

Welcome

to our 2022 review

Dear Member

I am honoured to introduce myself as the new CEO of Market Harborough Building Society (MHBS). I took over from Mark Robinson in September and would like to thank Mark for his excellent leadership and many years of service. He left your Society in a strong and enviable position.

Prior to joining MHBS, I was Chief Customer Officer at Nottingham Building Society and I have also held senior positions at Metro Bank and Lloyds Private Banking. I'm excited to be taking the helm here and passionately believe that mutuality has never been more important than it is today.

Despite its many challenges, 2022 was another record-breaking year for MHBS. Our total assets grew to over £600 million and we achieved record levels of new mortgage lending (£182m). We were the first to offer a fixed-term savings bond with an interest rate of more than 4.00% in over ten years.

To ensure your Society is in great shape to face the future, last year we began a programme of significant IT investment and this year we will migrate to a cloud based infrastructure. This will enhance our security and transform our business operations. We have installed a new telephone system and upgraded our online service, making it even easier for members to get in touch and manage their

accounts. The launch of an intermediary portal has also streamlined the way we do business with mortgage brokers.

Whilst there is no doubt that MHBS has much to celebrate, I also recognise that this is no time for complacency. We remain focussed on the needs of our members and our community and have just launched our Thrive Agenda. This unique new initiative ensures that giving back is at the heart of everything we do, and I am excited to share more details with you on page 4.

I must acknowledge that your Society would not be the successful organisation it is without the hard work and dedication of the MHBS team. I look forward to working with them to achieve great things in the months and years ahead. Finally, I also thank all of our members for your continued support which enables your Society to thrive.

Iain Kirkpatrick
CEO



“We remain focussed on the needs of our members and our community”

Results for 2022



Lent **£182m** in new mortgages



Donated **£100,000** to Foodbanks in Leics & Northants



88% of new customers would recommend us to others



MHBS Charitable Foundation donated over **£47,000**



Mortgage balances grew to over **£500m**



Over **5400km** covered by the Society Employees in the November Challenge



Feefo Gold Trusted Service Award Winner

Summary

Financial Statement

For the year ended 31 December 2022

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 2023.

Approved by the Board of Directors on 9 March 2023.

Michael Thomas Chair
Iain Kirkpatrick Chief Executive
Nicholas Fielden Finance Director

Summary Directors' Report

Your directors have pleasure in presenting their Annual Report for the year ended 31 December 2022.

Business objectives

Your Society's principal business objectives are the provision of secured lending on residential property and savings products for private individuals and small businesses. 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 give back to our members, colleagues, communities and the environment by offering the combined advantages of value-for-money and innovation in our products and by delivering a first-class personalised service.

Review of the year

Despite the economic and political turmoil of the last year, the Society has continued to perform well. 2022 was a great year for the Society with significant growth in both savings and mortgage balances. The Society added to its capital strength with strong profits again. It continued to focus on offering attractive products and during the year introduced a number of initiatives guided by its principles.

The Society is guided by its vision of putting members and communities at the heart of what it does, by helping them to thrive. To achieve this we aim to give our savers security through our financial strength, great service and long term attractive rates. We recognise that giving back to our communities and helping our members and stakeholders to thrive doesn't just rest with great rates and great service, but that the Society can have a wider impact in supporting the environment, communities and society.

The Society would like to extend its thanks to the previous CEO, Mark Robinson for his excellent work in leading the Society and who retired in September after 15 years of dedicated service. The Society warmly welcomes Iain Kirkpatrick as new CEO and looks forward to the exciting period ahead.

Mortgages

Demand for mortgages in the year remained high following the lockdowns of the pandemic. The Society saw high demand for holiday let mortgages, specifically in parts of the UK which have become popular holiday destinations together with a strong demand for short term bridging. New mortgage lending totalled £182m in the year, increasing the overall balance of lending by £65m to £504m. Despite recent news that house prices are starting to fall, house price growth achieved in the year as a whole was around 10%, meaning that security values improved.

The government is working on proposals of increasing the EPC threshold for let properties. It is expected that a minimum of a "C" rating will be required in the future. The Society has started to plan for this and has written to all 'buy-to let' borrowers to make them aware of the proposals and

Summary Financial Statement

offer them a free EPC report. As well as providing a current estimation of your properties' carbon emissions, the reports provide a useful and property specific guide to reducing your home's carbon emissions. This is typically achieved by improving insulation and introducing green energy generation. In some circumstances the Society can offer a £500 grant for the completion of these housing improvements. Please contact the Society if you are a borrower and would like further details.

