

Summary

Financial Statement



For the year ended 31 December 2019

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 6 April 2020.

Approved by the Board of Directors on 26 March 2020.

Nicholas Johnston Chairman

Mark Robinson Chief Executive

Nicholas Fielden Finance Director

Summary Directors' Report

Your directors have pleasure in presenting their Annual Report for the year ended 31 December 2019.

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 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. 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

The Society delivered another strong year in 2019 with a clear focus on its members, communities and staff. It is solid financial results, built on meeting members' needs, which allow MHBS to continue to invest for the future to ensure its relevance as it enters its 150th year.

Despite a year dominated by economic and political uncertainty assets grew by 13% supported by very significant inflows of retail funding. Profits remained very satisfactory at £2.7m and added to the already robust capital position.

Safety is central to what the Society does and it is pleasing to report that no credit losses were realised in 2019 and no repossessions made as the lending strategy remained cautious and at conservative loan to value ratios.

Mortgages

Mortgage advances in 2019 were almost the same as the previous year at £101m (£101m 2018). Despite aggressive competition in the mortgage market the pay rate on new loans was in fact higher than the previous year. Credit quality in the mortgage book was maintained.

New mortgage lending is focused on helping both local first time buyers and making lower loan to value ("LTV") loans for those with more complex needs.

Summary Financial Statement

Funding

Over the years the savings range had become excessively complex. In 2019 it was simplified by reducing the number of products from over 200 to less than 25. Terms were also standardised to give a fairer, clearer choice to savers who continued to support the Society in 2019. A net inflow of £15m in 2018 was followed by a further £65m in 2019. These substantial receipts came from both long standing and new members of the Society.

The Society participated in the FLS (Funding for Lending Scheme) and the TFS (Term Funding Scheme). In 2019 £25m of FLS funding was repaid and a further £35m of TFS funding repaid in January 2020. There are now no repayments due until 2021. This orderly refinancing is in line with the strategy for the management of maturities and liquidity.

Financial strength

The objectives as a mutual are to give value to members and make profits to sustain this over the long run. Profits are a building society's only means to build the reserves which give resilience in the event of strains. The Society does not seek to maximise profits and MHBS' level of profits are healthy (£3.3m before tax) and consciously set at levels reflecting the strategy. This profit position has given MHBS a capital ratio of 8.2% (capital/total assets) giving both strength and optionality to develop the business.

Key performance indicators

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

	2019 Group	2018 Group	2017 Group
Total assets	£531m	£469m	£424m
New mortgage lending	£101m	£101m	£106m
Growth in mortgage assets	3.3%	5.5%	6.2%
Net increase / (decrease) in retail deposits	£65m	£15m	(£26m)
Liquidity to funding ratio*	21.3%	17.8%	17.8%
Management expenses as a percentage of mean total assets	1.6%	1.5%	1.6%
Post-tax profit	£2.7m	£3.2m	£2.7m
Profit as a percentage of mean total assets	0.5%	0.7%	0.6%
Net interest receivable as a percentage of mean total assets	3.2%	3.4%	3.4%
Gross capital as a percentage of shares and borrowings	8.9%	9.4%	9.5%
Free capital as a percentage of shares and borrowings	8.7%	9.2%	9.1%

* Includes 2019:£nil (2018:£26m, 2017:£46m) "off-balance sheet" liquidity drawn under the Funding for Lending Scheme
For an explanation of terms see 'Definitions' overleaf.

Highlights of 2019

Growth in mortgage assets of 3.3%

Very low levels of mortgage arrears

Gross lending of £101m

Continued support for the local community through sponsorship and donations and via our associated Charitable Foundation

Board composition

As at 31 December 2019 the Board comprised eight non-executive directors and two executive directors. The Board meets at least six times a year with the addition of two strategy sessions. Board Committees meet at intervening times. Any additional meetings are held as required.

The directors holding office during the year were:

Non-executive directors

Nicholas Johnston: Chairman

Michael Thomas : Vice-Chairman and Senior Independent Director (from 1 October 2019)

Melanie Duke: Vice-Chairman and Senior Independent Director (retired 30 September 2019)

Michael Bury (from 1 May 2019)

Lindsay Forster (from 1 July 2019)

Jonathan Fox

Justin Fox (from 1 May 2019)

Andrew Merrick

Zoe Shapiro

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 Board is responsible for the governance of the Society on behalf of the members. The Board is committed to best practice in corporate governance. A new Corporate Governance Code was issued in 2018 by the Financial Reporting Council (FRC), which came into effect for all reporting periods starting on or after 1 January 2019. Although the Code does not directly apply to mutual organisations, the Group has regard to its principles as they apply to a building society.

