

SUMMARY

YOUR SOCIETY'S
RESULTS 2016

Financial Statement

Your Society's Results 2016

for the year ended 31 December 2016

Statement for the purposes of Section 76 (4) of the Building Societies Act 1986

This Summary Financial Statement is a summary of information in the audited Financial Statements, Directors' Report, and Annual Business Statement, all of which will be available to members and depositors free of charge on demand at every office of Market Harborough Building Society and online after 3 April 2017.

Approved by the Board of Directors on
2 March 2017.

Nicholas Johnston **Chairman**
Kenneth Piggott **Vice-Chairman**
Mark Robinson **Chief Executive**

Summary Directors' Report

Your directors have pleasure in presenting their Summary Financial Statement for the year ended 31 December 2016.

Business Objectives

Your Society's principal business objectives are the provision of secured lending on residential property, savings products for private individuals and small businesses, and related insurance and other financial services. The Society operates solely in the UK and all of its operations are based in the UK. Our products are promoted nationally via mortgage brokers, the internet and by post, and in Leicestershire and Northamptonshire via our branches and agency. We seek to develop by offering the combined advantages of value-for-money and innovation in our products and by delivering a first-class personalised service to members.

Review of the Year

We are delighted to report that your Society has had another very satisfactory year. The strong profit levels in 2015 were maintained into 2016 and new mortgage lending hit its highest ever level.

Both savers and borrowers are key to the Society's success. In 2016, retail balances grew by £18m and mortgage loans by £12m. These results reflect our success in attracting and retaining customers in the two very competitive markets in which the Society operates.

Mortgages

Challenging conditions for originating new lending meant there was significant pressure on mortgage pricing throughout the year. Despite this, and the uncertainty following the referendum, we increased our new advances by 22% without compromising our conservative credit risk appetite.

This was achieved by focusing on good quality lending which is not well served by larger volume players. The business was generally low Loan to Value lending to borrowers with reliable, but more complex, incomes. For example, some borrowers were buying with their parents others were established self-employed customers or British expats.

The loan book performance remains strong. At 31 December the number of loans more than 12 months payments behind was 5 (2015: 5). The amount in arrears was £25k on accounts with total capital balances of £188k (2015: £33k on accounts with capital balances of £293k). Once again there were no commercial, BTL or Holiday Let loans in arrears and no properties were repossessed.

Savings

After a record period (more than seven years) of Bank Base Rate of 0.5%, rates were cut further in August to 0.25%. Along with other macroeconomic measures this has meant depressed savings rates for many years with little prospect of respite. However we took the decision not to "pass on" this rate cut with the intention of protecting our loyal savers.

YOUR SOCIETY'S RESULTS 2016

The consequence of maintaining attractive rates meant we saw retail deposits grow by almost £18m in the year. Much of this funding was branch based "local money".

We welcome saving members but must balance our funding with our lending. As inflow persisted, we

took steps to halt this without cutting rates. Reluctantly, in early 2017, we amended some savings account terms to restrict additional deposits to help achieve this balance. The Society believes that this is preferable to cutting rates and, so far, we have held rates after the August Base rate change.

Key Performance Indicators

The following 'key performance indicators' provide an overview, in tabular form, of the Group's progress.

	2016 Group	2015 Group	2014 Group
Total assets	£418m	£427m	£419m
New mortgage lending	£108m	£88m	£85m
Growth in mortgage assets	3.1%	2.0%	6.0%
Net increase/(decrease) in retail deposits	£18m	(£5m)	£27m
Liquidity to funding ratio*	22.6%	19.9%	17.9%
Management expenses as a percentage of mean total	1.4%	1.3%	1.1%
Post-tax profit	£2.27m	£2.26m	£1.43m
Profit as a percentage of mean total assets	0.5%	0.5%	0.3%
Net interest receivable as a percentage of mean total assets	3.1%	3.0%	2.8%
Gross capital as a percentage of shares and borrowings	8.8%	8.3%	7.6%
Free capital as a percentage of shares and borrowings	8.5%	8.0%	7.3%

* Includes £51m "off-balance sheet" liquidity drawn under the Funding for Lending Scheme.
For an explanation of terms see page 4.

Highlights of 2016

- **Growth in mortgage assets of 3.1%**
- **Very low levels of mortgage arrears**
- **No properties reposessed or in possession**
- **Gross lending of £108m**
- **Continued support for the local community through sponsorship and donations and via our associated Charitable Foundation**

Board Composition

As at 31 December 2016 the Board comprised six non-executive directors and two executive directors. The Board meets at least six times a year in addition to two strategy sessions. Any additional meetings are held as required.

The directors holding office during the year were:

Non-executive directors

- Nicholas Johnston : Chairman
- Kenneth Piggott : Vice Chairman and Senior Independent Director
- Melanie Duke
- Jonathan Fox
- Zoe Shapiro (from 1 February 2016)
- Michael Thomas
- Sally Veitch (until 30 November 2016)

Executive directors

- Mark Robinson : Chief Executive
- Nicholas Fielden : Finance Director

The Society maintains liability cover for the directors as permitted by the Building Societies Act 1986.

