Remuneration Policy

This section describes our Directors' Remuneration Policy (the Remuneration Policy) for which shareholder approval was sought at the AGM on 27 May 2021 and which formally came into effect from that date. It is intended that this Policy will last for three years from the 2021 AGM date. There are no changes to the OSB Remuneration Policy that was approved at the 2020 AGM. Certain factual data has been updated where applicable (e.g. page references and illustration of remuneration policy); the original version approved by shareholders can be found on pages 149-155 of the 2020 Annual Report.

Policy overview

This Remuneration Policy has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as subsequently amended. The Remuneration Policy has been developed taking into account a number of regulatory and governance principles, including:

- The 2018 UK Corporate Governance Code.
- The regulatory framework applying to the Financial Services Sector (including the Dual-regulated firms Remuneration Code and provisions of the EU Capital Requirements Directive).
- The Executive remuneration guidelines of the main institutional investors and their representative bodies.

Approach to designing the Remuneration Policy

The Committee is responsible for the development, implementation and review of the Directors' Remuneration Policy. In addressing this responsibility, the Committee works with management and external advisers to develop proposals and recommendations. The Committee considers the source of information presented to it, takes care to understand the detail and ensures that independent judgement is exercised when making decisions. The Group Risk Committee considers whether the Remuneration Policy and practices are in line with the risk appetite and the Group Audit Committee confirms incentive plan performance results, where appropriate.

The Code sets out principles against which the Committee should determine the Remuneration Policy for Executive Directors. These are shown in the first column of the table below, together with the Committee's approach, in the second column:

Principle	Committee approach
Clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	– We aim to set out our approach to remuneration in this report as transparently as possible. – We will engage with our Workforce Advisory Forum (OurVoice) to explain the alignment of the Executive Directors' Remuneration Policy with that of the workforce.
Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	– Within the required regulatory framework and in line with investor guidance, we have structured the Remuneration Policy to be as simple as possible. – We have a simple policy offering pension at the same rate as employees, an annual bonus plan which cascades to most employees and, for senior employees, performance shares to provide alignment with longer-term performance. – There is, however, a degree of complexity required for Executive Director packages to ensure a robust link to performance, to avoid reward for failure and to comply with investor and Code requirements.
Risk – remuneration arrangements should ensure reputational and other risks arising from excessive rewards and behavioural risks that can arise from target-based incentive plans are identified and mitigated.	– We have mitigated these risks through careful policy design, including long-term performance measurement, the use of specific risk-based measures, deferral and shareholding requirements (including post-cessation of employment) and discretion and clawback provisions if incentive payment levels are inappropriate.
Predictability – the range of possible values of rewards to individual Directors and any other limits or discretions should be identified and explained at the time of approving the Remuneration Policy.	– We look carefully each year at the range of likely performance outcomes for incentive plans when setting performance target ranges for threshold, target and maximum payouts and would use discretion where necessary where this leads to an inappropriate pay outcome.
Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	– Incentive plans are determined based on a proportion of base salary so there is a sensible balance between fixed pay and performance-linked elements. – There are provisions to override the formula-driven outcome of incentive plan deferrals and clawbacks to ensure that poor performance is not rewarded or if incentive payments are too high for the performance delivered, in the view of the Committee. – As illustrated by the chart showing our TSR performance and historical CEO remuneration on page 153, we believe that there has been a strong link between Executive Directors' pay and performance.
Alignment to culture – incentive schemes should drive behaviours consistent with Company purpose, values and strategy.	– The Balanced Business Scorecard used for the annual bonus is based on a wide range of measures linked to financial performance, customer, quality and employees, to ensure that payments are aligned to Company culture and values. – Bonus plans operate widely throughout the Company and are approved by the Committee to ensure consistency with Company purpose, values and strategy.

Directors' Remuneration Policy continued

How the views of employees and shareholders are taken into account

The Chair is the designated Non-Executive Director in relation to employee matters; she regularly meets with employees, including through OurVoice. The Chair attends OurVoice to provide an overview of Executive pay and governance within the Group and to provide the opportunity to give feedback, which is communicated to the Committee and the Board. The Committee also receives updates in relation to the remuneration structure throughout the Group, salary and bonus reviews each year. As set out in the Remuneration Policy table, in setting remuneration for the Executive Directors, the Committee takes note of the overall approach to reward for employees in the Group 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 Committee undertook extensive engagement with shareholders during the review of the Remuneration Policy in late 2019 and early 2020 and again consulted with shareholders prior to the Remuneration Policy being re-presented to shareholders at the 2021 AGM to confirm that they remain supportive. 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 at the AGM.

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

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
Salary	To reward Executive Directors 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 January. 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 Company. 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 Director (which could also include internal promotions) to bring an initially below-market package in line with the 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 – 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 a contribution to retirement planning	Executive Directors may participate in a defined contribution plan or, if they are in excess of the HM Revenue & Customs (HMRC) annual or lifetime allowances for contributions, may elect to receive cash in lieu of all or some of such benefit.	In line with the rate receivable by the majority of the workforce, which is currently 8% of salary.