The Board's role is to focus on strategic decisions within a framework of prudent and effective controls, which enable risk to be assessed and managed. The Board has a general duty to take decisions objectively in the interests of the Society and to ensure that the Society operates within its Rules and Memorandum, regulations and guidance issued by relevant regulatory authorities and all relevant legislation. In addition, it ensures that appropriate systems of control, human resources and risk management are in place to safeguard Members' interests.

The Board has appointed a Senior Independent Director, Michael Thomas, whose role is to attend to any matters requiring to be dealt with independently from the Chair and Chief Executive.

Summary Financial Statement

Our communities and staff

The Society aims to take a positive role in our members' lives. In 2019 an initiative to help our vulnerable customers in their financial dealings was launched. This saw a wide-ranging training programme delivered to staff aimed at offering better protection to savers and borrowers who are especially susceptible to detriment, either long term or transiently.

Our branches also took an active role in promoting the "Take Five" campaign aimed at protecting customers from fraud.

Investing in our staff is an important pillar of the Society's values and a wide-ranging suite of leadership development ran throughout 2019.

We are also supporting three members of staff on the Loughborough University Master's degree for Building Societies.

We believe financial education is important and staff worked with schools locally through the WiseUp initiative where students receive practical advice on budgeting, savings and other life skills.

Our people again made a very significant contribution to our communities in the year. Staff gave a record 1,150 hours of time fundraising and volunteering for the member nominated Alzheimer's Society as well as LOROS, Cransley, Rainbows and Cancer Research. This work has benefits for all involved.

The Society directly donated £39k to its Charitable Foundation which supported many smaller local good causes and a further £16k to local hospices. It has now given over £200,000 to the local community since its creation twenty years ago.

Members

As a mutual business the Society looks for ways to recognise member owners. This focus is in three areas; listening to members, contributing to communities and giving value through products and service.

As noted above, in 2019 the direction of charitable giving was set by members and this consultation with the membership will be made again for 2020.

The range of local partners offering exclusive discounts to members was expanded in 2019 and this will continue in 2020. Members can now get discounts on furnishings, bikes, estate agency, spectacles and garden supplies.

Finally turning to products the notable receipts of funds in 2019 was substantially in member exclusive savings products. These provided attractive rates not available on general sale. Mortgage holders also qualify for member exclusive offers in both savings and mortgages.

Outlook

Whilst some of the uncertainty around Brexit has now been removed, the outlook for the economy holds a number of risks, the most significant being COVID-19 (coronavirus). How these risks will impact our members and markets is uncertain. The Bank of England has cut Bank base rate from 0.75% to 0.10% in a response to the coronavirus outbreak and the prospect is for a prolonged period of low interest rates.

Whilst the High Street has had a challenging year in 2019, this is likely to worsen in the current climate. We remain committed to our branch presence which keeps us in the heart of our local communities. We enter 2020, our 150th year, with confidence in our business and people and have adopted the phrase "150 years strong" to reflect the combined strength of MHBS' finances and vision.

Summary Statement

Results for the year. All figures £'000	2019	2018
Net interest receivable	11,118	10,892
Other income and charges	123	(9)
Fair value gains and losses	(109)	14
Administrative expenses	(7,765)	(6,911)
Impairment gains / (losses) on loans and advances	(51)	11
Provisions for liabilities – FSCS levy	0	11
Profit for the year before taxation	3,316	4,008
Taxation	(584)	(811)
Profit for the year	2,732	3,197

Financial position at the end of the year. All figures £'000	2019	2018
Assets		
Liquid assets	103,628	55,060
Mortgages	424,783	411,125
Derivative financial instruments	73	230
Fixed and other assets	2,766	2,618
Total assets	531,250	469,033
Liabilities and Reserves		
Shares	394,896	340,246
Borrowing	91,008	86,017
Derivative financial instruments	356	97
Other liabilities	1,578	2,590
Provisions for liabilities – FSCS levy	0	6
Reserves	43,412	40,077
Total liabilities	531,250	469,033

Summary of key financial ratios	2019	2018
As a percentage of shares and borrowings		
Gross capital	8.9%	9.4%
Free capital	8.7%	9.2%
Liquid assets	21.3%	12.9%
Liquid assets (including off balance sheet FLS funding)	21.3%	17.8%
As a percentage of mean total assets		
Profit after taxation	0.5%	0.7%
Management expenses (Group)	1.6%	1.5%
Management expenses (Society)	1.6%	1.5%
As a percentage of total assets at year end		
Return on assets	0.5%	0.7%

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 2019 and 2018 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.

'Shares' represent retail deposits made by members.

