

## **Chairman's speech**

In future, 2019 and 2020 will be seen as a watershed years for the UK economy.

2019 was dominated by political deadlock on Brexit which only appears to have been resolved by the result of the General Election in December 2019. This year 2020 Covid - 19 has triggered unprecedented shocks to life and the economy.

Despite the uncertainty which impacted homebuyers and savers your Society had a strong 2019 with a record inflow of retail savings, growth in mortgages and satisfactory profits and enters 2020 confident in its strength and resilience.

I will report on the Society's 2019 results then make some remarks on our current position.

## **2019 Economy**

The economic environment was subdued and base rate remained at 0.75% throughout 2019. Since the year end base rate has been dropped to a record low of 0.1%

The weak economy meant companies could not fully pass on higher costs to their customers, squeezing profit margins. For High Street retailers it was a particularly difficult year faced with the continued shift to online shopping, higher business rates and the rise in the National Living Wage. Inflation in 2019 was 1.4% (12 month CPI at December 2019).

Growth in the economy was sluggish in 2019 with quarter four recording zero growth in gross domestic product (GDP). This brought GDP growth in the year to just 1.4%.

House prices were generally steady in 2019 and UK average house prices increased by 0.7% over the year to October 2019 (to £233,000), the lowest growth since 2012. Locally the East Midlands showed a 1.3% increase to October. More importantly the volume of UK residential purchase transactions remained at around 1.2m - its level since 2014.

## **2019 Business results**

The Society made a profit for the year of £3.3m before tax, which is a return to the level of profits in 2017, after a record year in 2018. Gross lending (mortgage sales) of £101m was the same as that achieved in 2018 and mortgage growth was 3.2%.

Against a market trend of compression of mortgage margins, the Society improved its mortgage interest rate on new business compared to 2018. This resulted from a continued focus on customers with more complex requirements who value our personal approach - not by sacrificing credit quality.

Our mortgage book remains high performing in terms of arrears and forbearance and no repossessions were made in 2019.

We value our saving members and in 2019 attracted record new savings money (£65m). Branches remain an important arm of the business and we were pleased to welcome many new members in face to face account openings. Complementing this, our Online Service offered a quick, convenient way to become a saver with the Society.

Long-standing savers will know that we carried out a comprehensive review of our product range during the year. This meant some products were combined into a new simpler range and we were pleased that members appear to like the result – both staying with us and, in many cases, increasing their holdings. This inflow of retail funds was balanced by repaying £25m to the Funding for Lending Scheme (FLS) in December and a further £35m to the Term Funding Scheme (TFS) in January 2020. FLS and TFS are optional Bank of England schemes in which the Society participated. These repayments were part of planned refinancing and removed all scheme maturities in 2020.

Continued profitability has given the Society a strong capital position of 8.2% (Reserves/Total Assets). This strength gives resilience as well as allowing continued investment in service and infrastructure.

### **Your Society in 2019**

There were a number of changes to our Board in the year. Melanie Duke stepped down as a non-executive director after nine years. I want to thank Melanie for her expertise and great service to the Society. Michael Thomas assumed her former responsibilities as Vice Chair and Senior Independent Director. After a comprehensive recruitment campaign we welcomed three new non-executive directors: Lindsay Forster, Mike Bury and Justin Fox. Lindsay has a distinguished career in marketing, Mike is a very experienced financial services Director and Justin has considerable treasury expertise.

MHBS' success rests on a large number of people and I want to thank all our members - savers and borrowers - for their support in 2019. I also want to recognise the Society's loyal staff, business partners and suppliers for their contribution.

### **Looking forward**

Since the year end Your Society has reacted quickly to members' needs in the Coronavirus crisis. Branches have remained open (although on reduced hours), account services have been maintained and support given to mortgage customers who have suffered financial pressures. All this despite migrating to a largely homeworking basis. No staff have been laid off or furloughed as we plan to emerge from this stronger. Indeed the impacts of any downturn are exactly those we model when "stress testing" our business.

2020 is the Society's 150th year and I believe it is in excellent financial health. There are challenges for us all, but MHBS is a well-capitalised, well run business that will weather current conditions with a vigour for continued success in serving our members.

This is my final AGM as Chairman and subject to regulatory approval Mike Bury will succeed me. I have enjoyed every day with MHBS and I know Mike will lead the Society with skill and enthusiasm.

**Nicholas Johnston**

**Chairman**

**30 April 2020**