



Melton Building Society

Group Remuneration Policy November 2021

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1. Introduction

This Policy outlines the overall approach and principles the Melton Mowbray Building Society Group (The Melton) adopts in managing remuneration for all colleagues including directors and non-executive directors.

The Melton is a dual regulated firm and seeks to apply remuneration best practice for its Executive Team (that includes Executive Directors) and Senior Managers who are subject to the Dual-Regulated firms Remuneration Code taking into account the appropriate guidance issued on proportionality.

2. Remuneration Principles

The Melton's approach to remuneration is to ensure it supports the business strategy by rewarding the right behaviours and outcomes consistent with the Society's risk appetite and the long-term interests of members.

The key principles that underpin this approach are policies and practices which:

- Attract and retain talented people with the right skills and competencies by offering a fair and competitive total reward benchmarked against the external market.
- Recognise the importance of total reward including benefits and flexible working in attracting, engaging and retaining a diverse and talented workforce.
- Recognise the benefits to the business of promoting diversity and inclusion within the Melton and creating equal opportunities for all individuals regardless of their race, ethnicity, gender, sexual orientation, socio-economic status, age, physical abilities and religious or political beliefs or other ideologies.
- Reward colleagues based on both Society and individual performance with a focus on demonstrating the right behaviours in carrying out their responsibilities.
- Ensure good and effective risk management and promote the highest standards of professional conduct.

3. Elements of Remuneration

The remuneration package for all permanent colleagues consists of three key elements as follows:

3.1 Base pay

Base pay is reviewed annually on 1st April (or more frequently if required) based on individual performance, affordability, cost of living, internal relativities and relevant external benchmark data. Our objective is to position base pay around the median of the market for similar sized organisations and roles. Recommendations on annual increases to base pay are reviewed and approved by the Remuneration and Nominations Committee at the start of the financial year.

3.2 Benefits

Benefits are considered an important element of our total reward offer to support the attraction and retention of talent. The key benefits include a defined contribution pension plan, life assurance, everyday healthcare expenses plan, employee retail discounts and a

flexible holiday “buy and sell” arrangement. Benefits are reviewed on a regular basis for relevance and competitiveness versus the market.

3.3 Variable remuneration

All colleagues have the opportunity to earn an annual bonus being eligible for either the Society’s Annual Bonus Scheme or for the Executive Incentive Plan (EIP) in the case of the Executive Team. Both the Bonus Scheme and EIP are discretionary and are designed to incentivise and recognise the contribution of colleagues to the achievement of business targets for the relevant year. Careful consideration is given to ensure the targets are relevant, balanced and include measures which safeguard against poor conduct or risk taking. The objective is to maintain an appropriate balance between fixed and variable remuneration.

The measures, targets and rules of the Executive Incentive Plan and the Bonus Scheme are reviewed annually by the Remuneration and Nominations Committee to ensure they are appropriate for the strategy of the Melton and, if deemed appropriate, approved.

4. Remuneration of Directors

The table below describes the Society’s policy with respect to each element of reward specifically for Executive Directors and Executive Committee members

Element	Overview	Comments
Basic Pay	Reviewed annually (or more frequently if required) Set at a level commensurate with role and experience of the individual when compared to organisations of similar size	Annual pay increases will normally be in line with typical increases across the Society. The Committee may award increases above this level on an exceptional basis if there is a clear commercial rationale for doing so.
Variable Pay	Annual award of 20% of base salary for on target business and individual performance 50% of the award earned is deferred for a period of 3 years and is subject to annual review Measures and targets reviewed annually to ensure they are relevant and have appropriate degree of stretch	Maximum annual award is 30% of base salary before deferral. Failure to meet business or individual performance thresholds can reduce bonus awards to zero if deemed appropriate.
Pension	In common with all colleagues, Executives can join the Group Pension Scheme contributing 2.5% of base salary with the Society contributing 10%.	A cash allowance in lieu of the Society pension contribution is offered to Executive Directors as an alternative.
Benefits	In addition to the universal benefits for all colleagues, Executives receive private medical insurance (self only) and an annual health check.	Benefits are set in line with market practice and considered in the context of total reward Executive Directors also receive a company car cash allowance.

5. Remuneration of Non-Executive Directors

Non-executive directors receive fees for their services that reflect the market and are deemed sufficient to attract non-executives with the appropriate knowledge and experience. Fees are structured such that NEDs with the additional responsibility of Chairing a Board Committee are paid an additional fee. However, it should be noted that there is no additional fee for the role of Senior Independent Director. Fees for NEDs are reviewed on a periodic basis as required, and in accordance with the rules of the Society which state that their remuneration should not exceed 2.5 times the annual salary of the lowest paid full time administrative employee. Fees are approved by the Board on recommendation from the Remuneration and Nominations Committee.

