and shared-ownership.

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

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

Our second charge mortgage brand, Prestige Finance, provides secured finance to good credit quality borrowers who are seeking a loan to raise funds rather than refinancing their first charge mortgage. During 2014, Prestige Finance enhanced its position as a market leader in the second charge market.

The Group also increased its secured funding to other lenders in the year, including additional advances and lines to bridge finance lenders.

The LTV of mortgages in this segment remained low at 54% as at 31 December 2014 (31 December 2013: 51%) with only 1% of loans exceeding 90% LTV (31 December 2013: 3%).

Personal Loans

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

The book is in run-off with a short remaining weighted average life. The portfolio has a net carrying value of £109m, after collective provisions, as at 31 December 2014 (31 December 2013: £203m). The portfolio made a contribution to profit of £10.4m in 2014 (2013: £8.3m) after impairment losses of £5.9m (2013: £2.1m). Impairment losses include a full year's worth of provisioning following its purchase in July 2013 as a performing book as well as the impact of a change in methodology to recognise losses earlier as arrears emerge. Arrears on the portfolio are running significantly below expectations at the time of purchase.

Financial Review

	Group	**Group**
	31/12/2014	**31/12/2013**
Summary Profit or Loss	**£m**	**£m**
Net interest income	125.2	70.8
Gains / (losses) on financial instruments	(2.1)	(0.9)
Net fees and commissions	0.4	(1.0)
External servicing fees	(4.6)	(3.5)
Administrative expenses[1]	(33.3)	(24.5)
FSCS and other provisions	(2.8)	(2.2)
Impairment losses	(11.7)	(7.3)
Exceptional IPO expenses	(7.4)	-
Profit before taxation	63.7	31.4
Profit after taxation	51.5	26.8
Underlying profit before taxation	69.7	30.0
Underlying profit after taxation	56.8	25.3
Key ratios		
Net interest margin	291bps	211bps
Cost:income ratio	28%	38%
Management expense ratio[2]	0.77%	0.72%
Loan loss ratio	0.33%	0.28%
Basic EPS[3], pence per share	21.7	13.4
Underlying basic EPS, pence per share	24.4	13.4
Underlying return on equity	31%	22%
Dividend per share, pence per share	3.9	-
Extracts from the Statement of Financial Position	**£m**	**£m**
Loans and advances	3,919.4	3,041.2
Retail deposits	4,331.6	3,251.6
Total assets	4,936.5	3,763.9
Key ratios		
Liquidity ratio[4]	20.1%	17.9%
Common equity tier 1 ratio[5]	11.4%	9.2%
Total capital ratio[6]	14.8%	13.5%

[1] Including depreciation and amortisation.
[2] Administrative expenses including depreciation and amortisation as a percentage of average total assets
[3] Basic EPS for 2013 was previously reported before deducting coupons on PSB's classified as equity
[4] Liquid assets as a percentage of funding liabilities

[5] Fully-loaded under Basel III / CRD IV as at 31 December 2014 and under Basel II as at 31 December 2013
[6] Under Basel III / CRD IV as at 31 December 2014 and Basel II as at 31 December 2013

Strong profit growth

The Group reported very strong profit growth in 2014 with underlying profit before taxation (before exceptional IPO costs of £7.4m and after deducting coupons on equity PSB's of £1.5m) more than doubling to £69.7m, reflecting strong balance sheet growth, improved net interest margin and continued focus on cost discipline and efficiency.

Underlying profit after taxation (before exceptional IPO costs, including the tax effect, of £6.4m and after deducting coupons on equity PSB's, including the tax effect, of £1.1m) was £56.8m. The underlying profit after taxation in 2013 of £25.3m (after deducting coupons on equity PSB's of £1.5m) included the benefit of the recognition of a deferred tax asset of £4.7m in respect of trading losses in the InterBay Group, which resumed lending in late 2012 after its acquisition by the Bank.

Net interest margin

The Group showed strong growth in net interest income up 77% to £125.2m in 2014, due to loan book growth and an improved net interest margin (NIM) which was up 80bps to 291bps. The improvement in NIM reflects the positive impact of high margin organic origination and portfolio purchases, and a continued reduction in the Bank's cost of retail funds.

