Directors' Remuneration Report

Annual Statement by the Chair of the Remuneration Committee

Dear Shareholder,

I am pleased to present the 2017 Directors' Remuneration Report which sets out details of Directors' remuneration in respect of 2017, our new 2018 Directors' Remuneration Policy and how we intend to implement the new Policy in 2018.

Overview of 2017 performance

In 2017, the Bank continued to perform strongly delivering financial growth underpinned by an excellent reputation for customer service. Underlying pre-tax profits grew by 21% to £167.7m and the loan book grew by 23% to £7.3bn whilst maintaining a stable net interest margin of 3.16%.

Customer NPS was an outstanding +62 and the Bank had a customer retention rate of 90% in 2017. In addition, whilst the Bank's headcount continues to grow with the business, the 2017 employee engagement survey showed improvement in all categories.

Incentive outcomes for 2017

The 2017 Executive Bonus Scheme was based 75% on the Business Balanced Scorecard, which measures corporate performance against Financial, Customer, Quality and Staff metrics, and 25% on Personal objectives. Targets for each measure were set at the start of the year and were assessed by the Committee following year-end.

There was strong performance across the 2017 bonus scorecard with many of the maximum targets being met including those for profit, customer NPS, number of high severity operational incidents and employee engagement. There was, however, room for improvement under the diversity and broker NPS metrics with the threshold targets not being met. Alongside the outstanding performance against individual targets, the Committee determined that 85% and 84% of the bonus was earned by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) respectively. Full details are set out on pages 91 to 92. As in previous years, 50% of this award will be deferred into shares for a three-year period.

The first awards under the Performance Share Plan following the IPO were made in March 2015 with a three-year performance period ending on 31 December 2017. Given the strong performance over this period, OSB has met the relative TSR and EPS growth targets in full and as such the awards vested to the participants in March 2018.

New Remuneration Policy and implementation in 2018

During 2017 the Committee reviewed the Directors' Remuneration Policy, which having last been approved by shareholders at the 2015 AGM, is required to be submitted to our shareholders for approval at the 2018 AGM.

Following extensive discussion and engagement with our main shareholders, the Committee concluded that certain changes should be made to our Remuneration Policy to support the continued long-term success of the Bank and to ensure the structure remains in line with evolving regulatory and investor guidelines.

The changes are summarised below.

Fixed pay

At the time of the IPO in 2014, the salary levels for the CEO and CFO were consciously set below a level associated with the scope of the role, with the intention that these would be increased over time if the executives delivered the corporate strategy, individual performance was strong and as they grew into their roles as directors of a listed company. Based on these factors, over the last policy period (i.e. 2015 to 2017) we have therefore increased salaries, each year, above the average for the wider employee population.

The Committee feels that the salaries, taken together with pension and benefits, are now appropriately positioned. Going forward, subject to performance, the Committee anticipates that salary increases will be in line with the wider employee population for the life of the new policy, unless there are exceptional circumstances such as a significant increase in the scope of the role or complexity of the business. For 2018, the base salary increase for Executive Directors will be 3%, slightly below the average increase for the workforce generally (3.9%).

We have also maintained the pension contribution at 13% of salary which is in line with the policy for the wider senior management population.

Directors' Remuneration Report continued

Annual bonus plan and Performance Share Plan structure

Whilst we have taken steps to ensure that the fixed pay levels are now positioned appropriately, in the view of the Committee, the current incentive opportunity no longer rewards executives suitably for the continued delivery of outstanding performance and building on the growth in value to date.

Therefore, we propose to increase the annual bonus opportunity under the policy from 100% to 150% of salary and set the bonus opportunity at this policy level for the duration of the policy period. The maximum Performance Share Plan (PSP) award under the policy will remain unchanged at 200% of salary. However, within this unchanged policy maximum, the 'usual' PSP award will be increased from 130% and 100% of salary for the CEO and CFO respectively, to 150% of salary for both. Awards above 150% of salary would only be made in exceptional circumstances. If the Committee determines that the usual PSP award should be increased above 150% of salary, this would only be done with prior investor consultation.

We have a track record of setting stretching targets appropriate for the growth prospects of the Company and taking account of risk, and the increase to incentive opportunity ensures that any increase in remuneration levels will only be made if superior performance continues to be delivered. Furthermore, the increase in opportunity is part of a package of structural proposals, as detailed below, which provides greater alignment with the business strategy and our shareholders' long-term interests.

Finally, increasing the incentive opportunity would lead to total remuneration being broadly at a mid-market level.

Performance conditions attached to 2018 annual bonus and Performance Share Plan

The annual bonus in 2017 was based 75% on the Business Balanced Scorecard and 25% on Personal performance. We propose to reduce the weighting on personal performance to 10%, with the 15% balance moved to the financial element of the Business Balanced Scorecard for the duration of the policy.

For the 2018 PSP award of 150% of salary, a new return measure (ROE) will be introduced for 20% of the award, to drive and reward the efficient use of capital. This new measure will be alongside the focus on profitable growth (EPS, 40% of the award) and continued stock market outperformance (relative TSR vs the FTSE 250 constituents, 40% of the award). The addition of a third measure will mean the executives will have to deliver performance across a higher number of metrics to receive the increase in PSP quantum, making it harder to receive the higher quantum.

In addition, in line with regulatory requirements and to strengthen the alignment of performance and reward further, the discretionary assessment on vesting of the PSP will also be strengthened. At the time of vesting, the Committee will assess whether the formulaic vesting outcome is aligned with the underlying performance of the Company, risk appetite and individual conduct over the period.