Like other lenders, the Society continues to support borrowers who find themselves in difficulty. The Society has carried out stress tests to measure the impact of the increased cost of living on borrowers. All of the Society's borrowers underwent an affordability stress assessment as part of the application process but the Society recognises that people's circumstances change and some find themselves in unexpected difficulty. The Society always listens to borrower circumstances and provides the most appropriate advice. Forbearance will be offered on a temporary basis, which may include a reduction in monthly payments or term extension. Overall arrears did not move significantly in 2022 and at the year-end no loans were more than 12 months payments behind (2021:1 the arrears amounted to £13k on accounts with capital balances of £87k). No commercial or buy-to-let loans were in arrears and no repossessions were made in 2022 (2021: nil). The Society has consistently delivered credit quality better than the sector average as the Society apply risk averse underwriting and prudent Loan to Value ratios.

The Society value highly the relationship that we have with mortgage brokers, they are key partners in our business. The Society listen carefully to customers' needs and was delighted to receive the independent Feefo gold award again.

Funding

The funding market has been very active during 2022 with savers looking for a better return on their investments and more motivation to move with rates increasing for the first time in many years. The Society has been active and competitive in the savings market, increasing all variable rate savings accounts in response to the increase in the Bank of England Base Rate. The Society was also the first institution to offer a savings rate of over 4% since 2014. The Society continues to benchmark all savers rates to ensure that it remains highly competitive across its range of savings products.

The Society was highly successful in attracting new savers in the year, mostly via it's easy to use Online Service and increased balances during the year by £92m to £522m. All the Society's branches remain open and committed to serving their local communities.

The Society has maintained its usage of the latest Term Funding Scheme (TSFME), a central bank funding scheme for lenders. The Society currently holds £58m drawn from the scheme which provides reliable funding for four years.

Financial strength

Building Societies should be profitable to maintain their financial strength and allow them to invest for the future. However, the Society does not seek to maximise profit but to achieve results in line with the Society's strategy. In 2022 profit before tax was £4.50m which was lower than in 2021 (£5.0m) as the Society balanced the needs of savers and borrowers, increasing the average rate paid to savers by more than the increase in the Society's standard variable rate, the reference rate for most of the Society's mortgage products. Retained profit meant capital increased by just under 8% to £53.67m.

Key performance indicators

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

	2022 Group	2021 Group	2020 Group
Total assets	£647m	£541m	£531m
New mortgage lending	£182m	£132m	£94m
Growth in mortgage assets	13.9%	2.4%	0.5%
Net increase / (decrease) in retail deposits	£92m	(£30m)	£21m
Liquidity to funding ratio*	23.6%	20.4%	20.9%
Management expenses as a percentage of mean total assets	1.8%	1.6%	1.5%
Cost to income ratio	68.7%	64.7%	73.4%
Profit before tax	£4.5m	£5.0m	£2.7m
Post-tax profit	£3.6m	£4.0m	£2.2m
Profit as a percentage of mean total assets	0.6%	0.8%	0.4%
Net interest receivable as a percentage of mean total assets	3.5%	3.0%	3.1%
Gross capital as a percentage of shares and borrowings	9.2%	10.1%	9.3%
Free capital as a percentage of shares and borrowings	8.9%	9.9%	9.1%

Highlights of 2022

- **Growth in mortgage assets of 13.9%**
- **Very low levels of mortgage arrears**
- **Gross lending of £182m**
- **Continued support for the local community through sponsorship and donations and via the associated Charitable Foundation**
- **Continued focus on members and customers**

Board composition

As at 31 December 2022 the Board comprised seven 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

Michael Thomas
Lindsay Forster
Jonathan Fox
Andrew Merrick
Zoe Shapiro
David Stunell
Nala Worsfold

Executive directors

Ian Kirkpatrick: Chief Executive (from 19 September 2022)
Mark Robinson: Chief Executive (until 18 September 2022)
Nicholas Fielden: Finance Director

The Society considers all Non-Executive Directors to be independent.