Corporate Governance

The Financial Reporting Council updated the UK Corporate Governance Code (the code) in September 2014. Although the code does not directly apply to mutual organisations, the Group has regard to its principles as they apply to a building society.

Your Board assumes full responsibility for the overall stewardship of the Society and recognises the importance of effective and responsible management, both in complying with statutory and prudential requirements and in protecting the interests of members and staff. The Board is responsible for the Society's strategy and direction, and for monitoring the performance of the executive management team to ensure that the Society develops in accordance with its stated business objectives.

The directors are happy to make themselves available to members who may wish to contact the Society and resolve problems. Your Board has also appointed a Senior Independent Director for this purpose.

Management, Staff and Professional Contacts

The Society's Board saw two changes in 2016. Early in the year we welcomed Zoe Shapiro, a senior risk professional, who became the Chair of our Risk

Committee, and towards the end of the year Sally Veitch stepped down. We would like to welcome Zoe and to thank Sally for her contribution to the Society.

Members are the core of the business and we would like to thank all our savers and borrowers for their support in 2016.

Thanks also go to our staff, agency, business partners and suppliers for their contribution to our success.

Outlook

We operate in a competitive environment and there have been a number of new entrants to our markets with untested brands. Whilst determinedly not a "pile them high sell them cheap" business our margins are likely to fall over time. Throughout this we will aim to protect loyal savers.

The Directors believe that market conditions will be slightly more challenging in 2017 and we forecast that, whilst profits will remain satisfactory, matching the current record profits is unlikely. The Directors remain absolutely committed to following a prudent approach to risk, maintaining strong capital ratios.

We look forward to serving members old and new in 2017 and keeping the Society a successful modern mutual.

Summary Statement

Results for the year	2016	2015
All figures £'000		
Net interest receivable	8,854	8,203
Other income and charges	198	219
Fair value gains and losses	119	222
Administrative expenses	(6,104)	(5,557)
Impairment losses	(52)	(151)
Provisions for liabilities – FSCS levy	(22)	(85)
Profit for the year before taxation	2,993	2,851
Taxation	(722)	(589)
Profit for the year	2,271	2,262

Financial position at the end of the year	2016	2015
All figures £'000		
Assets		
Liquid assets	47,137	68,403
Mortgages	367,035	355,861
Derivative financial instruments	152	28
Fixed and other assets	3,367	3,124
Total assets	417,691	427,416
Liabilities and Reserves		
Shares	345,295	328,609
Borrowings	35,467	64,099
Derivative financial instruments	300	173
Other liabilities	2,929	1,679
Provisions for liabilities – FSCS levy	63	147
Reserves	33,637	32,709
Total liabilities	417,691	427,416

Summary of key financial ratios	2016	2015
As a percentage of shares and borrowings		
Gross capital	8.8%	8.3%
Free capital	8.5%	8.0%
Liquid assets	12.4%	17.4%
Liquid assets (including off balance sheet FLS funding)	22.6%	19.9%
As a percentage of mean total assets		
Profit for the year	0.5%	0.5%
Management expenses	1.4%	1.3%
Management expenses (Society)	1.4%	1.3%
As a percentage of total assets at year end		
Return on assets	0.5%	0.5%

Definitions

'Gross capital' represents the general reserve.

'Free capital' represents the general reserve plus provisions for bad and doubtful debts less tangible fixed assets.

'Mean total assets' is the average of the 2016 and 2015 year-end total assets.

'Liquid assets' represents available liquidity on the Group's balance sheet.

'Liquid assets (including off balance sheet FLS funding)' represents both available liquidity on the Group's balance sheet and Treasury Bills borrowed under the Funding for Lending Scheme, which would have to be sold to convert to readily available liquidity.

Independent Auditor's Statement to the Members and Depositors of Market Harborough Building Society

We have examined the summary financial statement of Market Harborough Building Society ('the Society') for the year ended 31 December 2016 set out on pages 9 to 12.

This auditor's statement is made solely to the Society's members, as a body, and to the Society's depositors, as a body, in accordance with section 76 of the Building Societies Act 1986. Our work has been undertaken so that we might state to the Society's members and depositors those matters we are required to state to them in such a statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body and the Society's depositors as a body, for our work, for this statement, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

The directors are responsible for preparing the summary financial statement in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement with the full annual accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Basis of Opinion

Our examination of the summary financial statement consisted primarily of:

- Agreeing the amounts and disclosures included in the summary financial statement to the corresponding items within the full annual accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2016, including consideration of whether, in our opinion, the information in the summary financial statement has been summarised in a manner which is not consistent with the full annual accounts, the Annual Business Statement

and Directors' Report of the Society for that year;

- Checking that the format and content of the summary financial statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2016.

We also read the other information contained in the Summary Financial Statement and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Our report on the Society's full annual accounts describes the basis of our opinions on those annual accounts, the Annual Business Statement and Directors' Report.