Improving alignment of interest with shareholders

We are also introducing mechanisms to align further the executives' interests with shareholders and the long-term success of the Company, including the introduction of a two-year post-vesting holding period for PSP awards made from 2018 and increasing the shareholding guidelines for the CEO and CFO by 50% of salary (CEO: 250% of salary, CFO: 200% of salary). The requirement to defer 50% of any bonus earned into shares for three years will also continue to operate. We have also reviewed malus and clawback provisions to ensure that these are readily enforceable if required.

Concluding remarks

I would like to thank Nathan Moss who stepped down as a member of the Committee when he left the Board in May 2017 and to welcome Andrew Doman, who joined the Committee as a member in September 2017.

I hope you agree with the rationale for the proposed changes and will support the resolutions to approve the Remuneration Policy and the Remuneration Report at the 2018 AGM.

Mary McNamara
Chair of the Remuneration Committee
15 March 2018

Remuneration Policy

This section describes our Directors' Remuneration Policy (the 'Remuneration Policy') which is subject to shareholder approval at the AGM on 10 May 2018 and, if approved, will be effective from this date.

Changes to the Policy

The following changes have been made to the previous Directors' Remuneration Policy.

Annual bonus

The maximum opportunity has been increased to 150% of salary to provide greater incentive for delivering the future growth of the Company.

The proportion of bonus based on the Business Balanced Scorecard and personal performance has been changed from 75:25 to 90:10.

Performance Share Plan

A post-vesting holding period will be introduced on awards made from 2018. Any shares vesting may not be sold for two years (after selling sufficient shares to pay tax). This provides greater alignment between shareholders and executives and extends the time horizon of each grant to five years.

In line with regulatory guidance, the performance underpin has been strengthened such that the Committee will undertake a discretionary assessment of the level of vesting to ensure it is in line with the underlying performance of the Company, takes into account financial and non-financial risk and the individual's conduct.

Share ownership guidelines

The share ownership guidelines have been increased by 50% of salary to 250% of salary for the CEO and 200% of salary for the CFO in order to strengthen the alignment of interest with shareholders.

Other changes

The maximum pension contribution will remain at 13% of salary, however the individual will not be required to make a contribution into the plan to receive this. This is in line with the senior leadership population and enables greater flexibility within HMRC pension limits.

The flexibility to change the benefits offered has been included should the Company offer other market competitive benefits in the future.

Policy overview

This Policy has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended in 2013. The Policy has been developed taking into account a number of regulatory and governance principles, including:
- The UK Corporate Governance Code 2016
- The regulatory framework applying to the Financial Services Sector (including the Dual-regulated firms Remuneration Code and provisions of CRD IV)
- The executive remuneration guidelines of the main institutional investors and their representative bodies.

Objectives of the Remuneration Policy

The overarching principles of the Remuneration Policy are to:
- Promote the long-term success of the Company.
- Attract, motivate and retain high-performing employees.
- Adhere to and respond to the regulatory framework for the financial services sector and UK listed companies more generally.
- Strike an appropriate balance between risk-taking and reward.
- Encourage and support a strong sales and service culture to meet the needs of our customers.
- Reward the achievement of the overall business objectives of the Group.
- Align employees' interests with those of shareholders and customers.
- Be consistent with the Group's risk policies and systems to guard against inappropriate risk-taking.

How the views of employees and shareholders are taken into account

The Committee does not formally consult directly with employees on executive pay but receives periodic updates in relation to salary and bonus reviews across the Company. As set out in the policy table overleaf, in setting remuneration for the Executive Directors, the Committee takes note of the overall approach to reward for employees in the Company and salary increases will ordinarily be in line (in percentage of salary terms) with those of the wider workforce. Thus, the Committee is satisfied that the decisions made in relation to Executive Directors' pay are made with an appropriate understanding of the wider workforce. The Board has begun work to examine how it can engage more widely with stakeholders, including employees. As part of this initiative, the Committee will look into the best way to engage with employees on how executive pay aligns with the pay of the wider workforce.

The Committee will seek to engage with major shareholders and the main shareholder representative bodies and proxy advisory firms when it is proposed that any material changes are to be made to the Remuneration Policy or its implementation. In addition, we will consider any shareholder feedback received in relation to the AGM.

This, plus any additional feedback received from time to time, will be considered as part of the Committee's annual review of the effectiveness of the Remuneration Policy.

Directors' Remuneration Report continued

THE REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

The table below and accompanying notes describe the Policy for Executive Directors.

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
Salary	To reward Executives for the role and duties required. Recognises individual's experience, responsibility and performance.	Paid monthly. Base salaries are usually reviewed annually, with any changes usually effective from 1 April. No performance conditions apply to the payment of salary. However, when setting salaries, account is taken of an individual's specific role, duties, experience and contribution to the organisation. As part of the salary review process, the Committee takes account of individual and corporate performance, increases provided to the wider workforce and the external market for UK listed companies both in the financial services sector and across all sectors.	Increases will generally be broadly in line with the average of the workforce. Higher increases may be awarded in exceptional circumstances such as a material increase in the scope of the role, following the appointment of a new executive (which could also include internal promotions) to bring an initially below-market package in line with market over time or in response to market factors.
Benefits	To provide market competitive benefits to ensure the well-being of employees.	The Company currently provides: • car allowance • life assurance • income protection • private medical insurance, and • may pay other benefits as appropriate for the role.	There is no maximum cap on benefits, as the cost of benefits may vary according to the external market.
Pension	To provide retirement planning to employees.	Directors may participate in a defined contribution plan, or, if they are in excess of the HMRC annual or lifetime allowances for contributions, may elect to receive cash in lieu of all or some of such benefit.	Up to 13% of salary.
Annual bonus	To incentivise and reward individuals for the achievement of pre-defined, Committee approved, annual financial, operational and individual objectives which are closely linked to the corporate strategy.	The annual bonus targets will have a 90% weighting based on performance under an agreed balanced scorecard which includes an element of risk appraisal. Within the scorecard at least 50% of the bonus will be based on financial performance. 10% of bonus will be based on personal performance targets. The objectives in the scorecard, and the weightings on each element will be set annually, and may be flexed according to role. Each element will be assessed independently, but with Committee discretion to flex the payout (including to zero) to ensure there is a strong link between payout and performance. 50% of any bonus earned will be deferred into an award over shares. These deferred shares will normally vest after three years provided that the executive remains in employment at the end of the three-year period. Clawback/malus provisions apply, as described in note 1 below.	The maximum bonus opportunity is 150% of salary. The threshold level for payment is up to 25% for any measure.

