

# Summary

## Financial Statement

For the year ended 31 December 2018

### 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 1 April 2019.

Approved by the Board of Directors on 19 March 2019.

**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 2018.

### 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

As a mutual, our focus is on doing the best for members. This means delivering excellent service, providing products that meet members' needs whilst building a strong business resilient to threats and shocks. Our products fall into two groups, savings and mortgages, and we had satisfactory results in both with £21m of mortgage growth and net retail savings inflow of £15m.

The Society further strengthened its balance sheet through record profits (the third straight year of record profit) and made progress with a new website and improved IT infrastructure.

### Mortgages

Mortgage advances in 2018 were £101m (£106m 2017) and this was focused on high quality lending at moderate loan to value (LTV) ratios. As at 31 December the weighted average LTV ratio of all mortgages was 47% giving good protection against any fall in property values. Alongside new loans our active engagement with borrowers led to retention of business to give mortgage growth of 5.5%.

The performance of our loan book remains very satisfactory. At 31 December the number of loans more than 12 months of payments behind was 2 (2017:5). The amount in arrears was £7k on accounts with total capital balances of £35k (2017:£26k, on accounts with capital balances of £61k). No commercial, buy to let or holiday let loans are in arrears and no repossessions were made in 2018. This level of credit performance compares well with industry and peer averages.

Competition for new lending was even more aggressive than recent years. We believe that it's better to focus on quality rather than write business at uneconomic rates which don't reflect risk. Our innovation meant that we found new customers not only locally (with best buy first time buyer products) but also older borrowers and those with complex borrowing requirements. Our links with select mortgage brokers give us a national reach.

# Summary Financial Statement

## Funding

Our funding is predominantly through our retail savers. In 2018 we added £15m to retail deposits and much of this inflow was attracted by our improved notice account rates as well as fixed rate bonds. Our three year member bond proved especially popular and these loyalty based savings will be a feature of our branches and digital channels in 2019. The secure Online Service was launched in 2018 and has proved a popular route for 24/7 account opening.

We participated in the FLS (Funding for Lending Scheme) and the TFS (Term Funding Scheme). This medium term funding will be repaid over the next few years and we are well placed for this refinancing both operationally and financially.

## Business results

Profit for the year was £4.0m before tax which is a significant increase (20%) on 2017's result

## Key performance indicators

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

	2018 Group	2017 Group	2016 Group
Total assets	£469m	£424m	£418m
New mortgage lending	£101m	£106m	£108m
Growth in mortgage assets	5.5%	6.2%	3.1%
Net increase / (decrease) in retail deposits	£15m	(£26m)	£18m
Liquidity to funding ratio*	17.8%	17.8%	22.6%
Management expenses as a percentage of mean total assets	1.5%	1.6%	1.4%
Post-tax profit	£3.2m	£2.7m	£2.3m
Profit as a percentage of mean total assets	0.7%	0.6%	0.5%
Net interest receivable as a percentage of mean total assets	3.4%	3.4%	3.1%
Gross capital as a percentage of shares and borrowings	9.4%	9.5%	8.8%
Free capital as a percentage of shares and borrowings	9.2%	9.1%	8.5%

\* Includes 2018:£26m (2017:£46m, 2016:£51m) off balance sheet liquidity drawn under the Funding for Lending Scheme  
For an explanation of terms see definitions.

(£3.3m) and a new record for the Society. This improved profit was generated principally from the 5.5% expansion of our mortgage book combined with a similar average interest rate payable to that of the previous year and the continued benefit of low cost Government funding.

We were pleased to launch two significant digital developments in 2018. These were firstly, a wholly new website with better technical performance allied to a fresher look, and secondly, the launch of our Online Service which enables fast access to our savings products and also enables the opening of an account and becoming a member in minutes. Users can move money, get important information and communicate securely with our savings team.

The Society's capital position remains strong at 8.5% (Reserves/Total Assets).

## Highlights of 2018

**Growth in mortgage assets of 5.5%**

**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 2018 the Board comprised six 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

Kenneth Piggott: Vice-Chairman and Senior Independent Director (retired 26 April 2018)

Melanie Duke: Vice-Chairman and Senior Independent Director (from 27 April 2018)

Brian Brodie (until 3 May 2018)

Jonathan Fox

Alison Littley (until 20 September 2018)

Andrew Merrick

Zoe Shapiro

Michael Thomas

### 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, and has regard to the principles of the UK Corporate Governance Code 2016 (the Code) issued by the Financial Reporting Council. 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.

# Summary Financial Statement

## Management, staff and professional contacts

We take the satisfaction of our employees very seriously and run an anonymised staff survey each year. In 2018 only 2% of our people said that they don't enjoy their job, and the overall satisfaction improved on the previous year. This result gives us confidence that MHBS is a good place to work and we strive to ensure all our people have meaningful and rewarding work, are treated fairly and properly supported. We keep our benefits and terms under review and plan further enhancements this year.

In 2018, there were a number of changes to our Board. Alison Littlely and Brian Brodie both stepped down and we wish them both well and thank them for their valued contributions. In anticipation of Melanie Duke's and the Chairman's planned departures (this year and 2020 respectively), we are currently recruiting new non-executive directors (using a direct campaign alongside a professional recruitment firm). This will provide useful overlap and continuity to the business.

Thank you to all our members - savers and borrowers - for their support in 2018. Our heartfelt thanks also go to the Society's excellent staff, business partners and suppliers for their contribution to our success.

## Outlook

At the time of writing, the Brexit outcome remains uncertain and this uncertainty makes it likely that the economy will be subdued with downward pressure on house prices. The Bank of England will keep a close eye on how the base rate should be set and various market views suggest upward, downward and static rates in 2019. As a result, predicting rates for savings and mortgages is challenging.