While retail deposits are still expensive relative to LIBOR by long term historical standards, they have become cheaper over the past couple of years, as the unprecedented deposit price competition between banks during the financial crisis eased once wholesale funding markets improved and UK banks could access cheap marginal liquidity through the FLS.

The reduction in retail deposit pricing seen since the start of 2013 is not yet fully reflected in the Bank's results for 2014, as a significant portion of the Bank's retail deposits are one and two year fixed-term deposits with a commensurate lag in re-pricing expected through 2015. The consequential improvement in NIM is expected to be largely offset by the impact of the roll-off of the higher-margin personal loan portfolio net of new mortgage lending.

The Bank pre-positioned pools of mortgage collateral with the Bank of England in February 2015 and can now draw funding under the scheme to support growth in the loan book in 2015. Funding can be drawn until the end of January 2016 and is available for 4 years.

Gains/(Losses) on financial instruments

Losses on financial instruments in 2014 of £2.1m (2013: £0.9m) includes cancelled swap amortisation costs of £3.2m (2013: £2.8m), which increased following additional swap cancellations during 2013, and losses on unmatched or ineffective hedges of £1.2m (2013: a gain of £1.8m), net of a £2.3m gain from the sale of the Bank's RMBS portfolio on 31January 2014.

Net fees and commission

Net fees and commission income of £0.4m (2013: expense of £1.0m) comprises fees and commission receivable of £0.9m (2013: £0.7m) including servicing fee income in the Prestige Group and fees and commission payable of £0.5m (2013: £1.7m). Fees and commission payable in 2013 included commission payable to Kent Reliance Provident Society to run a number of branches for the Bank. The Bank bought out the agency agreement in late 2013 for £0.7m and the branches are now directly managed by the Bank.

External servicing fees

External servicing fees increased by £1.1m to £4.6m in 2014 due to the inclusion of a full year's cost of servicing for the additional portfolio purchases and mortgages originated under forward flow agreements in 2013.

Efficient and scalable operating platform

Administrative expenses including depreciation were up 36% to £33.3m in 2014 (2013: £24.5m) reflecting the build out of the operations to support growth in the business, the demands of new regulations, enhancements to the resilience of the Bank's IT infrastructure and upgrades to the Bank's savings and mortgage technology to provide enhanced functionality for savings and mortgage customers as well as operational efficiencies.

The Group's cost:income ratio fell 10 percentage points to 28% in 2014 (2013: 38%) reflecting the Bank's continued focus on lending in risk-adjusted high margin sub segments of the market and on cost control as it grows. The management expense ratio was 0.77% for 2014 reflecting the further build out of operations described above (2013: 0.72%). Both ratios reflect the benefit of the Bank's efficient and scalable low cost back office based in Bangalore, India.

FSCS and other provisions

These are primarily in respect of FSCS levies, which increased to £2.8m in 2014 (2013: £2.2m). This represents the full annual charge recognised on 1 April in each year, based on retail savings balances as at the previous 31 December. The increase was due primarily to the growth in retail savings balances during 2013.

Impairment losses

Impairment losses increased to £11.7m in 2014 (2013: £7.3m) representing 33bps on average gross loans and advances (2013: 28bps) and included £5.9m (2013: £2.1m) in relation to the personal loan portfolio and £1.2m (2013: £4.1m) relating to the ring-fenced legacy problem loan book inherited from KRBS, which reduced following the accelerated workout programme carried out in 2013. The loan losses in respect of the personal loan portfolio include a full year's worth of provisioning following its purchase as a performing loan book in July 2013 as well as the impact of a change in methodology to recognise losses earlier as arrears emerge in the portfolio. Arrears in the personal loan book continue to run significantly below the initial forecasts used to price the purchase.

Impairment losses on acquired mortgage portfolios increased to £2.8m in 2014 (2013: £1.8m) in part due to new portfolios purchased in 2013, but remained well below levels forecast at the time of acquisition.

The performance of the front book of mortgages, organically originated since the creation of the Bank in February 2011, remains extremely strong with only 24 accounts three months or more in arrears as at 31 December 2014, totalling £4.5m with an average LTV of 64%, reflecting the strength of the Bank's underwriting and lending criteria.