1. Clawback and malus provisions apply to both the annual bonus, including amounts deferred into shares, and PSP. These provide for incentive recovery in the event of (i) the discovery of a material misstatement of results, (ii) an error which has resulted in higher incentive payouts than would have otherwise been earned, (iii) a significant failure of risk management, (iv) regulatory censure, (v) in instances of individual gross misconduct discovered within five years of the end of the performance period (vi) or any other exceptional circumstance as determined by the Board. A further two years may be applied following such a discovery, in order to allow for the investigation of any such event. In order to effect any such clawback, the Committee may use a variety of methods: withhold deferred bonus shares, future PSP awards or cash bonuses, or seek to recoup cash already paid.

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
Performance Share Plan	To incentivise and recognise execution of the business strategy over the longer term. Rewards strong financial performance over a sustained period.	PSP awards will typically be made annually at the discretion of the Committee, usually following the announcement of full-year results. Normally, awards will be based on a mixture of internal financial performance targets and relative TSR. The performance targets will normally be measured over three years. Any vesting will be subject to an underpin, whereby the Committee must be satisfied (i) that the vesting reflects the underlying performance of the Company, (ii) that the business has operated within the Board's risk appetite framework and (iii) that individual conduct has been satisfactory. Awards granted after 1 January 2018 will include a holding period whereby any shares earned at the end of the performance period may not be sold for a further two years, other than to pay tax. Clawback and malus provisions apply as described in note 1 below.	The maximum PSP grant limit is 200% of salary in respect of any financial year. The threshold level for payment is 25% for any measure. For 2018, it is intended that awards of 150% of salary will be made to the CEO and CFO.
All-employee share incentive plan (Sharesave Plan)	All employees including Executive Directors are encouraged to become shareholders through the operation of an all-employee share plan.	Tax favoured plan under which regular monthly savings may be made over a three or five-year period and can be used to fund the exercise of an option, where the exercise price is discounted by up to 20%.	Maximum permitted savings based on HMRC limits.
Share ownership guidelines	To increase alignment between executives and shareholders.	Executive Directors are expected to build and maintain a minimum holding of shares. Executives must retain at least 50% of the shares acquired on vesting of any share awards (net of tax) until the required holding is attained.	At least 250% of salary for the CEO and at least 200% of salary for the CFO or such higher level as the Committee may determine from time to time.

Directors' Remuneration Report continued

Choice of performance measures for Executive Directors' awards

The use of a balanced scorecard for the annual bonus reflects the balance of financial and non-financial business drivers across the Company. The combination of performance measures ties the bonus plan to both the delivery of corporate targets and strategic/personal objectives. This ensures there is an appropriate focus on the balance between financial and non-financial targets, with the scorecard composition being set by the Committee from year to year depending on the corporate plan.

The PSP is based on a mixture of financial measures and relative TSR, in line with our key objectives of sustained growth in earnings leading to the creation of shareholder value over the long term. TSR provides a close alignment between the relative returns experienced by our shareholders and the rewards to executives.

There is an underpin in place on the PSP to ensure that the payouts are aligned with underlying performance, financial and non-financial risk and individual conduct.

In line with HMRC regulations for such schemes, the Sharesave Plan does not operate performance conditions.

How the Remuneration Committee operates the variable pay policy

The Committee operates the share plans in accordance with their respective rules, the Listing Rules and HMRC requirements where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of certain plans, including:

- Who participates in the plans
- The form of the award (i.e. conditional share award or nil cost option)
- When to make awards and payments, how to determine the size of an award, a payment, or when and how much of an award should vest
- The testing of a performance condition over a shortened performance period
- How to deal with a change of control or restructuring of the Group
- Whether a participant is a good/bad leaver for incentive plan purposes, what proportion of an award vests at the original vesting date or whether and what proportion of an award may vest at the time of leaving
- How and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends)
- What the weighting, measures and targets should be for the annual bonus plan and PSP from year to year.

The Committee also retains the discretion within the Policy to adjust existing targets and/or set different measures for the annual bonus and for the PSP if events happen that cause it to determine that the targets are no longer appropriate and amendment is required so they can achieve their original intended purpose and provided the new targets are not materially less difficult to satisfy.

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

OSB operates in a heavily regulated sector, the rules of which are subject to frequent evolution. The Committee therefore also retains the discretion to make adjustments to payments under this Policy as required by financial services regulations. For example, this may include increasing the proportion of bonus deferred or extending the time horizons for variable pay.

Awards granted prior to the effective date

Any commitments entered into with Directors prior to the effective date of this Policy will be honoured. Details of any such payments will be set out in the Annual Report on Remuneration as they arise.