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

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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 revised 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 normally meets six times a year and holds further meetings as and when required. The Board met on six occasions during 2022 to attend to normal governance matters. The Board maintained focus on operational resilience and colleague wellbeing throughout the year, bearing in mind the change in working environment brought about by the Covid-19 pandemic.

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

Our communities and colleagues

During 2022 we launched our Thrive Agenda. We believe that giving back to our members and communities, to help them Thrive, remains our purpose as a mutual building society. Your Society was established over 150 years ago in order to help communities with housing needs. With this in mind, having consulted members, your Society committed £2m to provide housing to local people in need. In 2022 the Society purchased 3 new freehold properties for a total cost of £1.1m, these properties were purchased to provide housing for families in need, initially these have been made available for Ukrainian refugee families. In addition, it gave £100,000 shared between local foodbanks, donated £15,000 to a local housing charity and continued to support local good causes via our Charitable Foundation.

As well as looking outwards to our communities the Society has focussed on looking after our valuable colleagues. The Society recognised the stresses on household budgets due to increasing costs and paid one off payments of £500 and then £1,200 per employee during the year. The pandemic and lockdown accelerated the trend towards flexible working and colleagues have embraced the new norm of hybrid working with the majority of head office colleagues working on site for two days per week.

The Society continue to support staff development with regular and relevant training. The Society offers support for leadership development via internal and externally hosted training. Professional qualifications are often funded where they are relevant to the role and the Society continues to sponsor a small number of employees through the Loughborough University Master's degree for Building Societies. This local degree course gives a business education over a three year duration tailored to the particular disciplines of a modern mutual.

Financial education in the community is also supported by the Society and colleagues who again worked with local schools. Employees gave 537 hours of time volunteering and support was provided to the member nominated Charity of the Year; Leicester South Foodbank. The senior leadership team spent a day volunteering at their central hub in February to see this vital work first hand. Other charities to benefit from Society and colleague activities during the year include: LOROS, Cransley, Rainbows Hospices as well as the Air Ambulance and Cancer Research. This work has benefits for all involved.

The Society directly donated £168k to Charities including £45k to its Charitable Foundation which supported many smaller local good causes, particularly those impacted by the cost of living crisis.

Members

The Society's members are all customers of the Society. Engagement with customers is undertaken in various ways including social media, regular communications and mainstream media.

The Society is keen to find out its members' views so that it can continually improve. It provides them with a number of ways and opportunities to give their feedback. A dedicated email address (asktheboard@mhbs.co.uk) is promoted, inviting members to engage with the Board.

As part of the documentation issued ahead of the annual general meeting of members, the Society produces a members' magazine called 'Your Society' which provides news about the Society as well as information on its products and services.

Outlook

Russia's invasion of the Ukraine continues to have a direct impact on our lives and the UK economy but the Society recognises that we have greater challenges to come as we move to become a carbon neutral business. As a modern mutual the Society strongly believes that it has a part to play in reducing its greenhouse gas emissions in the hope that the environment can start to recover from the damage inflicted on it by human behaviour. The Society has started its journey towards achieving carbon neutrality and will be able to report more on this topic next year.

The Society exists to support its members, colleagues, communities and the environment to Thrive and enjoy better lives. It is well capitalised, profitable and has invested appropriately for a successful future.

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Summary Statement

Results for the year. All figures £'000	2022	2021
Net interest receivable	14,874	13,119
Other income and charges	(77)	71
Fair value gains and losses	478	185
Administrative expenses	(10,445)	(8,641)
Impairment gains / (losses) on loans and advances	(335)	267
Profit for the year before taxation	4,495	5,001
Taxation	(925)	(967)
Profit for the year	3,570	4,034

Financial position at the end of the year. All figures £'000	2022	2021
Assets		
Liquid assets	138,218	99,957
Mortgages	497,973	437,080
Derivative financial instruments	6,178	1,021
Fixed and other assets	4,492	3,111
Total assets	646,861	541,169
Liabilities and Reserves		
Shares	493,397	395,419
Borrowing	91,499	93,956
Derivative financial instruments	1,491	86
Other liabilities	6,801	2,063
Reserves	53,673	49,645
Total liabilities	646,861	541,169

Summary of key financial ratios	2022	2021
As a percentage of shares and borrowings		
Gross capital	9.2%	10.1%
Free capital	8.9%	9.9%
Liquid assets	23.6%	20.4%
As a percentage of mean total assets		
Profit after taxation	0.6%	0.8%
Management expenses (Group)	1.8%	1.6%
Management expenses (Society)	2.8%	1.6%
As a percentage of total assets at year end		
Return on assets	0.6%	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 2022 and 2021 year-end total assets.