Opinion on Summary Financial Statement

On the basis of the work performed, in our opinion the summary financial statement is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2016 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Simon Clark

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

One Snowhill, Snow Hill Queensway, Birmingham,
B4 6GH

2 March 2017

Directors' Remuneration

Executive Directors' Remuneration

2016 All figures £	Salary	Benefits	Performance pay annual incentive scheme	Performance pay long-term incentive scheme	Pension	Total
Mark Robinson	156,619	14,113	28,238	18,459	26,625	244,054
Nicholas Fielden	138,166	537	22,694	14,787	15,104	191,288
Total	294,785	14,650	50,932	33,246	41,729	435,342

2015 All figures £	Salary	Benefits See note 1	Performance pay annual incentive scheme	Performance pay long-term incentive scheme	Pension	Total
Mark Robinson	153,550	13,128	26,915	30,145	26,103	249,841
Nicholas Fielden	129,948	15,523	24,720	17,573	14,796	202,560
Total	283,498	28,651	51,635	47,718	40,899	452,401

Note 1. Benefits for Nicholas Fielden in 2015 include a one off payment of £15,000 paid under a contractual entitlement, to cover relocation costs.

Non-Executive Directors' Remuneration

Directors fees All figures £s	2016	2015
Nicholas Johnston – as Chairman	39,715	38,481
Kerry Spooner – as Chair of Remuneration Committee, (and as Vice Chairman and Senior Independent Director from 24 April 2014) to 29 April 2015	0	9,922
Kenneth Piggott – as Vice Chairman, Senior Independent Director and Chair of Remuneration Committee (from 29 April 2015)	33,405	27,691
Melanie Duke – as Chair of Assets and Liabilities Committee	24,656	24,058
Jonathan Fox from 1 September 2015	23,365	7,059
Zoe Shapiro from 1 February 2016 as Chair of Risk Committee	24,292	0
Michael Thomas – as Chair of Audit and Compliance Committee (to 1 November 2015) and Chair of Risk Committee (to 31 January 2016)	23,873	26,724
Sally Veitch from 1 June 2015 and Chair of Audit and Compliance Committee (from 1 November 2015) to 30 November 2016	24,248	12,853
Total	193,554	146,788

Fees include amounts paid to the Chairs of the Assets and Liabilities Committee, Audit and Compliance Committee, Risk Committee and Remuneration Committee of £3,100 in 2016 and £3,000 in 2015. A taxable annual travel allowance of £1,800 was paid to non-executive directors travelling more than 35 miles to meetings at the Society (from 1 January 2016), which is included in the fees above.

Summary Directors' Remuneration Report

This is a summary of the policy on Directors' Remuneration, which is set out in full in the Annual Report. Members will be asked to vote at the Annual General Meeting on an advisory resolution on the Board's policy on the remuneration of directors.

Remuneration Committee

The Remuneration Committee is responsible for determining the remuneration of the Chairman and the salary and other benefits of the executive directors and other senior managers, and makes recommendations to the Board concerning the remuneration of non-executive directors and other staff. The Committee consists of two independent non-executive directors.

The Committee supports linking reward to performance. In doing so, it pays close attention to the performance of the Society and the risks to which it is exposed, external market conditions, and its overall responsibility to members within a framework of good corporate governance.

Executive Directors

For executive directors the Society seeks to establish an appropriate balance between the fixed and variable elements of remuneration. The Committee has been mandated by the Board to ensure that fixed remuneration is in line with the market rate for executive directors in similar positions at comparable organisations. Performance appraisals of the executive directors are carried out at least annually to assess their success in meeting individual and strategic objectives. The awards under the annual incentive scheme reflect the outcomes of these appraisals.

The Committee has been mandated by the Board to reward exceptional performance through incentive schemes.

The main components of the executive directors' remuneration are:

- Base salary and core benefits
- Variable remuneration incentive schemes

Base salaries take into account the content and responsibilities of the job, salary levels

in comparable organisations and individual performance in the role. The Chief Executive is appraised annually by the Chairman, and the Chief Executive carries out a performance assessment of the Finance Director.

The Society provides other taxable benefits to executive directors, namely the provision of a company car or an equivalent allowance and private medical insurance.

Neither of the executive directors has a contractual notice period which exceeds one year, or a contractual entitlement to a termination payment which would exceed twelve months' salary and benefits.

Non-Executive Directors

The Board aims to ensure that fees are in line with the amount paid to non-executive directors in similar positions at comparable organisations. The Remuneration Committee makes recommendations to the full Board in respect of any changes to the remuneration of non-executive directors. As is conventional, additional fees are paid to the Chairs of the Assets and Liabilities Committee, Audit and Compliance Committee, Risk Committee and Remuneration Committee, in recognition of the additional workload and responsibility.

Non-executive directors' remuneration does not include any bonus payments, pension or other benefits. Non-executive directors do not have service contracts providing for notice periods which exceed three months; neither do they have any contractual entitlement to termination payments. Their effectiveness is appraised annually by the Chairman, and the Board as a whole, under the leadership of the Vice Chairman, assesses the Chairman's performance.