Remuneration Policy report

This policy report was approved at the 2015 AGM and took effect from the date of approval. It is reported here for information only. It is currently intended that the Policy will apply for the three-year period following approval, subject to any change which may occur in the external regulatory framework within the sector in which OSB operates.

Policy overview

This part of the Directors' remuneration report sets out the Remuneration Policy for OneSavings Bank and has been prepared in accordance with the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended.

The Policy has been developed taking into account a number of regulatory and governance principles, including:
- The UK Corporate Governance Code 2014.
- The Listing Rules.
- The regulatory framework applying to the Financial Services Sector (including the PRA 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 overriding principles of the Remuneration Policy for employees across the Group are as follows:
- 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.
- 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.

In respect of the Executive Directors and senior management, performance-related pay will form a significant but appropriate part of remuneration packages and there will be an appropriate balance between short and longer-term performance targets linked to the delivery of the Group's objectives. The policy is intended to be delivered via a remuneration framework with the flexibility of being able to combine base salary, benefits, commission, annual bonuses and employee share plans. The specific policy applying to Executive Directors is set out in the table and accompanying notes on page 70.

How we take account of risk in the Remuneration Policy

Risk management is at the heart of our business, and underpins all business decisions. In the context of remuneration, the Committee takes account of risk in a number of ways, including:
- Ensuring that the balance of remuneration (i.e. absolute pay levels and the balance between fixed and performance-related pay) is appropriate to our business and risk appetite.
- In the choice of performance metrics and time horizons applying to incentives, whereby a broad balance of measures is used across our plans.
- The use of appropriate underpins and discretions to our incentive plans, allowing the Committee to take account of the wider risk management framework when judgeing the out-turn under incentive plans.
- Having a significant proportion of performance-related pay deferred and paid in shares.
- The inclusion of clawback and malus provisions on incentive pay, which may apply for a period of up to seven years following the end of the performance period.

As a Level 3 PRA regulated firm, we also take seriously the requirements of the Remuneration Code. In the design of our Remuneration Policy, we have therefore responded to the evolving regulation in this area, including the application of the EBA cap on variable remuneration to Level 3 Code Banks. As a result, we sought shareholder approval to increase the cap on our variable pay to up 200% of fixed pay (i.e. a 2:1 ratio), and our Remuneration Policy is designed to operate within this cap.

How the views of shareholders and employees are taken into account

The Committee does not formally consult directly with employees on executive pay but receives periodic updates from the General Manager, Human Resources 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 percentage of salary terms) in line 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 Committee will seek to engage with shareholders and their representative bodies when it is proposed that any material changes are to be made to the Remuneration Policy. 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 Remuneration Policy.

Remuneration Policy report continued

The Remuneration Policy for Executive Directors

The table below and accompanying notes summarise the key aspects of OneSavings Bank's Remuneration Policy for Executive Directors.

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
Salary	To recruit and reward executives of a suitable calibre for the role and duties required. Recognises individual's experience, responsibility and performance.	Paid monthly. Base salaries are reviewed annually, with any changes 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 the external market for UK listed companies both in the Financial Services sector and across all sectors, in order to ensure that salary positioning is appropriate. Whilst this is not the key driver of salary increases, it provides important background context.	Average annual increases will generally be broadly in line with the average of the workforce. Higher increases may be awarded in response to acute retention issues, an increase in the scope of the role, following the appointment of a new executive (which could also include internal promotions) to bring that executive's package in line with market over a number of years or in response to market factors.
Benefits	To provide market competitive benefits to ensure the well-being of employees.	The Company provides: • car allowance (£13,000 and £9,000 for the CEO and CFO respectively); • life assurance; • income protection; and • private medical insurance.	There is no maximum cap on benefits, as the cost of benefits may vary according to the external market but the nature of the benefits themselves will not change.
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, subject to employee matching.
Annual bonus	To incentivise and reward individuals for the achievement of pre-defined, Committee approved, annual financial and operational objectives which are closely linked to the corporate strategy.	The annual bonus targets will have at least a 75% weighting based on performance under an agreed balanced scorecard which includes an element of risk appraisal. The remaining balance 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 reduce the resulting outcome. Details of the performance targets set for the year under review and a summary of performance against them will normally be provided in the annual report on remuneration. 50% of any bonus paid will be made in shares under the OneSavings Bank Deferred Share Bonus Plan 2014 (the DSBP). These deferred shares will 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 on page 71.	The maximum bonus opportunity is 100% of salary.

