Strategic framework

Our strategic objective

To be a leading specialist lender in our chosen sub-sectors, supported by a strong retail savings franchise.

Priorities	Our goals	2017 progress
Be a leading specialist lender in our chosen markets	**Grow profitable loan origination in key markets** • Deliver strong end-to-end propositions in target markets • Deliver incremental, non-organic business • Invest in highly responsive, customer-focused culture • Innovate to secure sustainable long-term market leadership	• Buy-to-Let/SME origination up 23% to £2.4bn • £176m originations in commercial lending through our InterBay brand • Received multiple awards including Best Specialist Lender (Mortgage Strategy Awards) and Best Specialist Lender of the Year (The Mortgage Introducer Awards)
Retain focus on bespoke and responsive underwriting	**High quality decisions protecting the business** • Skilled manual underwriting supported by clever technology • Deliver a high quality, differentiated service supported by highly responsive decision-making • Clear decisions recognised by intermediaries for their quality and fairness – a critical friend • Integrated underwriting across all brands	• More than 38,500 loans totalling £8.3bn originated since the Bank's creation in 2011 with only 137 cases of arrears over 3 months, with an aggregate balance of £18.4m and an average LTV of 63% • New technology solution for assessing multi-property portfolios • Transactional Credit Committee met 103 times to assist with more complex or larger new mortgage applications
Further deepen relationships and reputation for delivery with intermediaries	**Increase partner reach in response to demand** • Provide access to specialist products developed by listening to intermediary partners • Be accessible and available to intermediaries • One distribution model across all brands • Gain intermediary recognition for delivering long-term sustainable proposition • Deliver bespoke solutions to meet intermediary and customer needs	• Introduced high tech solution to ease the burden for assessing multi-property portfolios • Success of Choices programme in increasing retention rates in 2017 • Restructured relationship team to increase levels of engagement • Attended c.150 intermediary events across our target geographies • Enhanced marketing and brand support for intermediaries • Published periodic market leading 'Buy-to-Let Britain' reports
Maintain and build upon over 150 years of heritage in savings	**Stable, high quality funding platform** • Be primarily funded through attracting and retaining a loyal retail savings customer base • Provide access to our service for customers through their channel of choice • Ensure liquidity requirements are met through the economic cycle • Deliver a proposition offering transparent, straightforward savings products, providing long-term value combined with excellent service levels	• Gained c27,000 new savings customers • Achieved 90% customer retention • Received multiple awards for savings products including ISA Provider of the Year and Best Cash ISA Provider • Loan to deposit ratio of 92%[1] 1. Excluding impact of TFS/FLS drawdowns.
Leverage unique and cost-efficient operating model	**Best in class customer service** • Put customer service at the heart of everything that we do • Extend activity in OSBIndia, developing high quality areas of excellence • Create structure-delivering solutions using cross-company expertise • Deliver cost efficiencies through excellent process design and management	• Investments in training and process development contributed to enhanced customer NPS of +62 • Increased OSBI headcount by 33% to 366

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

Looking forward	Key risks	KPI
• Focus on organic growth in underserved sub-sectors • Further develop commercial lending opportunities • Enhance proposition in residential lending in light of progress to IRB • Develop further opportunities in bridge finance • Identify new market sub-sectors with high returns on a risk-adjusted basis	• Market conditions affecting long-term demand • Increased regulatory pressure • Continued political uncertainty • New specialist lenders entering the market	**Loan book £7.3bn** +23% **2017** **£7.3bn** 2016 £5.9bn 2015 £5.1bn
• Identify additional technology to support decision making • Continue training and coaching to further strengthen the underwriting expertise of our team • Maintain focus on consistent decision making outcomes • Find ways to be even more responsive to intermediaries and borrowers whilst remaining a critical friend	• Changing regulation for underwriting • More complex underwriting requirements • Difficulty in recruiting experienced staff • Increasing intermediary demands • Demands of ever-changing technology	**Loan loss ratio 7bps** improved by 9bps **2017** **7bps** 2016 16bps 2015 23bps
• Develop enhanced intermediary education programme • Continue to deliver direct relationships with high quality intermediaries • Deliver deeper relationships with more of our target intermediaries • Deliver best in class service performance as we grow and enter new market sub-sectors	• Loss of key broker relationships • Competition reducing pricing below OSB's risk-adjusted return appetite • More complex underwriting requirements slowing the process	**Gross new lending £2.6bn** +14% **2017** **£2.6bn** 2016 £2.3bn 2015 £1.8bn
• Enhance service proposition by investing in technology for digital transformation • Continue to invest in and diversify distribution channels from branches to digital • Broaden savings propositions further to include wider savings needs	• Increased competition for retail funds • Potential NS&I/government intervention in the market • Increased customer expectation for technology compared to difficulty and cost of delivery • Increased burden of regulatory compliance – for example, Open Banking (which currently does not apply to OSB)	**Customer NPS +62** +3 **2017** **+62** 2016 +59 2015 +55
• Extend measurement by benchmarking to best in class • Introduce robotics technology and improve workflows to further enhance service in primary servicing • Increase change capacity through enhanced end-to-end project management capability	• Difficulty in continuous service improvement as OSB grows • Global economic uncertainty increasing costs in India • Increasing complexity from compliance with changing regulation • Lack of operational resilience due to rapid growth	**Cost to income ratio 27%** **2017** **27%** 2016 27%[1] 2015 25%[1] **Stable despite increasing cost of regulation**

1. continued
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.