To avoid conflicts of interest, neither the Chair nor any of the Non-executive directors are party to setting their own fees. The remuneration of the Board Chair shall be a matter for the Chair of Remuneration and Nominations Committee and the Chief Executive.

6. Service contracts

The terms and conditions of employment for the Executive Team members are detailed in their service contracts. The contracts are subject to six months' notice by either party, with the exception of the Chief Executive, whose contract requires twelve months' notice from the Society or six months if given by the individual.

Non-executive directors do not have service contracts and instead have letters of appointment which set out their obligations and responsibilities. Appointments are for an initial three-year term and subject to review thereafter.

7. Leaver arrangements and loss of office

The guiding principle for all leavers is to pay no more than is necessary in line with contractual notice periods and any other relevant legal obligations.

In normal circumstances, eligibility to variable pay under current year bonus schemes would cease. Payment of any deferred awards would be subject to the rules of the relevant scheme and be subject to malus, clawback and forfeiture as appropriate. In the case of misconduct or under performance, no variable remuneration payments will be due.

8. Risk Management and Governance of Reward

This Policy has been developed in full recognition of the guidelines and rules contained in the FCA's Dual-Regulated firms Remuneration Code. Commentary on the alignment of the Policy to each principle is contained in Appendix B.

From a governance perspective, the Remuneration and Nominations Committee has responsibility for considering all elements of remuneration to ensure that the Melton can attract and retain both Executive Team members and Senior Managers of sufficient calibre and diversity in line with the business strategy. The design and structure of remuneration will always take into account the Melton's strategic aims and the long-term interests of members.

It is important to note that the Committee will, prior to it recommending the Board approve any payments to be made under this Policy refer to the Risk Committee to ascertain whether it wishes to exercise its power of veto.

Disclosure relating to the Remuneration Policy and Remuneration Code Staff will be made in the Pillar 3 disclosures document which is available on request or via the Society's website.

9. Material Risk Takers (MRTs)

CRD 4 requires all firms to identify staff whose professional activities have a material impact on the risk profile of the firm to be identified as Material Risk Takers (MRTs)

The Society has used the Qualitative Criteria as set out in Commission Delegated Regulation (EU) No 604/2014 to identify the following risk takers:

- Members of the Board in its management function (i.e. Executive Directors, namely the Chief Executive and Chief Financial Officer)
- Members of the management body in its supervisory function (i.e. Non-Executive Directors).
- The Senior Manager responsible and accountable for the activities of the risk management function (i.e. the Chief Risk Officer).

The Melton has decided to class all members of the Executive Committee and Senior Management Function holders as being Remuneration Code Staff – see Appendix A.

APPENDIX A – Remuneration Code List 2021

NAME	JOB TITLE	ENTITY (SMF responsibility)
F A Pollard	Non-executive director	Board (SMF 9)
J Farrington	Non-executive director	Board (SMF 11)
A J Capps	Non-executive director	Board (SMF 10)
J Mortimer Sykes	Non-executive director	Board (SMF 12,13, 14)
S Thomas	Non-executive director	Board
S Douthwaite	Non-executive director	Board
S Taylor	Chief Executive	Board (SMF 1)
A Lumby	Chief Financial Officer	Board (SMF 2)
N Walker	Chief Risk Officer	Executive Committee (SMF 4,16,17)
R Kolebuk	Chief Customer Officer	Executive Committee
D Flint	Director of Operations	Executive Committee (SMF 24)
R Bullivant	Director of IT & Change	Executive Committee (SMF 24)
M Williams	COO & Credit Risk Director	Nexa Finance Limited & Executive Committee

APPENDIX B – comments on alignment of policy to dual regulated FCA remuneration principles

Principle 1- Risk Management and Risk Tolerance

The Remuneration & Nominations Committee has responsibility for considering all elements relating to remuneration such that the Melton attracts and retains Executive Team Members and Senior Managers of sufficient calibre and diversity and that they are provided with appropriate incentives and a fair and reasonable reward for their contribution to the business.

Principle 2 – Supporting business strategy, objectives, values and long-term interests

The design of remuneration policies and bonus/incentive schemes will always take into account the Melton's strategy, business objectives and values ensuring that long term interests are not compromised.