Remuneration Policy for other employees

The Committee has regard to pay structures across the wider Group when setting the Remuneration Policy for Executive Directors and ensures that Policies at and below the executive level form a coherent whole. There are no significant differences in the overall remuneration philosophy, although pay is generally more variable and linked more to the long term for those at more senior levels. The Committee's primary reference point for the salary reviews for the Executive Directors is the average salary increase for the broader workforce.

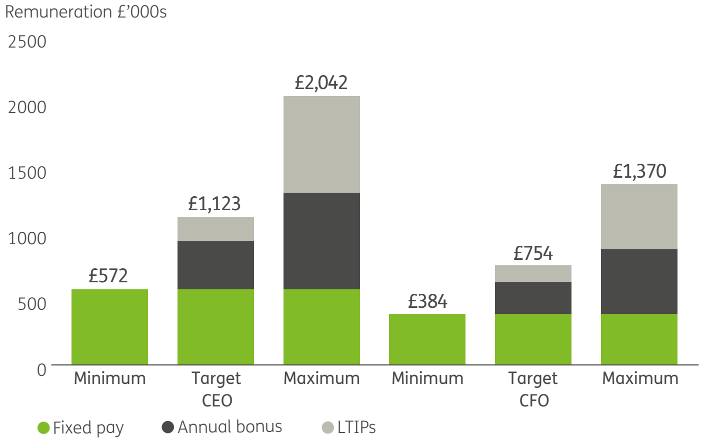
A highly collegiate approach is followed in the assessment of annual bonus, with our corporate scorecard being used to assess bonus outcomes throughout the organisation, with measures weighted according to role, where relevant.

Overall, the Remuneration Policy for the Executive Directors is more heavily weighted towards performance-related pay than for other employees. In particular, performance-related long-term incentives are not provided outside of the most senior executive population as they are reserved for those considered to have the greatest potential to influence overall levels of performance.

Although PSP is awarded only to the most senior managers in the Group, the Company is committed to widespread equity ownership. Accordingly, in 2014, our Sharesave Plan offer was launched for all employees. Executive Directors are eligible to participate in this plan on the same basis as other employees.

Illustrations of application of Remuneration Policy

The chart below illustrates how the composition of the Executive Directors' remuneration packages, as it is intended the Policy will be implemented in 2018, would vary under various performance scenarios.



1. Minimum performance assumes no award is earned under the annual bonus plan and no vesting is achieved under the LTIP – thus only fixed pay (salary, benefits and pension are payable)
2. At on-target, half of the annual bonus is earned (i.e. 75% of salary) and 25% of maximum is achieved under the LTIP (i.e. 37.5% of salary)
3. At maximum full vesting is achieved under both plans (i.e. 150% of salary).

Share price growth and all-employee share plan participation are not considered in these scenarios.

Service contracts

The terms and provisions that relate to remuneration in the Executive Directors' service agreements are set out below. Service contracts are available for inspection at the Company's registered office.

Provision	Policy
Notice period	12 months on either side.
Termination payments	A payment in lieu of notice may be made on termination to the value of their basic salary at the time of termination. Such payments may be made in instalments and in such circumstances can be reduced to the extent that the Executive Directors mitigate their loss. Rights to DSBP and PSP awards on termination are shown below. The employment of each Executive Director is terminable with immediate effect without notice in certain circumstances, including gross misconduct, fraud or financial dishonesty, bankruptcy or material breach of obligations under their service agreements.
Remuneration	Salary, pension and core benefits are specified in the agreements. There is no contractual right to participate in the annual bonus plan or to receive long-term incentive awards.
Post-termination	These include six-month post-termination restrictive covenants against competing with the Company; nine-month restrictive covenants against dealing with clients or suppliers of the Company; and nine-month restrictive covenants against soliciting clients, suppliers and key employees.
Contract date	Andy Golding 4 June 2014, April Talintyre 19 May 2014.
Unexpired term	Rolling contracts.

Directors' Remuneration Report continued

Payments for loss of office

On termination, other than for gross misconduct, the executives will be contractually entitled to salary, pension and contractual benefits (car allowance, private medical cover, life assurance and income protection) over their notice period. The Company may make a payment in lieu of notice equivalent to the salary for the remaining notice period. Payments in lieu of notice may be phased and subject to mitigation.

The Company may also pay reasonable legal costs in respect of any compromise settlement.

Annual bonus on termination

There is no automatic/contractual right to bonus payments and the default position is that the individual will not receive a payment. The Committee may determine that an individual is a 'good leaver' and may elect to pay a pro-rata bonus for the period of employment at its discretion and based on full year performance.

DSBP awards on termination

Awards normally lapse on termination of employment. However, in certain good leaver situations, awards may instead vest on the normal vesting date (or on cessation of employment in exceptional circumstances). Good leaver scenarios include (i) death; (ii) injury, ill-health or disability; (iii) retirement with the agreement of the Company; (iv) redundancy; (v) the employing company ceasing to be a member of the Group; or (vi) any other circumstance the Committee determines good leaver treatment is appropriate.

PSP awards on termination

Awards normally lapse on termination of employment. However, in certain good leaver situations, awards may vest on the normal vesting date and to the extent that the performance conditions are met. The Committee is, however, permitted under the rules to allow early vesting of the award to the extent it considers appropriate taking into account performance to date. Unless the Committee determines otherwise, awards vesting in good leaver situations will be pro-rated for time employed during the performance period.

Approach to recruitment and promotions

The ongoing remuneration package for a new Director would be set in accordance with the terms of the Company's approved Remuneration Policy.