Exceptional IPO expenses

IPO related costs were £6.0m of which £2.4m attributable to the primary issuance was taken directly to equity. The remaining £3.6m was taken to exceptional IPO expenses in the profit and loss. Exceptional IPO expenses of £7.4m in the profit and loss also include an expense of £3.8m in respect of nil price options over OneSavings Bank shares granted to certain Directors, senior managers and other employees of the Bank at admission. This comprises £2.3m representing the fair value at grant date of options which vested on admission and a further £1.5m expensed after admission in respect of options with future vesting provisions. These options were granted by OSB Holdco Ltd, the Bank's major shareholder and as such the expense is offset fully by an additional capital contribution.

Dividend

The Board recommends a final dividend of 3.9p per share in respect of 2014 representing two-thirds of 25% of underlying profit after taxation for 2014 of £56.8m, in line with the Bank's target dividend pay-out ratio. The proposed final dividend will be paid on 5 June 2015, subject to approval at the Annual General Meeting on 2 June 2015, with a record date of 15 May 2015.

Balance Sheet growth

Loans and advances grew by 29% in 2014 to £3.9bn (31 December 2013: £3.0bn) with a slightly higher growth rate of 33% and 31% respectively for retail deposits and total assets due to higher levels of liquidity (see further details on liquidity below). The growth in loans and advances was due primarily to a significant increase in new lending in the Buy-to-Let/SME and Residential Mortgages segments, partly offset by redemptions in the organic back book and acquired mortgage portfolios in run-off.

Liquidity

OneSavings Bank operates under the PRA's Individual Liquidity Adequacy Assessment (ILAA) regime. The Bank operates within a target range in excess of the minimum regulatory requirement. The Bank continued to manage its liquidity efficiently in 2014 having successfully spread savings maturities more evenly throughout the year and demonstrated a strong retention track record on fixed term bond and ISA and NISA maturities. The Group's liquidity ratio as at 31 December 2014 was 20.1% (31 December 2013: 17.9%) as the Bank built up additional liquidity in December in advance of pensioner bonds expected to launch at higher than market rates in January 2015.

The Bank pre-positioned pools of mortgage collateral with the Bank of England in February 2015 which allows it to draw down funding under FLS and the liquidity insurance facilities.

Capital

The PRA issued Policy Statement PS7/13 in December 2013 containing the final rules and supervisory statements implementing the Capital Requirements Directive (2013/36/EU) (CRD) and the Capital Requirements Regulation (575/2013) (CRR), jointly CRD IV, effective from 1 January 2014.

A summary of the impact of CRD IV on the Bank can be found on page 20 of the 2013 Annual Report.

The Bank's fully-loaded Common Equity Tier 1 Capital ratio (CET1 ratio) under CRD IV increased to 11.4% as at 31 December 2014 (31 December 2013: estimated at 8.4% under CRD IV and 9.2% under Basel II) reflecting the positive impact of the net primary proceeds of £35.8m at IPO and profits for 2014, partially offset by the recommended dividend of £9.5m following the issuance of the European Banking Authority's (EBA) final technical standard on own funds.

The Bank had a Total Capital Ratio of 14.8% and a leverage ratio of 4.2% as at 31 December 2014.

Statement of Profit or Loss
For the year ended 31 December 2014

	Group 2014 £'000	Group 2013 £'000
Interest receivable and similar income	**209,882**	**150,607**
Interest payable and similar charges	**(84,681)**	**(79,841)**
Net interest income	**125,201**	**70,766**
Fair value gains / (losses) on financial instruments	**(4,323)**	**(840)**
Gains / (losses) on sales of financial instruments	**2,258**	**(24)**
Fees and commissions receivable	**875**	**728**
Fees and commissions payable	**(507)**	**(1,696)**
External servicing fees	**(4,593)**	**(3,503)**
Total income	**118,911**	**65,431**
Administrative expenses	**(32,390)**	**(23,986)**
Depreciation and amortisation	**(896)**	**(547)**
Regulatory provisions	**(2,767)**	**(2,152)**
Operating profit	**82,858**	**38,746**
Impairment losses	**(11,685)**	**(7,329)**
Profit before exceptional IPO expenses	**71,173**	**31,417**
Exceptional IPO expenses	**(7,428)**	**-**
Profit before taxation	**63,745**	**31,417**
Taxation	**(12,208)**	**(4,646)**
Profit for the year	**51,537**	**26,771**
Earnings per share, pence per share		
Basic	21.7	13.4
Diluted	21.7	13.4

The above results are derived wholly from continuing operations.