Principle 3 – Avoiding conflicts of interest

The Remuneration & Nominations Committee will ensure that due consideration is given to conflicts of interest and that remuneration policies are designed to avoid them occurring.

Principle 4 – Governance

4.1 Remuneration Committee

The Melton has a Remuneration and Nominations Committee, which incorporates the responsibilities of a Remuneration Committee within its Terms of Reference.

4.2 Implications for risk and risk management of the Melton

Bonus and incentive plans include non-financial criteria to ensure that effective risk management is not compromised and is in line the Melton's risk appetite.

4.3 Long-term interests of stakeholders

The design of remuneration policies and bonus/incentive schemes will always take into account the Melton's strategic and business plans ensuring that the objectives and long-term interests are not compromised. This includes the long-term interests of members.

4.4 Discretion

The Remuneration & Nominations Committee have the right to override formulaic outcomes to adjust the bonus payments and payments for individuals as deemed appropriate. Additionally, all variable pay awards including deferred payments under the Executive Incentive plan will, prior to recommendation to the Board for approval of any payments, be referred to Risk Committee to ascertain whether it wishes to exercise its power of veto.

Principle 5 – Control functions

5.1 Independence & authority

Within the constraints of a relatively small organisation those performing control functions act independently. This is especially pertinent to those performing the risk and compliance and MLRO functions.

For those involved in risk and compliance the Remuneration & Nominations Committee will ensure that due consideration is given to the split between fixed and variable remuneration. This Policy sets 10% of annual salary as the maximum variable element of total remuneration that can be granted to any individual under the annual bonus scheme.

Principle 6 – Remuneration and capital

The design of remuneration policies and bonus/incentive schemes will always take into account the Melton's strategic and business plans ensuring that the objectives and long term interests, including strengthening its capital base, are not compromised.

Principle 7 – Exceptional government intervention

Not applicable

Principle 8 – Profit-based measurement and risk adjustment

The policy has paid due consideration to:

- ensuring that it is linked to profits (rather than revenues);
- how it is linked to other indicators of performance;
- the key financial performance measures that are used to determine the total pay out for the scheme.
- how the bonus pool determination process takes account of situations where the firm's performance is weak or loss-making and who has the discretion to make adjustments.

Principle 9 – Pension policy

The current MMBS Group Pension Scheme applies to all colleagues with no supplementary contributions for Directors or Executive Committee members. This is in line with the guidance contained in the UK Corporate Governance Code. However, given recent changes in the tax treatment of pensions (so called pension freedoms), flexibility has been introduced to give the Executive Directors the option of receiving a cash allowance in lieu of the Society pension contribution where for example they have exceeded or are close to the annual or lifetime allowance.

Principle 10 – Personal investment strategies

An annual declaration is obtained from Executive Team members and Senior Managers that they have not used personal hedging strategies to undermine any risk alignment effects in their remuneration arrangements.

Principle 11 – Non-compliance with the dual-regulated firms Remuneration Code

All variable remuneration and the methodology of payment must be approved in advance by the Melton's Remuneration & Nominations Committee. Awards under the Executive Incentive Plan are recommended by this committee for approval only after review by the Risk Committee to see if it wishes to exercise its power of veto.

Principle 12 – Remuneration structures

12.1 Measuring the performance of individuals

NEDs are appraised annually on behalf of the Board by the Chair of the Society with the Chair being appraised by the Senior Independent Director.

The Chief Executive is reviewed by the Chair of the Board with all other Code Staff reviewed by their line manager in accordance with the Melton's Performance Management framework.

All colleagues, including Remuneration Code staff, are set objectives which will consist of financial and non-financial measures. The outcome of performance reviews will be taken into account by the Remuneration & Nominations Committee when considering pay reviews and bonus payments for those participating in the Executive Incentive Plan

12.2 Guaranteed variable remuneration

The Policy does not include provisions for guaranteed payments. In the event that a payment for retention or hiring purposes (eg as compensation for loss of bonus when leaving a previous employer) was deemed necessary for business reasons, this would require approval from the Remuneration and Nominations Committee.

12.3 Leverage (ratio of fixed to variable remuneration)

The Policy sets 10% of annual base salary as the maximum that can be granted to any individual under the annual bonus scheme. This is increased to 15% of annual base salary for the manager level (band E), and up to 30% for members of the Executive Team. Under the Executive Incentive Plan which applies to Executive Team members, 50% of the award is deferred for 3 years before payment.

12.4 Payments related to early termination

The guiding principle is to pay no more than is necessary in line with contractual and legal obligations. In the event that such a payment was justified, it would require approval from the Remuneration and Nominations Committee.