On recruitment, the salary may (but need not necessarily) be set at a lower rate, with phased increases (which may be above the average for the wider employee population) as the executive gains experience. The salary would in all cases be set to reflect the individual's experience and skills and the scope of the role.

The Company may compensate for remuneration foregone upon leaving a previous employer (using cash awards, the Company's share plans or awards under Listing Rule 9.4.2 as may be required) taking into account: the quantum foregone; the extent to which performance conditions apply; form of award; and the time left to vesting. For all appointments, the Committee may agree that the Company will meet certain appropriate relocation costs.

For an internal appointment, including in the situation where a Director is appointed following corporate activity, any variable pay element awarded in respect of their prior role would be allowed to pay out broadly according to its terms. Any other ongoing remuneration obligations existing prior to appointment may continue, provided that they are put to shareholders for approval at the earliest opportunity.

Should an individual be appointed to a role (executive or non-executive) on an interim basis, the Company may provide additional remuneration, in line with the Policy for the specific role, for the duration the individual holds the interim role.

For the appointment of a new Chairman or Non-Executive Director, the fee arrangement would be in accordance with the approved Remuneration Policy in force at that time.

External appointments

Executive Directors may accept directorships of other quoted and non-quoted companies with the consent of the Board, which will consider the time commitment required. It is also at the discretion of the Board as to whether the Executive Director will be able to retain any fees from such an appointment.

THE REMUNERATION POLICY FOR THE CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The table sets out the Policy for the Chairman and Non-Executive Directors.

Element	Purpose and link to strategy	Operation	Maximum opportunity
Fees	To attract and retain a high-calibre Chairman and Non-Executive Directors by offering a market competitive fee level.	The Chairman and Non-Executive Directors are entitled to an annual fee, with supplementary fees payable for additional responsibilities including the Chair of the Audit, Remuneration, Nomination and Risk Committees and for acting as the Senior Independent Director. Fees are reviewed periodically. The Chairman and Non-Executive Directors are entitled to reimbursement of travel and other reasonable expenses incurred in the performance of their duties.	There is no prescribed maximum annual increase. The Committee is guided by the general increase in the Non-Executive market but on occasions may need to recognise, for example, change in responsibility and/or time commitments.

Letters of appointment

The Non-Executive Directors are appointed by letters of appointment that set out their duties and responsibilities. The key terms are:

Provision	Policy
Period of appointment	Initial three-year term.
Notice periods	Three months on either side. The appointments are also terminable with immediate effect and without compensation or payment in lieu of notice if the Chairman or Non-Executive Director is not re-elected to their position as a Director of the Company by shareholders.
Payment in lieu of notice	The Company is entitled to make a payment in lieu of notice on termination.

Letters of appointment are available for inspection at the Company's registered office.

Directors' Remuneration Report continued

2017 Annual Report on Remuneration

Introduction
This section sets out details of the remuneration received by Executive and Non-Executive Directors (including the Chairman) in respect of the financial year ended 31 December 2017. This Annual Report on Remuneration will, in conjunction with the Annual Statement of the Committee Chair on pages 81 to 82, be proposed for an advisory vote by shareholders at the forthcoming AGM to be held on 10 May 2018. Where required, data has been audited by KPMG LLP and this is indicated where appropriate.

Membership
The Committee met seven times during the year. Mary McNamara (Chair), Rod Duke and Andrew Doman are members. Nathan Moss ceased to be a Director and member on 31 May 2017. The attendance of individual Committee members, is set out in the Corporate Governance Report.

The Board considers each of the members of the Committee to be independent in accordance with the UK Corporate Governance Code.

Responsibilities
The Committee's responsibilities are set out in its terms of reference which are available on the Company's website. In summary, the responsibilities of the Committee include:
- Pay for employees under the Committee's scope:
  - Setting the Remuneration Policy
  - Determine the total individual remuneration (including salary increases, bonus opportunities and outcomes and LTIP awards)
  - Ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised
- Approve the design of, and determine targets for, any performance related pay schemes operated by the Company and approve total payments made under such schemes.

Employees under the Committee's scope include Executive Directors, the Chairman of the Board, the Company Secretary and all employees that are identified as Code Staff for the purposes of the PRA and FCA's Dual Regulated Remuneration Code ('Code Staff').

Key matters considered by the Committee
Key issues reviewed and discussed by the Committee during the year included:
- A detailed review of the Executive Directors' Remuneration Policy and investor consultation ahead of the new Policy being approved at the 2018 AGM
- For employees under the Committee's scope:
  - Review and approve salary increases
  - Review and approve bonus awards
  - Determine the grants under the Performance Share Plan
- Consider and approve the 2017 Directors' Remuneration Report
- Consider market trend and regulation updates.

Advisers to the Committee
Following a tender process in 2017, Korn Ferry was appointed as independent adviser to the Committee and provided advice on all aspects of executive remuneration including development of the new Remuneration Policy. The total fees paid to Korn Ferry were £58,000.

Korn Ferry has no other connection with the Group and therefore the Committee is satisfied that it provides objective and independent advice. Korn Ferry is a member of the Remuneration Consultants Group and abides by the voluntary code of conduct of that body, which is designed to ensure objective and independent advice is given to remuneration committees.

New Bridge Street were the Committee's adviser until April 2017 and were paid fees of £52,000.

The Committee consults with the Chairman of the Board and/or Chief Executive Officer (CEO), as appropriate, and seeks input from the Risk Committee to ensure that any remuneration or pay scheme reflect the Company's risk appetite and profile and considers current and potential future risks.

