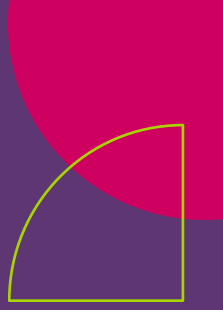




Market Harborough  
BUILDING SOCIETY



# Ordinary Resolution 4 Explanatory Note



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## **Explanatory note regarding ordinary resolution to allow a subsidiary undertaking to establish a motor finance business**

The Board is seeking your approval to establish a new motor finance business, potentially through a subsidiary of the Society.

The Board's long-term priority is to maintain a strong and sustainable business, ensuring that the Society can continue to pay competitive rates to its savers and to support community initiatives. However, the Board recognises that the traditional mortgage market, which is the Society's core business, is expected to become more challenging and less profitable over time as competition from banks and challenger lenders intensifies.

Having explored areas of potential growth, the Board has identified a new strategic business opportunity in the motor finance sector. With traditional motor finance lenders addressing past conduct issues, the Board believes there is a clear gap in the market for mutual lenders to meet the growing demand for more ethical motor financing. This opportunity comes at an important time of regulatory initiatives aimed at boosting the long-term growth opportunities for UK mutuals, including building societies. The new business will offer customers various options for borrowing money (typically in the range of £10,000 to £15,000) for the purpose of purchasing or leasing a vehicle. The business will be delivered in a way that addresses the long-standing weaknesses in the market, with an emphasis on clear and understandable finance terms, transparent fees and the same level of commission on all transactions.

The Board is currently seeking the regulatory permissions necessary to establish the business. Subject to those permissions being granted, it is currently anticipated that the new business will begin trading during the course of summer 2026. The Board intends to grow the business gradually initially to enable the new systems and processes that are needed to become fully operational.

The Board is very clear of the importance of establishing a robust business that will significantly strengthen the Society's financial position in the medium term. To achieve this, the Board considers that investment in effective systems and people should take priority over a desire to grow as quickly as possible. The Board anticipates that such an approach will have consequences for the Society's short-term profits and that pre-tax profits may reduce to below the £2m strategic sustainability threshold over the next couple of years. The Board's expectation is that the business will, however, strengthen the Society's financial position over the next 3 to 5 years. Eligible savers' deposits with the Society will continue to be protected by the Financial Services Compensation Scheme.

Subject to the receipt of the necessary regulatory permissions, the Society's management is satisfied, having taken appropriate professional advice, that it could establish the new business within the Society itself immediately on the basis of Board approval.

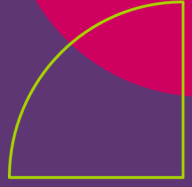
However, in determining the most appropriate structure for the new business, the Board may consider it preferable to establish the business within a separate limited company that

is a subsidiary of the Society. In such a case, the Board would need member approval by ordinary resolution. This is because legislation requires a member vote for a building society to allow a subsidiary undertaking to establish certain types of new businesses where it is anticipated that certain of the potential costs relating to its establishment are likely to amount in aggregate to at least 15 per cent. of the Society's own funds. The Board believes that this threshold would be met if this structure were pursued.

To ensure that it has maximum flexibility, the Board is, therefore, proposing an ordinary resolution which would give it the option to establish the new motor finance business in a subsidiary of the Society if the Board considered such a structure an appropriate alternative to establishing the business in the Society itself. The Board does not expect the cost of operating the motor finance business to be impacted by whether the Board decides to carry it out within the Society or a subsidiary.



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