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
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 in line with 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 the 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 vary the payout (including to zero) to ensure there is a strong link between payout and performance. On top of this, there is a general discretion to adjust the outturn to reflect other exceptional factors at the discretion of the Committee. 50% of any bonus earned will be delivered in shares, subject to a three year holding period. In exceptional circumstances of high bonus payments, there may be a requirement to defer a proportion of bonus with vesting staggered over three to seven years, in line with the deferral arrangements for the PSP described below. Updated clawback and malus provisions apply, as described in note 1 overleaf.	The maximum bonus opportunity is 110% of salary per annum. The threshold level for payment is 25% of maximum for any measure.
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. Usually, awards will be based on a mixture of internal financial performance targets, risk-based measures and relative TSR. At least 50% of the PSP award will ordinarily be based on financial and relative TSR metrics. The performance targets will usually 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. On top of this, there is a general discretion to adjust the outturn to reflect other exceptional factors at the discretion of the Committee. Awards granted after 1 January 2020 vest in five equal tranches of 20%, following the Committee's determination of performance. At the time each tranche vests, a one year holding period will apply. (Awards granted before this date vest in accordance with the terms of the previous Policy.) Clawback and malus provisions apply as described in note 1 overleaf.	The maximum PSP grant limit is 110% of salary in respect of grants in any financial year. The threshold level for payment is 25% of maximum for any measure.

Directors' Remuneration Policy continued

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
All-employee share 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 Executive Directors and shareholders.	Executive Directors are expected to build and maintain a minimum holding of shares. Executive Directors must retain at least 50% of the shares acquired on vesting of any share awards (net of tax) until the required holding is attained. On cessation of employment, Executive Directors must retain the lower of the in-service shareholding requirement, or the Executive Directors' actual shareholding, for two years.	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. The net of tax value of any unvested deferred awards (which are not subject to any future performance condition) may count towards the definition of a shareholding for this purpose.

1. Clawback and malus provisions apply to both the annual bonus, including amounts deferred into shares and PSP awards. These provide for the recovery of incentive payments within seven years in the event of: (i) a material misstatement of results; (ii) an error; (iii) a significant failure of risk management; (iv) regulatory censure; (v) in instances of individual gross misconduct; (vi) corporate failure; (vii) reputational damage; or (viii) any other exceptional circumstance as determined by the Board. A further three 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 or shares already paid.

Choice of performance measures for Executive Directors' awards

The use of a Balanced Business Scorecard for the annual bonus reflects the balance of financial and non-financial business drivers across the Group. The combination of performance measures ties the bonus plan to the delivery of corporate targets, risk measures and strategic/personal objectives. This ensures there is an appropriate focus on the balance between financial and non-financial targets and risk, 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 and risk 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 within an appropriate risk framework. 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.

Annual bonus and PSP targets are set taking into account the business plans, shareholder expectations, the external market and regulatory requirements.

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

How the Group Remuneration and People 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 (for example, conditional share award or nil cost option).
- When to make awards and payments; how to determine the size of an award; a payment; and when and how much of an award should vest.
- Whether share awards will be eligible to receive dividend equivalents and the method of calculation.
- 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 Remuneration Policy to adjust existing targets and/or set different measures for the annual bonus. For the PSP, if events happen that cause it to determine that the targets are no longer appropriate, an amendment could be made so they can achieve their original intended purpose and ensure 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.

The Group 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.

Conflicts of interest

The Committee ensures that no Director is present when their remuneration is being discussed and considers any potential conflicts prior to meeting materials being distributed and at the beginning of each meeting.

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 are coherent. 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.

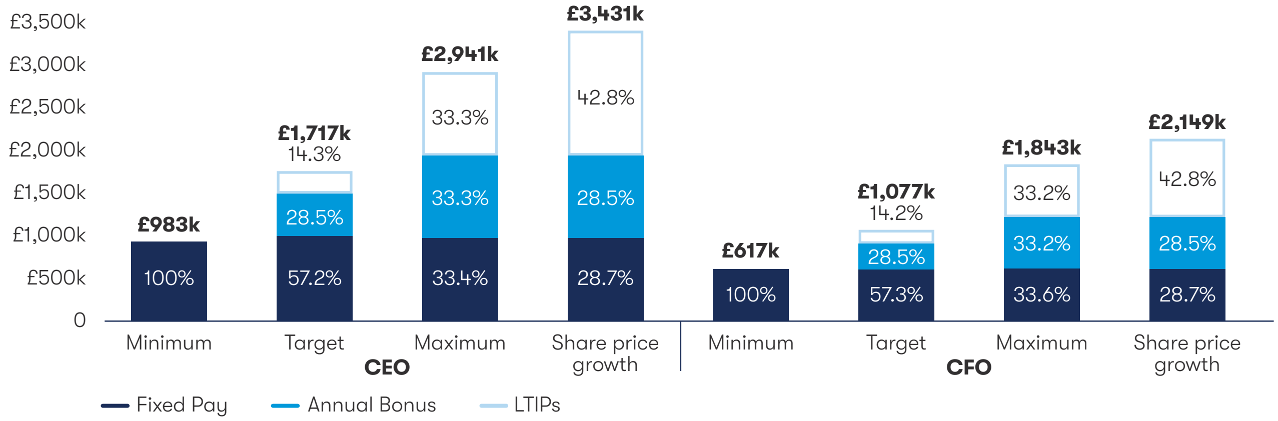
A highly collegiate approach is followed in the assessment of the annual bonus, with our Balanced Business Scorecard being used to assess bonus outcomes throughout the Group, with measures weighted according to role, where relevant.