The Committee also takes input on senior executive remuneration from the Chief Financial Officer (CFO) and Group Head of Human Resources. The Group General Counsel and Company Secretary acts as Secretary to the Committee and advises on regulatory and technical matters, ensuring that the Committee fulfils its duties under its terms of reference. No individual is present in discussions directly relating to their own pay.

DIRECTORS' PAY OUTCOMES FOR 2017

Remuneration and fees payable for 2017 – (audited information)

The table below sets out a single figure for the total remuneration received by each Executive Director and Non-Executive Director for the years ending 31 December 2017 and 31 December 2016.

Executive Directors	Year	Basic salary £000	Taxable benefits[1]	Pension	Annual bonus paid[2]	Amount bonus deferred[2]	LTIP	Total
Andy Golding	2017	480	19	62	208	208	682	1,659
	2016	440	13	57	200	200	n/a	910
April Talintyre	2017	324	14	42	138	138	482	1,138
	2016	305	9	40	135	135	n/a	624

1. Taxable benefits received include car allowance (CEO £18,000; CFO £13,000), private medical cover and life assurance.
2. 50% of bonus is payable in cash and 50% deferred in shares for three years.

Total fees £000	2016	2017
Chairman		
David Weymouth (from 1 September 2017)	–	**83**
Mike Fairey (until 10 May 2017)	161	**69**
Non-Executive Directors		
Graham Allatt	73	**88**
Eric Anstee	72	**78**
Andrew Doman	26	**60**
Rod Duke	77	**138**
Tim Hanford (paid to JC Flowers until 31 December 2017)	60	**60**
Margaret Hassall	26	**60**
Malcolm McCaig (until 31 December 2016)	60	**–**
Mary McNamara	70	**70**
Dr David Morgan (until 31 December 2016)	60	**–**
Nathan Moss (until 31 May 2017)	60	**25**
Stephan Wilcke (until 11 May 2016)	22	**–**
Total	767	**731**

Non-Executive Directors cannot participate in any of the Company's share schemes and are not eligible to join the Company pension scheme.

Executive bonus scheme: 2017 performance against the Business Balanced Scorecard (audited)

In 2017, the bonus plan was simplified to focus on a smaller number of KPIs derived from our Business Balanced Scorecard.

		Targets					
Category	Key performance indicator	Threshold (25%)	Budget (50%)	Max (100%)	Actual result	Outcome CEO (%)	Outcome CFO (%)
Financial (35%)	Underlying PBT	£151m	£155m	£163m	£167.7m	31.25	31.25
	All-in ROE	25.1%	26.1%	28.1%	27.8%		
	Cost to income ratio	28.8%	27.8%	25.8%	27.3%		
	Net loan book growth	17.1%	18.1%	20.1%	23.0%		
	CET1 ratio[1]	<12%	12%	>13%	13.7%		
Customer (15%)	Customer satisfaction	35	40	50	62	12	12
	Broker satisfaction	37.5	40	45	6		
	Complaints	0.8%	0.5%	0.17%	0.07%		
Quality (15%)	Deficient internal audits	1	n/a	0	4	8.75	8.75
	Arrears	1.25%	1%	0.50%	0.53%		
	IT system up-time	99%	99.5%	99.7%	99.9%		
	High severity incidents	8	6	2	2		
Staff (10%)	Diversity[2]	26%	27%	29%	25%	8	7
	Employee engagement[3]	3	4	6	8		
Personal (25%)	Vary by executive – see section below					25	25
Total						85	84

1. CET1 – the calculation of the metric was changed during the year to align it with the externally reported metric.
2. Diversity – based on the gender diversity of the senior leadership team.
3. Employee engagement – the employee engagement represents the number of categories which showed improvement versus the prior year.

Directors' Remuneration Report continued

2017 Personal performance

The Executive Directors were allocated up to a maximum of 25% of their bonus based on their personal performance against agreed objectives.

The priorities for 2017 were identified in our 2016 Annual Report and objectives built around these. Performance against the objectives for both executives was outstanding as was their overall leadership of the Bank.

The key achievements delivered by the CEO during 2017 were:
- Exceptional stakeholder management at all levels
- Driving the culture agenda evidenced by significant improvements in employee engagement
- Successful issuance of £60m Additional Tier 1 capital securities
- Oversight of delivery of 2017 risk management and modelling projects including preparation for IFRS 9 implementation and planned IRB application
- Delivery of improvements in IT systems including new technology solution for assessing multi-property portfolios
- Excellent progress in relation to the development of the OSBIndia business.

The key achievements delivered by the CFO during 2017 were:
- Successful issuance of £60m Additional Tier 1 capital securities including interaction with investors on debt roadshow
- Oversaw significant improvements in the finance control environment and HR operations
- Built strong relationships with key stakeholders including shareholders, regulators and the Board
- Further improvement in reporting and forecasting internal processes
- Excellent preparation for IFRS 9 implementation with parallel reporting undertaken throughout 2017
- Oversaw significant recruitment activity for the Group and their successful integration into the business.

Based on this performance, the Committee agreed that 100% of the individual element of the bonus should be paid to the CEO and CFO. Accordingly, 25% out of a possible 25% was awarded for this element.

Long-term incentive plan

The first LTIP award after the IPO was granted on 18 March 2015 and was based on EPS and TSR performance conditions measured over the three financial years to 31 December 2017.