'Borrowings' represent funding and deposits provided by others e.g. Funding from Bank of England.

Summary Financial Statement

Independent auditor's statement to the members and depositors of Market Harborough Building Society

Opinion

We have examined the summary financial statement of Market Harborough Building Society ('the Society') and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprises Results for the Year and Financial Position at the End of the Year, together with the summary Directors' report.

On the basis of the work performed, as described below, 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 2019 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Basis for 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 2019, 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 2019.

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 is unmodified and describes the basis of our opinions on those annual accounts, the Annual Business Statement and Directors' Report.

Directors' Responsibilities

The directors are responsible for preparing the summary statement within the Summary Financial Statement, in accordance with applicable United Kingdom law.

Auditor's Responsibilities

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within 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.

The purpose of our work and to whom we owe our responsibilities

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.

Matthew Hopkins (Senior Statutory Auditor) For and on behalf of BDO LLP Statutory Auditor

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Dated: 26 March 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Summary Directors' Remuneration Report

Executive directors' remuneration

2019 All figures £	Base Salary	Benefits & Allowances	Performance pay annual incentive scheme	Performance pay long-term incentive scheme	Pension Contribution	Total
Mark Robinson	172,152	33,408	32,775	16,016	10,000	264,353
Nicholas Fielden	138,460	13,653	27,750	12,877	16,615	209,356
Total	310,613	47,061	60,525	28,896	26,615	473,710

2018 All figures £	Base Salary	Benefits & Allowances	Performance pay annual incentive scheme	Performance pay long-term incentive scheme	Pension Contribution	Total
Mark Robinson	168,051	33,458	30,299	16,341	7,500	255,649
Nicholas Fielden	135,055	13,583	24,350	13,133	16,207	202,328
Total	303,106	47,041	54,649	29,474	23,707	457,977

The benefits and allowances received by Executive Directors relate to private medical insurance, the provision of a car allowance and pension allowance in lieu of contribution. Only base salaries are pensionable.

Non-executive directors' remuneration

Directors fees All figures £	2019	2018
Nicholas Johnston – Chair & Chair of Nomination Committee	42,408	41,331
Michael Thomas – Chair of Audit & Compliance Committee and Vice-Chair and Senior Independent Director from 1 October 2019	30,087	27,505
Melanie Duke – Chair of Assets & Liabilities Committee (to 31 March 2019) and as Vice Chairman and Senior Independent Director (from 27 April 2018) to 30 September 2019	23,638	30,505
Kenneth Piggott – Vice Chair, Senior Independent Director and Chair of Remuneration Committee to 26 April 2018	0	11,530
Brian Brodie from 1 January 2018 to 3 May 2018	0	8,415
Michael Bury from 1 May 2019	17,032	0
Lindsay Forster from 1 July 2019	12,774	0
Jonathan Fox – Chair of Remuneration Committee (from 27 April 2018)	28,237	26,428
Justin Fox from 1 May 2019	16,632	0
Alison Littlely from 1 January 2018 to 30 September 2018	0	16,836
Andrew Merrick – Chair of Assets & Liabilities Committee from 1 April 2019	28,008	24,811
Zoe Shapiro – Chair of Risk Committee	28,237	27,505
Total	227,053	214,866

Fees include amounts paid to the Chairs of the Assets & Liabilities Committee, Audit & Compliance Committee, Risk Committee and Remuneration Committee of £3,350 in 2019 and £3,250 in 2018. A taxable annual travel allowance of £1,850/£2,450 was paid to Non-Executive Directors travelling more than 35/80 miles to meetings at the Society, 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 Chair and the remuneration and other benefits of the Executive Directors and Senior Managers, and makes recommendations to the Board concerning the remuneration of Non-Executive Directors and other staff.

The Committee consists of no less than two independent Non-Executive Directors. In 2019 the members were: Jonathan Fox (Chair), Melanie Duke (until 30 September), Justin Fox (from 28 November 2019) and Lindsay Forster (from 28 November 2019).

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 corporate objectives.

The Committee has been mandated by the Board to reward exceptional performance through incentive schemes. Awards under the incentive schemes reflect the outcomes of appraisals.

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 Chair, and the Chief Executive carries out a performance assessment of the Finance Director and other Executives.

Pension benefits

The Society contributes to a defined contribution scheme for eligible staff, including Executive Directors, who may elect to receive this contribution as a pension allowance.

Other benefits

The Society provides other taxable benefits to Executive Directors, namely the provision of a car 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 & Liabilities Committee, Audit & 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 Chair, and the Board as a whole, under the leadership of the Vice-Chair, assesses the Chair's performance.