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

'Shares' represent retail deposits made by members

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

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

Opinion

We have examined the summary financial statements of Market Harborough Building Society ('the Society') for the year ended 31 December 2022, which comprises the Results for the year and of the 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 statements are consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2022 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 statements consisted primarily of:

- Agreeing the amounts and disclosures included in the summary financial statements to the corresponding items within the full annual accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2022, including consideration of whether, in our opinion, the information in the summary financial statements 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 statements 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 2022.

We also read the other information contained in the Annual Members' Review and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary financial statements.

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 financial statements 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 statements within the Annual Members' Review 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
London
9 March 2023

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

Directors' Remuneration

Executive directors' remuneration

2022 All figures £	Base Salary	Benefits & Allowances	Performance pay annual incentive scheme	Performance pay long-term incentive scheme	Retention bonus	Pension Contribution	Total
Mark Robinson ¹	161,743	14,032	33,003	37,257	55,000	15,535	316,570
Nicholas Fielden	157,023	5,128	24,069	14,727	0	15,702	216,649
Iain Kirkpatrick ²	63,462	6,416	55,000	0	0	0	124,878
Total	382,227	25,576	112,072	51,984	55,000	31,237	658,096

¹ Remuneration amount covers 10 months

² Remuneration amount covers 3.5 months

2021 All figures £	Base Salary	Benefits & Allowances	Performance pay annual incentive scheme	Performance pay long-term incentive scheme	Pension Contribution	Total
Mark Robinson	176,604	35,415	31,815	17,475	10,000	271,310
Nicholas Fielden	142,329	16,502	25,641	14,073	14,233	212,779
Total	318,933	51,916	57,456	31,548	24,233	484,089

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. Mark Robinson gave notice in 2021 of his intention to retire in 2022 and the Board agreed to make a non-pensionable payment of £55,000 to him in return for extending his notice period by six months. He retired in October 2022 and received this payment. In addition, and in order to help provide a smooth transition for the incoming Chief Executive, Nicholas Fielden (Finance Director) will receive a payment of 50% of salary provided he is still in post once the new Chief Executive has been employed for twelve months.

Non-executive directors' remuneration

Directors fees All figures £	2022	2021
Michael Thomas – Chair from July 2020	45,487	43,462
Michael Bury to 31 July 2021	0	17,625
Lindsay Forster	25,333	23,917
Jonathan Fox	32,667	30,963
Andrew Merrick	32,667	33,125
Zoe Shapiro	28,825	27,213
David Stunell	28,825	24,946
Nala Worsfold	26,833	24,792
Total	220,638	226,042

Fees include amounts paid to the Chairs of the Assets & Liabilities Committee, Audit & Compliance Committee, Risk Committee and Remuneration Committee of £3,500 in 2022 (2021: £3,400) and £1,500 (2021: £875) to the Chair of the associated Pension and Life Assurance Scheme.

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 has reviewed workforce remuneration and the alignment of incentives and rewards with culture, taking these into account when setting the policy for Executive Director remuneration.

The Committee's terms of reference were last reviewed and updated in September 2022 and they are available on the Society's website. The Committee meets at least twice each year.

The Committee consists of no less than two independent Non-Executive Directors. In 2022 the members were: Jonathan Fox (Chair), Lindsay Forster and David Stunell. The Committee is chaired by an independent Non-Executive Director who is not the Chair of the Board. The Committee's Chair had served more than 12 months on the Committee prior to appointment as Chair of the Remuneration Committee.

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 scheme

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. Only basic salary is pensionable. The pension contribution rates for Executive Directors are aligned with those available to the workforce. Pension consequences and associated costs of basic salary increases, particularly for Directors close to retirement, are carefully considered when compared with workforce arrangements.

Other Benefits

The Society provides other taxable benefits to Executive Directors, namely private medical insurance.

None 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.

Directors' Remuneration

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 Senior Independent Director, assesses the Chair's performance.