Performance level	Percentage of that part of the award vesting	EPS element (50% of total award)	EPS performance	Vesting of EPS part	TSR element (50% of total award)	TSR performance	Vesting of TSR part (50% of total award)
Below 'threshold'	0%	Less than 12% CAGR	>18%	100%	Below median	Above upper quartile	100%
'Threshold'	25%	12% CAGR			Median		
'Stretch'	100%	18% CAGR			Upper quartile		

The 2015 PSP awards will therefore vest as follows:

Executive Directors	Number of shares awarded	Number of shares due to vest	Total £000[1]
Andy Golding	171,233	171,233	682
April Talintyre	121,005	121,005	482

1. Value of shares based on a three-month average share price of £3.985 on 31 December 2017.

EXECUTIVE PAY OUTCOMES IN CONTEXT

Percentage change in the remuneration of the Chief Executive Officer

The table below sets out the percentage change in base salary, value of taxable benefits and bonus for the CEO compared with the average percentage change for employees. For these purposes, UK employees who have been employed for over a year (and therefore eligible for a salary increase) have been used as a comparator group as they are the analogous population (based on service and location).

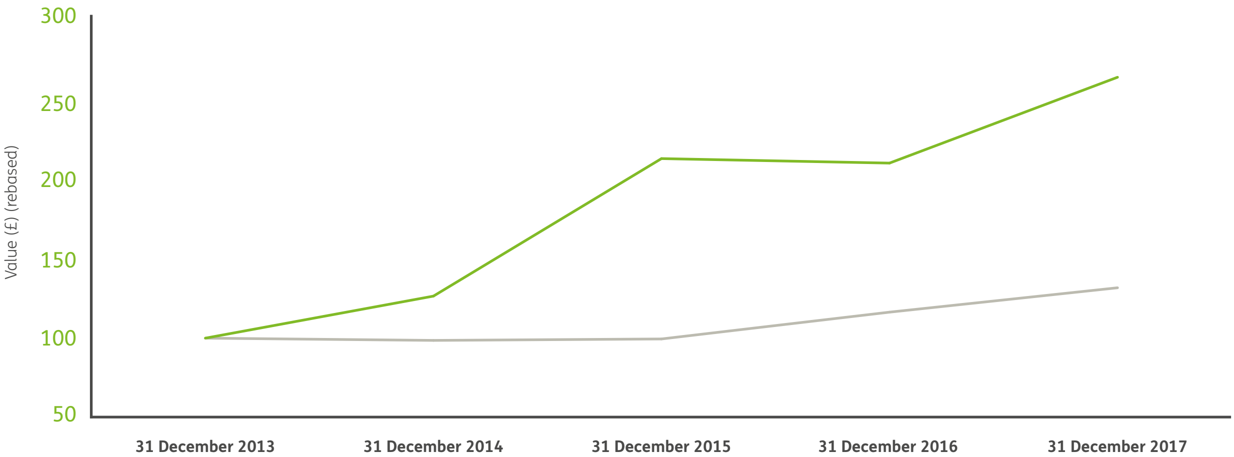
	Average percentage change 2016–2017		
	Salary	Taxable benefits	Annual bonus
CEO	9.1%	38.5%	4%
UK employees	7.9%	0%	4.48%

Comparison of Company performance and CEO remuneration
The following table summarises the CEO single figure for total remuneration, annual bonus and LTIP pay-out as a percentage of maximum opportunity in 2013–2017:

	2013	2014	2015	2016	2017
Andy Golding					
Annual bonus (as a percentage of maximum opportunity)	92.5%	92.63%	93.00%	88.75%	**85%**
LTIP vesting (as a percentage of maximum opportunity)	–	–	–	–	**100%**
CEO single figure of remuneration (£'000)	518	777	848	910	**1,659**

Total shareholder return
The table below shows the total shareholder return (TSR) performance of the Company over the period from listing to 31 December 2017 compared to the performance of the FTSE All Share Index. This index is considered to be the most appropriate index against which to measure performance as the Company is a member of this index.

TOTAL SHAREHOLDER RETURN
Source: Datastream (Thomson Reuters)



This graph shows the value, at 31 December 2017, of £100 invested in OneSavings Bank plc on admission (5 June 2014) compared with the value of £100 invested in the FTSE All Share Index on the same date.

The other points plotted are the values at intervening financial year-ends.

OneSavings Bank plc   FTSE All Share Index

Relative importance of the spend on pay
The table below shows the Company's total employee remuneration (including the Directors) compared to distributions to shareholders and operating profit before tax for the year under review and the prior year. In order to provide context for these figures, underlying operating profit as a key financial metric used for remuneration purposes has been shown.

	2016	2017
Total employee costs	£29.5m	**£35.9m**
Distributions to shareholders	£25.5m	**£31.2m**
Underlying profit before tax	£163.1m	**£167.7m**
Total employee costs v PBT	21.5%	**21.4%**
Average headcount	674	**813**
Average PBT per employee	£203,264	**£206,273**

OTHER DISCLOSURE ON 2017 EXECUTIVE REMUNERATION
Scheme interests awarded during the financial year
The table below shows the conditional share awards made to Executive Directors in 2017 under the Performance Share Plan and the performance conditions attached to these awards:

Executive	Face value of award (percentage of salary)	Face value of award	Percentage of awards released for achieving threshold targets	End of performance period	Performance Conditions
Andy Golding	130%	£585,000	25%	31 December	
April Talintyre	100%	£310,000		2019	EPS & TSR

1. The number of shares awarded was calculated using a share price of £4.0754 (the average mid-market quotation for the preceding five days before grant on 16 March 2017.
2. Performance conditions are (i) 50% TSR versus the FTSE 250 (25% vesting for median performance increasing to maximum vesting for upper quartile performance); and (ii) 50% EPS (25% vesting for growth in EPS of 6% per annum increasing to maximum vesting for 12% per annum).