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 the most senior management population as they are reserved for those considered to have the greatest potential to influence overall levels of performance.

Although PSPs are awarded only to the most senior managers in the Group, the Company is committed to widespread equity ownership and a Sharesave Plan is available to 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 would vary under various performance scenarios. This chart has been updated from the version in the Policy approved at the 2021 AGM to illustrate how it is intended the Remuneration Policy will be implemented in 2023.



1. Minimum performance assumes no award is earned under the annual bonus plan and no vesting is achieved under the PSP – only fixed pay (salary, benefits and pension are payable).
2. At on-target, half of the annual bonus is earned (i.e. 55% of salary) and 25% of maximum is achieved under the PSP (i.e. 27.5% of salary).
3. At maximum, full vesting is achieved under both plans (i.e. 110% of salary under the bonus and PSP).
4. As at maximum, but illustrating the effect of a 50% increase in the share price on PSP awards.

Other than as noted in the chart above, share price growth and all-employee share plan participation are not considered in these scenarios.

Directors' Remuneration Report continued

Directors' Remuneration Policy continued

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 the Executive Director's 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 months' post-termination restrictive covenants against competing with the Company; nine months' restrictive covenants against dealing with clients or suppliers of the Company; and nine months' restrictive covenants against soliciting clients, suppliers and key employees.
Contract date	Andy Golding, 12 February 2020; April Talintyre, 12 February 2020.
Unexpired term	Rolling contracts.

Payments for loss of office

On termination, other than for gross misconduct, the Executive Directors 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 would normally be phased and subject to mitigation, by offsetting the payments against earnings elsewhere.

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-rated bonus for the period of employment at its discretion and based on full-year performance.

Deferred bonus awards on termination

In respect of outstanding awards made under the previous policy, deferred bonus 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. Shares which are subject to a holding period will ordinarily be released at the normal time. Where a portion of the annual bonus is required to be deferred in line with FCA regulations, the treatment on cessation will be in line with deferred awards made under the previous policy (as above).

Performance Share Plan 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 PSP rules and FCA regulations 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. Shares which are subject to a post-vesting holding period will ordinarily be released at the normal time.

Approach to recruitment and promotions

The ongoing remuneration package for a new Executive 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 Director gains experience. The salary would in all cases be set to reflect the individual's experience and skills and the scope of the role. Annual bonus and PSP award levels would be in line with the Remuneration Policy.

The Company may take into account and 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. This would include: taking into account the quantum foregone; the extent to which performance conditions apply; the form of award; and the time left to vesting. These would be structured in line with any regulatory requirements (such as the PRA Rulebook).

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

For an internal appointment, including the situation where an Executive 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.

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 Remuneration Policy for the specific role, for the duration the individual holds the interim role.

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

External appointments

Executive Directors may accept one directorship of another company with the consent of the Board, which will consider the time commitment required. The Executive Director would normally be able to retain any fees from such an appointment.

The Remuneration Policy for the Chairman and Non-Executive Director

Element	Purpose and link to strategy	Operation and performance conditions	Maximum opportunity
Fees	To attract and retain a high-calibre Chairman and NEDs by offering a market competitive fee.	The Chairman and NEDs are entitled to an annual fee, with supplementary fees payable for additional responsibilities including the Chair of the Group Audit, Group Nomination and Governance, Group Remuneration and People and Group Risk Committees and for acting as the SID. Fees are reviewed periodically. The Chairman and NEDs 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 occasion may need to recognise, for example, change in responsibility and/or time commitments.

Letters of appointment

The NEDs 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, subject to annual re-election by shareholders. On expiry of the initial term and subject to the needs of the Board, NEDs may be invited to serve a further three years. NEDs appointed beyond nine years will be at the discretion of the Group Nomination and Governance Committee.
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 NEDs are not elected or 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. The effective dates of the current NEDs' appointments are shown in the table below.

Non-Executive Director	Date of appointment
Graham Allatt	6 May 2014[1]
Kal Atwal	7 February 2023
Noël Harwerth	4 October 2019 (appointed to the CCFS Board in June 2017)[1]
Sarah Hedger	1 February 2019[1]
Rajan Kapoor	4 October 2019 (appointed to the CCFS Board in September 2016)[1]
Mary McNamara	6 May 2014[1]
Simon Walker	4 January 2022
David Weymouth	1 September 2017[1]

1. These dates reflect the date that each NED joined OneSavings Bank plc (prior to the insertion of OSB GROUP PLC as the holding company and listed entity).