Chief Risk Officer’s report

Strategic risk management framework

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

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 Strategic Risk Management Framework (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.

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 the 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 risks are identified, assessed and managed based on robust systems and controls.
- **Risk Governance**: Risk taking and oversight responsibility is appropriately segregated, in adherence to the ‘three lines of defence’ principle.
- **Integration and Usage**: Risk management is fully integrated into the Board and senior management decision processes.

- **Versatile**: Risk framework and underlying capabilities are subject to ongoing review and are adaptive to the changing operating environment and OSB’s business model.

**Risk Appetite**

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

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

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

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

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

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

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

Market Risk Appetite Statement
The Group actively manages market risk arising from structural interest rate positions. The Group does not seek to take a significant interest rate position or a directional view on rates and 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 timeframe 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.
Chief Risk Officer’s report continued

Strategic risk management framework continued

**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.

The OSB risk governance framework is summarised in the diagram below.

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 principal 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 Governance structure

<table>
<thead>
<tr>
<th>Risk</th>
<th>Credit</th>
<th>Market</th>
<th>Liquidity</th>
<th>Operational</th>
<th>Regulatory</th>
<th>Conduct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board governance</td>
<td>Board</td>
<td></td>
<td></td>
<td>Risk Committee</td>
<td>Audit Committee</td>
<td></td>
</tr>
<tr>
<td>Management governance</td>
<td>Executive Committee</td>
<td>Credit Committee</td>
<td>ALCO</td>
<td>Regulatory, Operational, and Compliance Risk Committee (ROCC)</td>
<td>Group General Counsel and Company Secretary</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chief Risk Officer</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Strategic Risk Management Framework

<table>
<thead>
<tr>
<th>Key policies</th>
<th>Lending Policy, Arrears, Repossession and Forbearance Policy</th>
<th>Interest Rate and Basis Risk Policy</th>
<th>Treasury Policy, ILAA</th>
<th>Operational Risk Policy</th>
<th>Conduct Risk Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management information</td>
<td>Credit MI pack</td>
<td>ALCO MI pack</td>
<td>Operational Risk MI pack</td>
<td>Regulatory/ Compliance MI</td>
<td>Conduct Risk MI</td>
</tr>
</tbody>
</table>
Chief Risk Officer’s report continued

Strategic risk management framework continued

**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 are vital to the successful achievement of the Bank’s risk strategy.

**Risk Frameworks and Policies**
The Bank has adopted a hierarchial 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.

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 models 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
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 (LTIs) 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\(^1\) decreased from 2.3% to 2.1%; and
- legacy problem loans reduced from £31.1m to £17.8m.

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

\(^1\) Excluding legacy problem loans.

(See Risk Management and financial instruments, Note 33).

### Forbearance measures undertaken 2015

<table>
<thead>
<tr>
<th>Forbearance Type</th>
<th>Number of Accounts</th>
<th>£’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitalisation</td>
<td>4</td>
<td>227</td>
</tr>
<tr>
<td>Temporary switch to interest only</td>
<td>106</td>
<td>10,691</td>
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<tr>
<td>Loan term extension</td>
<td>59</td>
<td>3,474</td>
</tr>
<tr>
<td>Payment holiday</td>
<td>21</td>
<td>6,496</td>
</tr>
<tr>
<td>Assistance with voluntary sale of property</td>
<td>11</td>
<td>7,668</td>
</tr>
<tr>
<td>Reduced monthly payments</td>
<td>70</td>
<td>5,708</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>271</strong></td>
<td><strong>£34,264</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Number of Accounts</th>
<th>£’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>First charge owner occupier(^2)</td>
<td>200</td>
<td>21,024</td>
</tr>
<tr>
<td>Second charge owner occupier</td>
<td>38</td>
<td>1,255</td>
</tr>
<tr>
<td>Buy-to-Let</td>
<td>27</td>
<td>11,521</td>
</tr>
<tr>
<td>Commercial</td>
<td>6</td>
<td>465</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>271</strong></td>
<td><strong>£34,264</strong></td>
</tr>
</tbody>
</table>

\(^1\) 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 in-organic 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 Capital management, Note 35).
Chief Risk Officer’s report continued

Strategic risk management framework continued

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

The Bank has successfully utilised the FLS to manage its liquidity in 2015. The Bank 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 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.

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

(See 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 CML and BBA, seeks external advice from our auditors and/or other third parties. The Group also assesses the impact of upstream regulation on OSB and the wider market in which we operate, and undertakes robust assurance assessments from within the Risk and Compliance functions.

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 Managers 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 Internal Capital Adequacy Assessment Process (ICAAP) and the Individual Liquidity Adequacy Assessment (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 ILAA 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 Recovery and Resolution Plan (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.