Statement of Other Comprehensive Income
For the year ended 31 December 2014

	Group 2014 £'000	Group 2013 £'000
Items which may be reclassified to profit or loss:		
Fair value changes on available-for-sale securities		
Arising in the year	**1,013**	**(1,131)**
Transferred to profit or loss	**166**	**(705)**
Revaluation of foreign operations	**(696)**	**372**
Tax on items in other comprehensive income	**(238)**	**395**
Other comprehensive income for the year	**245**	**(1,069)**
Profit for the year	**51,537**	**26,771**
Total comprehensive income for the year	**51,782**	**25,702**

Statement of Financial Position
As at 31 December 2014

	Group 2014 £'000	Group 2013 £'000
Assets		
Liquid assets		
Cash in hand	**288**	**267**
Loans and advances to credit institutions	**767,318**	**269,101**
Investment securities	**158,597**	**361,045**
Loans and advances to customers	**3,919,397**	**3,041,248**
Derivative assets	**937**	**757**
Fair value hedges - assets	**68,738**	**67,863**
Deferred taxation asset	**3,563**	**10,901**
Intangible assets	**2,305**	**1,117**
Property, plant and equipment	**3,104**	**4,955**
Other assets	**12,280**	**6,632**
Total assets	**4,936,527**	**3,763,886**
Liabilities		
Amounts owed to retail depositors	**4,331,639**	**3,251,576**
Amounts owed to credit institutions	**23,009**	**1,438**
Amounts owed to other customers	**4,353**	**2,351**
Debt securities in issue	**238,390**	**273,759**
Derivative liabilities	**25,447**	**22,566**
Fair value hedges - liabilities	**3,126**	**-**
Current taxation liability	**2,945**	**69**
Other liabilities	**13,609**	**12,826**
FSCS and other provisions	**1,598**	**1,281**
Subordinated liabilities	**27,573**	**27,579**
Perpetual subordinated bonds	**15,234**	**15,263**
	4,686,923	**3,608,708**
Equity		
Share capital	**2,431**	**1,265**
Share premium	**157,901**	**119,885**
Retained earnings	**74,998**	**21,273**
Other reserves	**14,274**	**12,755**
	249,604	**155,178**
Total equity and liabilities	**4,936,527**	**3,763,886**

Statement of Changes in Equity
For the year ended 31 December 2014

Group	Share capital £'000	Share premium £'000	Capital contribution £'000	Transfer reserve £'000	Foreign exchange reserve £'000	Available-for-sale reserve £'000	Share-based payment reserve £'000	Retained earnings £'000	Equity bonds[1] £'000	Total £'000
Balance at 1 January 2014	**1,265**	**119,885**	**3,326**	**(12,818)**	**403**	**(156)**	**-**	**21,273**	**22,000**	**155,178**
Profit for the year	-	-	-	-	-	-	-	51,537	-	51,537
Coupon paid on equity bonds[2]	-	-	-	-	-	-	-	(1,138)	-	(1,138)
Other comprehensive income	-	-	-	-	(696)	941	-	-	-	245
Capital reorganisation	922	(922)	(2,626)	-	-	-	-	3,326	-	700
Share issue	244	41,307	-	-	-	-	-	-	-	41,551
Share issue related costs	-	(2,369)	-	-	-	-	-	-	-	(2,369)
Share based payments	-	-	3,768	-	-	-	132	-	-	3,900
Balance at 31 December 2014	**2,431**	**157,901**	**4,468**	**(12,818)**	**(293)**	**785**	**132**	**74,998**	**22,000**	**249,604**

Group 2013	Share capital £'000	Share premium £'000	Capital contribution £'000	Transfer reserve £'000	Foreign exchange reserve £'000	Available-for-sale reserve £'000	Retained earnings £'000	Equity bonds[1] £'000	Total £'000
Balance at 1st January 2013	**1,001**	**105,149**	**3,326**	**(12,818)**	**31**	**1,285**	**(4,048)**	**22,000**	**115,926**
Profit for the year	-	-	-	-	-	-	26,771	-	26,771
Coupon paid on equity bonds	-	-	-	-	-	-	(1,450)	-	(1,450)
Other comprehensive income	-	-	-	-	372	(1,441)	-	-	(1,069)
Capital injections	264	14,736	-	-	-	-	-	-	15,000
Balance at 31 December 2013	**1,265**	**119,885**	**3,326**	**(12,818)**	**403**	**(156)**	**21,273**	**22,000**	**155,178**

[1] Equity bonds comprise £22m of 6.591% perpetual subordinated bonds.
[2] Coupon paid on equity bonds is shown net of tax.