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
Performance Share Plan (PSP)	To incentivise and recognise execution of the business strategy over the longer term. Rewards strong financial performance over a sustained period.	PSP Awards will be made annually at the discretion of the Committee, usually following the announcement of full-year results. Normally, policy awards will be made to Executive Directors and the senior leadership team, based on a mixture of internal financial performance targets and relative total shareholder return. Any vesting will be subject to an underpin, whereby the Remuneration Committee must be satisfied that the business has operated within the Board's risk appetite framework. This takes into account capital adequacy, liquidity, credit risk, operational risk and conduct and compliance risk. The performance targets will be measured over three financial years. Clawback and malus provisions apply and are structured as for the annual bonus.	The PSP has a grant limit of 200% of salary. Actual awards may be lower than this, and will comply with any overall regulation over the permitted level of variable pay.
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%. Provides tax advantages to UK employees, with Executive Directors eligible to participate on a similar basis to other employees.	Maximum permitted savings based on HMRC limits from time to time.
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 share awards (net of tax) until the required holding is attained.	At least 200% of salary for the Chief Executive Officer and at least 150% of salary for the Chief Financial Officer or such higher level as the Committee may determine from time to time.

Note:

1 Clawback and malus provisions apply to both the annual bonus and PSP. These provide for incentive recovery in the event of the discovery of a material misstatement of results, an error in the calculation of bonus outcome, significant failure of risk management, regulatory censure or in instances of individual gross misconduct discovered within five years of the end of the performance period. 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, with-hold deferred bonus shares, future PSP awards or cash bonuses, or seek to recoup cash already paid.

A description of how the Company implemented the policy set out in this table in 2015, and how it intends to implement it in 2016, is set out in the annual report on remuneration.

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 financial 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 total shareholder return, in line with our key objectives of sustained growth in earnings leading to the creation of shareholder value over the long term. Total Shareholder Return provides a close alignment between the relative returns experienced by our shareholders and the rewards to executives. There is an underpin in place to address risk in the business, taking into account capital adequacy, liquidity, credit risk, operational risk and conduct and compliance risk.

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

Remuneration Policy report continued

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.
- 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.

Awards granted prior to the effective date
Authority has been given to the Company to honour any commitments entered into with Directors that were entered into prior to the effective date of this policy. Details of any such payments will be set out in the annual report on remuneration as they arise.

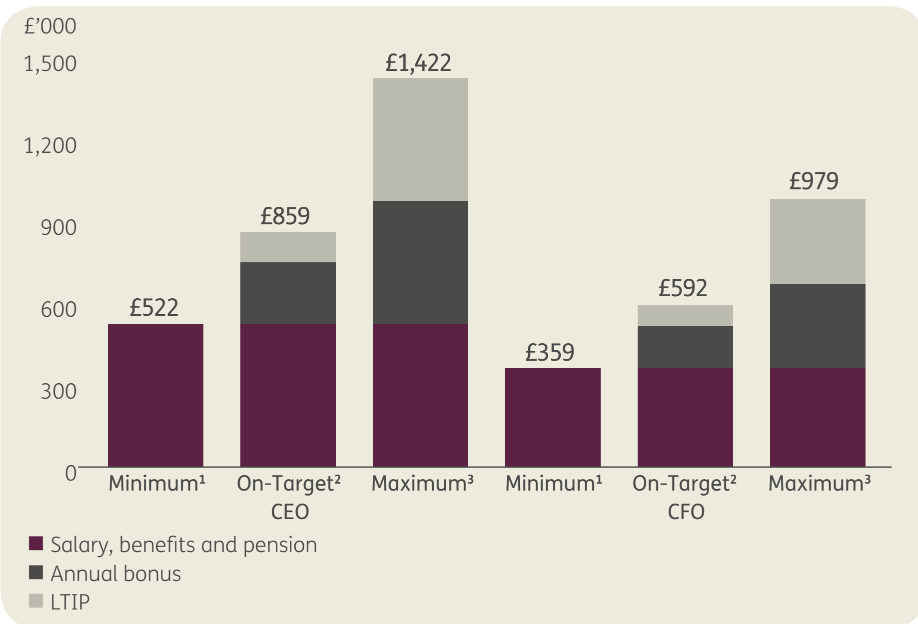
Remuneration Policy for other employees
The Committee has regard to pay structures across the wider Group when setting the Remuneration Policy for Executive Directors and ensures that policies at and below the executive level form a coherent whole. There are no significant differences in the overall 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 2016, would vary under various performance scenarios.