Directors' Remuneration Report continued

All-employee share plans

The Executive Directors have the following interests under the scheme:

Executive	Date of grant	Exercise price £	Market price (31 December 2017) £	Exercise period		Number of options		
				Beginning	End	Beginning of period	Granted/ exercised/ forfeited/ lapsed	End of period
April Talintyre	2014	1.34	4.1260	18-Jul-17	18-Jan-18	6,716	6,716	–

Statement of Directors' shareholdings and share interests (audited information)

Total shares owned by Directors:

	Interest in shares		Interest in share awards		Shareholding requirements	
	Beneficially owned at 1 January 2017	Beneficially owned at 31 December 2017	Without performance conditions at 31 December 2017	Subject to performance conditions as at 31 December 2017	Shareholding requirement (percentage of basic salary)	Current shareholding (percentage of basic salary)[2]
Executive						
Andy Golding[1]	1,650,000	1,100,000	203,661	476,832	250%	1,530% (Met)
April Talintyre[1]	579,415	336,131	139,464	311,696	200%	1,003% (Met)
Non-Executive						
Graham Allatt	–	–				
Eric Anstee	4,960	4,960				
Andrew Doman	100,499	102,437				
Rod Duke	94,537	94,537				
Margaret Hassall	–	–				
Mary McNamara	22,350	22,350				
David Weymouth	–	13,178				

1. Includes shares in OSB Holdco Limited.
2. Shareholding based on the closing share price on 31 December 2017 – £4.1260 and year end salaries.
3. There were no changes to Directors' interests in the Company's shares during the period 31 December 2017 to 15 March 2018.

External Board appointments

Andy Golding is a Director/trustee of Building Societies Trust Limited. He receives no remuneration for this position.

Payments to departing Directors

During the year, the Company has not made any payments to past Directors; neither has it made any payments to Directors for loss of office.

HOW WE WILL IMPLEMENT THE REMUNERATION POLICY FOR DIRECTORS IN 2018

Base salary

The CEO and CFO's salary will be increased by 3% to £504,700 and £338,460 respectively. Benefits and pension provision will remain unchanged.

Annual bonus

The performance measures for the 2018 annual bonus have been set in line with the business balanced scorecard. For 2018 we have reduced the weighting on personal performance to 10%, with the 15% balance moved to the financial element of the Business Balanced Scorecard. Accordingly, the balance of the metrics are as follows:

Financial	Customer	Quality	Staff	Personal objectives
50% of bonus opportunity	15% of bonus opportunity	15% of bonus opportunity	10% of bonus opportunity	10% of bonus opportunity
Underlying PBT All-in ROE Cost to income ratio Net loan book growth CET1 ratio	Customer satisfaction Broker satisfaction Complaints	Overdue management actions Arrears High severity incidents	Diversity Employee engagement	Vary by executive Details of objectives (and performance against these) will be disclosed retrospectively in next year's report

Performance targets are considered to be commercially sensitive so will not be published in advance. However, there will be full disclosure of the targets set and the extent of their achievement in the 2018 Annual Report on Remuneration.

Subject to approval of the new Policy the maximum opportunity will be 150% of salary. 50% of any bonus earned will be deferred in shares for three years.

Performance Share Plan

PSP awards of 150% of salary will be made to the Executive Directors following the 2018 AGM. The performance conditions will continue to be partly driven by EPS (40% weighting), and TSR (40% weighting) and, for the 2018 PSP award, a new return measure based on return on equity will be introduced (20% weighting) to drive and reward the efficient use of capital. This new measure will be alongside the focus on profitable growth (EPS) and continued stock market outperformance (relative TSR vs the FTSE 250 constituents).

At the time of vesting, the Committee will assess whether the formulaic vesting outcome is aligned with the underlying performance, risk appetite and individual conduct over the period.

Following vesting, shares must be held for a further two years (after selling sufficient to pay tax). The performance targets are as follows:

Performance level	EPS element (40% of total award)	TSR element (40% of total award)	Return on equity (20% of total award)	Percentage of that part of the award vesting
Below 'threshold'	Less than 6% CAGR	Below median	Below 20%	0%
'Threshold'	6% CAGR	Median	20%	25%
'Stretch'	12% CAGR	Upper quartile	25%	100%
	Pro rata vesting in between the above points			

Share ownership guidelines

The share ownership guidelines for the CEO and CFO have been increased by 50% of salary in 2018. The CEO is required to accumulate and maintain a holding in ordinary shares in the Company equivalent to no less than 250% of salary and 200% of salary for the CFO. 50% of any vested share awards must be retained until the guideline is achieved.

Chairman and Non-Executive Director fees

The current Non-Executive Director fees are as follows:

Base fees	£000
Chairman	250
Non-Executive Director	60
Additional fees	
Senior Independent Director	10
Audit Committee Chair	20
Remuneration Committee Chair	10
Nomination Committee Chair	10
Risk Committee Chair	20

Statement of voting at Annual General Meeting

Shareholders were asked to approve the 2016 Annual Report on Remuneration at the 2017 AGM and the Remuneration Policy was last approved at the 2015 AGM. The votes received were:

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Total votes cast	Votes withheld
To approve the Remuneration Report (2017 AGM)	193,983,897	89.65	22,383,343	10.35	216,367,240	1,256,531
To approve the Remuneration Policy (2015 AGM)	216,736,072	97.21	6,231,805	2.79	222,967,877	492

Approval

This report was approved by the Board of Directors, on the recommendation of the Remuneration Committee, on 15 March 2018 and signed on its behalf by:

Mary McNamara
Chair of the Remuneration Committee
15 March 2018