As competitors close branches and the High Street suffers, we remain supportive of offering a walk-in service alongside our digital and other channels. Our branches are important and we plan to offer in-branch advice on keeping safe to those customers who want a friend in financial services.

Our strong profitability supports ongoing investment but we expect market conditions will lead to a period of very satisfactory, but lower, levels of profit. We are not a profit driven organisation and use the good years to build our strength for more trying periods. This strength means we look forward to our forthcoming 150th year with confidence.

## Summary Statement

Results for the year All figures £'000	2018	2017
Net interest receivable	10,892	10,024
Other income and charges	(9)	29
Fair value gains and losses	14	12
Administrative expenses	(6,911)	(6,928)
Impairment gains on loans and advances	11	228
Provisions for liabilities – FSCS levy	11	(29)
<b>Profit for the year before taxation</b>	<b>4,008</b>	<b>3,336</b>
Taxation	(811)	(655)
<b>Profit for the year</b>	<b>3,197</b>	<b>2,681</b>

Financial position at the end of the year All figures £'000	2018	2017
<b>Assets</b>		
Liquid assets	55,060	30,857
Mortgages	411,125	389,809
Derivative financial instruments	230	166
Fixed and other assets	2,618	2,962
<b>Total assets</b>	<b>469,033</b>	<b>423,794</b>
<b>Liabilities and Reserves</b>		
Shares	340,246	319,465
Borrowing	86,017	65,066
Derivative financial instruments	97	116
Other liabilities	2,590	2,605
Provisions for liabilities – FSCS levy	6	30
Reserves	40,077	36,512
<b>Total liabilities</b>	<b>469,033</b>	<b>423,794</b>

Summary of key financial ratios	2018	2017
<b>As a percentage of shares and borrowings</b>		
Gross capital	9.4%	9.5%
Free capital	9.2%	9.1%
Liquid assets	12.9%	8.0%
Liquid assets (including off balance sheet FLS funding)	17.8%	17.8%
<b>As a percentage of mean total assets</b>		
Profit after taxation	0.7%	0.6%
Management expenses (Group)	1.5%	1.6%
Management expenses (Society)	1.5%	1.6%
<b>As a percentage of total assets at year end</b>		
Return on assets	0.7%	0.6%

## 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 2018 and 2017 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') for the year ended 31 December 2018 set out above.

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 2018 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 2018, 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 2018.

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.

### Directors' Responsibilities

The directors are responsible for preparing the summary financial 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.

### Simon Clark

for and on behalf of KPMG LLP,  
Statutory Auditor

Chartered Accountants  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH  
19 March 2019

# Summary Directors' Remuneration Report

## Executive directors' remuneration

2018 All figures £	Salary	Benefits	Performance pay annual incentive scheme	Performance pay long-term incentive scheme	Pension Allowance <sup>1</sup>	Total
Mark Robinson	182,708	2,077	30,299	16,341	24,224	255,649
Nicholas Fielden	147,210	1,428	24,350	13,133	16,207	202,328
<b>Total</b>	<b>329,918</b>	<b>3,505</b>	<b>54,649</b>	<b>29,474</b>	<b>40,431</b>	<b>457,977</b>

2017 All figures £	Salary	Benefits	Performance pay annual incentive scheme	Performance pay long-term incentive scheme	Pension Allowance <sup>1</sup>	Total
Mark Robinson	176,048	15,283	28,802	12,552	25,602	258,287
Nicholas Fielden	143,984	642	25,719	10,087	15,850	196,282
<b>Total</b>	<b>320,032</b>	<b>15,925</b>	<b>54,521</b>	<b>22,639</b>	<b>41,452</b>	<b>454,569</b>

<sup>1</sup>Pension Allowance includes both contributions paid to the Society's defined contributory pension scheme and cash payments in lieu of contributions.

The benefits received by executive directors relate to private medical insurance and, in 2017, to the provision of a company car. The executive directors now receive a car allowance included in their salary as reported above; Mark Robinson 2018: £14,657 (2017: £9,680), Nicholas Fielden 2018: £12,155 (2017: £11,888). Only base salaries are pensionable. No pension is payable on benefits or allowances.

## Non-executive directors' remuneration

Directors fees All figures £	2018	2017
Nicholas Johnston – as Chairman	41,331	40,509
Kenneth Piggott – as Vice Chairman, Senior Independent Director and Chair of Remuneration Committee to 26 April 2018	11,530	34,052
Melanie Duke – as Chair of Assets and Liabilities Committee and as Vice Chairman and Senior Independent Director (from 27 April 2018)	30,505	25,165
Brian Brodie from 1 January 2018 to 3 May 2018	8,415	0
Jonathan Fox - and as Chair of Remuneration Committee (from 27 April 2018)	26,428	23,796
Alison Littlely from 1 January 2018 to 30 September 2018	16,836	0
Andrew Merrick from 1 January 2018	24,811	0
Zoe Shapiro - as Chair of Risk Committee	27,505	26,965
Michael Thomas – as Chair of Audit and Compliance Committee	27,505	26,965
<b>Total</b>	<b>214,866</b>	<b>177,452</b>

Fees include amounts paid to the Chairs of the Assets and Liabilities Committee, Audit and Compliance Committee, Risk Committee and Remuneration Committee of £3,250 in 2018 and £3,175 in 2017. A taxable annual travel allowance of £1,800 / £2,400 was paid to non-executive directors travelling more than 35 / 80 miles to meetings at the Society, which is included in the fees above.

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. In 2018 they were Kenneth Piggott (Chair) to 26 April, Jonathan Fox (Chair from 27 April) and Melanie Duke.

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 Chairman, and the Chief Executive carries out a performance assessment of the Finance Director.

## 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 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.