Statement of Cash Flows

For the year ended 31 December 2014

	Group 2014 £'000	Group 2013 £'000
Cash flows from operating activities		
Profit before tax	**63,745**	**31,417**
Adjustments for non-cash items:		
Depreciation and amortisation	**896**	**547**
Interest on subordinated liabilities	**1,261**	**1,256**
Interest on perpetual subordinated bonds	**1,144**	**1,255**
Impairment charge on loans net of write offs	**(1,496)**	**(3,439)**
(Gain) / loss on sale of financial instruments	**(2,258)**	**24**
FSCS and other provisions	**2,767**	**2,152**
Fair value losses on financial instruments	**4,323**	**840**
Share based payments	**3,785**	**-**
Changes in operating assets and liabilities		
Decrease in loans and advances to credit institutions	**-**	**87,024**
(Increase) in loans to customers	**(876,653)**	**(841,760)**
Increase in retail deposits	**1,080,063**	**506,930**
(Increase) / decrease in intercompany balances	**-**	**-**
(Increase) in other assets	**(2,849)**	**(3,964)**
Increase / (decrease) in derivatives and hedged items	**629**	**(27,817)**
Increase / (decrease) in bank and other deposits	**23,573**	**(21,164)**
Net increase in other liabilities	**3,772**	**3,586**
Exchange differences on working capital	**(695)**	**452**
Cash generated from / (used in) operating activities	**302,007**	**(262,661)**
Interest paid on bonds and subordinated debt	**(2,442)**	**(2,437)**
FSCS and other provisions paid	**(2,450)**	**(3,187)**
Tax paid	**(1,517)**	**(489)**
Net cash from operating activities	**295,598**	**(268,774)**
Cash flows from investing activities		
Net sales of investment securities	**205,885**	**47,434**
Purchases of equipment and intangible assets	**(2,980)**	**(1,559)**
Cash generated from investing activities	**202,905**	**45,875**
Cash flows from financing activities		
Coupon paid on equity bonds	**(1,450)**	**(1,450)**
Proceeds from share issues and capital contributions	**42,251**	**15,000**
Share issue (IPO) costs paid	**(5,699)**	**-**
Net issue / (repayment) of debt	**(35,367)**	**273,759**
Cash (used in) / generated from financing activities	**(265)**	**287,309**
Net increase in cash and cash equivalents	**498,238**	**64,410**
Cash and cash equivalents at 1 January		
Cash in hand	**267**	**282**
Loans and advances to credit institutions repayable on demand	**269,101**	**204,676**
	269,368	**204,958**
Cash and cash equivalents at 31 December		
Cash in hand	**288**	**267**
Loans and advances to credit institutions repayable on demand	**767,318**	**269,101**
	767,606	**269,368**
Movement in cash and cash equivalents	**498,238**	**64,410**

General note to the financial information

The financial information set out in the announcement does not constitute the Company's statutory accounts for the years ended 31 December 2013 or 31 December 2014, but is derived from those statutory accounts, which have been reported on by the Company's auditors. Statutory accounts for the years ended 31 December 2013 have been delivered to the Registrar of Companies and those for the year ended 31 December 2014 will be delivered to the Registrar following the Company's Annual General Meeting.

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

A copy of the Annual Report and Accounts for the year ended 31 December 2014 will be posted to shareholders in due course. Copies of this announcement can be obtained from the Group Company Secretary, OneSavings Bank PLC at Reliance House, Sun Pier, Chatham, Kent ME4 4ET.

Principal Risks and Uncertainties

OneSavings Bank takes an active approach to risk management and ensures that risks are appropriately rewarded where strategic, mitigated where appropriate, and well understood in all cases. To support this strategic risk management, the Group has put in place a risk management framework, which consists of four key components: strategy and risk appetite, governance, policies, and management information. Within this risk management framework, principal risks to which the Group is exposed have been identified across the risk types of credit risk, market risk, liquidity risk, operational risk, conduct risk, and regulatory risk.

