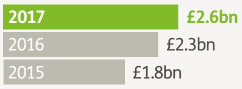
Key performance indicators

KPI	Definition	2017 performance

1. Gross new lending

Performance £2.6bn

+14%



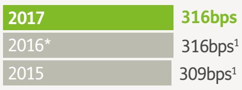
Definition: This is defined as gross new organic lending before redemptions.

2017 performance: Gross new lending in 2017 reflects growth in new origination, primarily in the BTL/SME segment.

2. Net interest margin

Performance 316bps

stable



* Restated

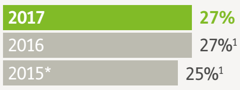
Definition: This is defined as net interest income as a percentage of average interest bearing assets (cash, investment securities, loans and advances to customers and credit institutions), including off balance sheet FLS drawings. It represents the margin earned on loans and advances and liquid assets after swap expense/income and cost of funds.

2017 performance: Net interest margin flat to prior year with lower asset yields in line with the reduced cost of funds.

3. Cost to income ratio

Performance 27%

stable



* Restated

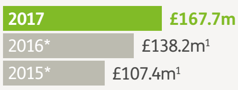
Definition: This is defined as administrative expenses including depreciation and amortisation as a percentage of total income. It is a measure of operational efficiency.

2017 performance: Cost to income ratio stable despite additional cost of meeting regulatory requirements in 2017 and continues to be market leading.

4. Underlying profit before taxation

Performance £167.7m

+21%



* Restated

Definition: This is defined as statutory profit before taxation before exceptional items. See reconciliation of statutory profit to underlying profit in Alternative performance measures on page 29.

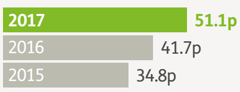
2017 performance: The increase reflects strong balance sheet growth, stable net interest margin, continued focus on cost discipline and efficiency and low loan losses.

Statutory profit before taxation of £167.7m in 2017 increased by 3% compared to £163.1m in 2016.

5. Underlying basic EPS

Performance 51.1 pence per share

+23%



Definition: This is defined as underlying profit attributable to ordinary shareholders, which is profit after taxation before exceptional items less after tax effect of coupons on equity PSBs and AT1 securities, divided by the weighted average number of ordinary shares in issue.

See reconciliation of statutory profit to underlying profit in Alternative performance measures on page 29.

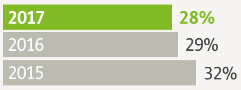
2017 performance: The strong growth is in line with the significant increase in underlying profitability of the Bank.

On a statutory basis basic EPS increased to 51.1 pence per share in 2017 from 49.4 pence per share in 2016.

KPI	Definition	2017 performance

6. Return on equity
Performance 28%

-1%



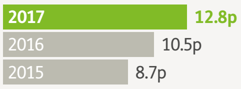
Definition: This is defined as underlying profit after taxation and after deducting the after tax effect of coupons on equity PSBs and AT1 securities as a percentage of average shareholders' equity (excluding equity PSBs of £22m and £60m of AT1 securities).

For further information on underlying profit after taxation, see reconciliation of statutory profit to underlying profit in Alternative performance measures on page 29.

2017 performance: Return on equity remained strong at 28% (2016: 29%) despite our strengthened capital position.

7. Dividend per share
Performance 12.8 pence per share

+22%

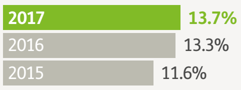


Definition: This is defined as the sum of the recommended final dividend for 2017 plus the interim dividend divided by the number of ordinary shares in issue at the year end.

2017 performance: The Board will recommend a final dividend of 9.3 pence per share in respect of 2017 at the Bank's AGM on 10 May 2018. This, together with the interim dividend of 3.5 pence per share, represents 25% of underlying profit after tax attributable to ordinary shareholders (after deducting the after tax impact of coupons on equity PSBs and AT1 securities) for 2017, in line with the Bank's target dividend payout ratio.

8. CRD IV fully-loaded Common Equity Tier 1 capital ratio
Performance 13.7%

+0.4% points

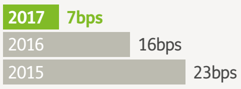


Definition: This is defined as Common Equity Tier 1 capital as a percentage of risk-weighted assets (calculated on a standardised basis) and is a measure of the capital strength of the Bank.

2017 performance: The capital ratio of 13.7% reflects the ability of the business to generate capital through profitability to support significant loan book growth.

9. Loan loss ratio
Performance 7bps

improved 9bps

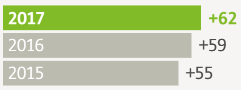


Definition: This is defined as impairment losses expressed as a percentage of average gross loans and advances. It is a measure of the credit performance of the loan book.

2017 performance: The improved ratio of 7bps for 2017 (2016: 16bps) mainly reflects the assumption updates that took place in 2016. It also reflects the continued strong performance from the front book of loans, originated by the Bank since its creation in 2011. From more than 38,500 loans totalling £8.3bn of new organic originations since the Bank's creation in February 2011, we only have 137 cases of arrears over three months in duration, with an aggregate balance of £18.4m and average LTV of 63%.

10. Customer satisfaction – net promoter score
Performance +62

+3



Definition: The net promoter score measures our customers' satisfaction with our service and products. It is based on customer responses to the question of whether they would recommend us to a friend. The question scale is 0 for absolutely not to 10 for definitely yes. Based on the score, a customer is defined as a detractor between 0 and 6, a passive between 7 and 8 and a promoter between 9 and 10. Subtracting the percentage of detractors from the percentage of promoters gives a net promoter score of between -100 and +100.

2017 performance: The Bank's customer NPS across the year for 2017 improved from +59 in 2016 to +62. This demonstrates that our investment in customer service in the UK and India and customer-centric strategy of providing transparent savings products which offer long-term value for money continues to deliver high levels of customer satisfaction.

1. Prior to 2017, OSB deducted coupons on equity Perpetual Subordinated Bonds ('PSBs') accounted for as dividends from underlying profit before and after tax, net interest margin and cost to income ratio. Following a review of market practice in advance of the Bank's AT1 issue in May 2017, OSB no longer deducts these coupons from the calculation of these key performance indicators. The comparatives have been restated accordingly. Interest payments on AT1 securities classified as dividends are treated in the same way.