Notes:
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. 50% of salary) and 25% of salary is achieved under the LTIP (i.e. 25% of maximum).
3. At maximum full vesting is achieved under both plans (i.e. 100% of salary). Share price growth is ignored.
4. All-employee share plan participation is ignored.

Service contracts

The terms and provisions that relate to remuneration in the Executive Director service agreements are set out below:

Provision	Policy
Notice period	Twelve 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 restrictions	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. Nine month restrictive covenant against soliciting clients, suppliers and key employees.
Contract date	Andy Golding 19 May 2014, April Talintyre 19 May 2014.
Unexpired term	Rolling contracts.

Payments for loss of office

Annual bonus on termination

On termination, executives will be contractually entitled to salary over their notice period. Payments may be phased and subject to mitigation. There is no automatic/contractual right to bonus payments. For good leavers, the Remuneration Committee may elect to pay a pro-rata bonus for the period of employment at its discretion and based on full year performance.

PSP on termination

Share-based awards normally lapse on termination. In certain good leaver situations, awards would normally be time pro-rated taking into account the extent to which the performance conditions have been met if the executive is a good leaver. In the event that any departure is made from this default treatment of good leavers, the Committee's rationale would be set out in the annual report on remuneration.

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

In determining 'good leaver' status, best practice would be to stay within definitions of scheme rules i.e. death, ill health, injury, disability, retirement, redundancy, or his employing business being sold out of the Group. However, as is permitted under the rules, the Remuneration Committee will need to retain flexibility for the range of potential different circumstances, taking into account the individual's performance and the reasons for their departure. Where an executive is determined as a 'good leaver' by the Committee, this discretion and a rationale for the determination will be set out in the remuneration report.

Service contracts are available for inspection at the Company's registered office.

Approach to recruitment and promotions

The remuneration package for a new Director would be set in accordance with the terms of the Company's approved Remuneration Policy and subject to any prevailing limits imposed by the PRA Code. Currently, this would facilitate annual bonus of 100% of salary and PSP award of up to 200% of salary (lower if the regulatory framework prescribes this).

On recruitment, salary policy may (but need not necessarily) be set below the normal market rate, with phased increases as the executive gains experience. The rate of salary should be set so as to reflect the individual's experience and skills.

In addition on recruitment, the company may compensate for amounts foregone from 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 an internal appointment, any variable pay element awarded in respect of their prior role should be allowed to pay out broadly according to its terms. Any other on-going remuneration obligations existing prior to appointment may continue, provided that they are put to shareholders for approval at the earliest opportunity.

For all appointments, the Committee may agree that the company will meet certain appropriate relocation costs.

Remuneration Policy report continued

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 who will consider in particular 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.

Chairman and Non-Executive Directors' remuneration
The Company has a Non-Executive Chairman and eight Non-Executive Directors. Five are Independent Non-Executive Directors. Two of the Non-Executive Directors, Dr David Morgan and Tim Hanford, (the JCF Directors) are Directors nominated by the major shareholder OSB Holdco Limited in accordance with the terms of the Relationship Agreement, further details of which are given on page 54.

The remuneration policy for the Chairman and Non-Executive Directors
The table summarises the key aspects of the remuneration 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 to the Chair of the Audit, Remuneration, Nomination and Risk Committees and for acting as the Senior Independent Director. Fees are reviewed annually. The Chairman and Non-Executive Directors are entitled to reimbursement of travel and other reasonable expenses incurred in the performance of their duties The level of these fees will be reviewed annually by the Board.	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, (apart from the JCF 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 (apart from the JCF Directors) 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.

JCF Directors
Tim Hanford and Dr David Morgan are nominated by the major shareholder. Their appointments will terminate in accordance with the terms of the Relationship Agreement. Under the Relationship Agreement, the major shareholder will receive an annual fee of £60,000 from the Company in respect of each JCF Director that it appoints to the Board, in consideration for the provision of the Director's time and expertise. Where the Relationship Agreement allows, the fees for each of the JCF Directors may be increased in line with other Non-Executive Director fee increases. Neither Tim Hanford nor Dr David Morgan receives fees for the provision of their services.