Credit Risk

Credit risk is the potential for loss due to the failure of a counterparty to meet its contractual obligation to repay a debt in accordance with the agreed terms.

<u>Individual borrower defaults</u>

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.

To mitigate the risk, 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.

<u>Macroeconomic downturn</u>

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.

To mitigate the risk, the Group works within portfolio limits on LTV and name, sector, or geographic concentration that are approved by Risk Committee and the Board and reviewed at least annually. In addition, stress testing is performed as part of the ICAAP to ensure the Group maintains sufficient capital to absorb losses in an economic downturn and still meet its regulatory requirements.

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.

To mitigate the risk, the Group transacts only with high quality wholesale counterparties. Derivative exposures include collateral agreements to mitigate credit exposures.

Market Risk

Market Risk is the 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.

To mitigate the risk, the Group's Treasury department actively hedges to match the timing of cash flows from assets and liabilities.

Basis Risk

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

To mitigate the risk, the Group strategically focuses on products linked to administered rates to keep control of yield. Where there is a mismatch of market rates in the portfolio (e.g. Base Rate vs. LIBOR), the Treasury department hedges the exposure.

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its financial obligations as they fall due.

Retail funding stress

As the Group is primarily funded by retail deposits, a retail run could put it in a position where it could not meet its financial obligations.

The Group's funding strategy is focused on a highly stable retail deposit franchise. The large number of depositors provides diversification, and c.95% of balances are covered by the FSCS and so at no material risk of a retail run. The Group performs in depth liquidity stress testing as part of its ILAA and maintains a liquid asset portfolio sufficient to meet obligations under a stress.
Finally, the Group has prepositioned mortgage collateral with the Bank of England in February 2015, so that its liquidity insurance facilities can be accessed in the unlikely event that should become necessary.

Operational Risk

Operational risk is 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.

To mitigate the risk, we employ experienced underwriters who 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.

<u>Network/system intrusion</u>

If hackers were to penetrate the Group's IT system, consequences could range from the diversion of funds to the theft of customer data.

In order to mitigate the risk, an outsourced agency monitors the Bank's infrastructure for known threats and reports when they are being executed. This is being extended to subsidiaries in 2015. Third party tools are used regularly for penetration testing on the Bank's systems. Anti-virus software is installed to detect viruses and malware. An IT security governance forum regularly reviews activity.

<u>Model risk</u>

A small error in a model could be missed and yet 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.

In order to mitigate the risk, 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.

<u>Gaps in due diligence scope</u>

Transactions undertaken by the Commercial Team are bespoke, with each requiring well specified due diligence. Gaps in scope could mean that significant issues in a pool acquisition or funding line are not picked up in time, resulting in assets that are significantly lower value than assumed and/or significant cost to remedy issues.

To mitigate the risk, key stakeholders from Risk, Credit, Compliance, and Legal review transactions at early stages and before they are finalised. External specialists are used to conduct due diligence where appropriate.

Conduct Risk

Conduct risk is the risk that the Group's culture, organisation, behaviours, and actions result in unfair, unreasonable, or unexpected customer outcomes and detriment.

<u>Lending products</u>

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.

To mitigate the risk, 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.

<u>Back book</u>

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.

To mitigate the risk, a thorough review of the back book is underway to identify conduct risk issues and remediate as appropriate.

Regulatory Risk

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

Capital requirements

The regulatory capital regime is subject to change and could lead to increases in the level and quality of capital that the Group needs to hold to meet regulatory requirements.

To mitigate the risk, the Group engages actively with regulators, industry bodies, and advisors to keep in front of potential changes and provide feedback through the consultation process.

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.

To mitigate the risk, 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.

Director's responsibility statement

The responsibility statement below has been prepared in connection with the full Annual Report of the Company for the year ended 31 December 2014. Certain parts of these accounts are not presented within this announcement.

The Directors are responsible for preparing the Annual Report and accounts in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with IFRS as adopted by the European Union and Article 4 of the International Accounting Standards Regulation (IAS). The Directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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

In preparing the parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, IAS 1 requires that Directors:

- Properly select and apply accounting policies
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- Provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- Make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Report that complies with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- The Strategic Report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary to assess the group's performance, business model and strategy.

Approved by the Board and signed on its behalf by:

Zoe Bucknell
General Counsel and Group Company Secretary
16 March 2015