

# SUMMARY FINANCIAL STATEMENT

## For the year ended 31 December 2020

### 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 on line after 7 April 2021.

Approved by the Board of Directors on 11 March 2021.

**Michael Thomas**

Chair

**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 2020.

### 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

2020 was the Society's 150<sup>th</sup> year and was marked by the global Covid-19 pandemic which dominated all our lives and still continues to cast a long shadow.

The Society and its staff adapted quickly to the new restrictions and the results for 2020 were strong with growth in the mortgage book, significant net inflow of retail savings and good profitability.

People – both members and staff - are ultimately what the Society is about, endeavouring to be a calm, dependable force offering practical and financial support in challenging times. The Board is proud that all branches remained open, services were maintained and that the Society was self-reliant in making no redundancies or recourse to the furlough scheme.

#### Mortgages

After a busy start to the year, demand for new mortgages slowed as lockdown impacted the UK housing market. However a strong bounce back in the third quarter meant the Society advanced £94m of mortgages over the 12 months which gave growth in the mortgage book of £1.7m. The Stamp Duty holiday clearly had an impact as volumes revived and, against expectations, house prices notably increased in the year.

Like other lenders, borrowers were supported by being given mortgage payment holidays of up to six months. This gave breathing space to customers affected by cash flow issues. However, by the year end the total number of cases using this scheme was only 12 with balances of less than £3m as borrowers resumed their payments. Overall arrears did not move significantly in 2020 and at the year-end 4 loans were more than 12 months' payments behind (2019:2). The arrears amounted to £28k on accounts with capital balances of £223k (2019: £7k on balances of £32k). The Society has consistently delivered credit quality better than the sector average as it applies affordability tests and prudent Loan to Value ratios.

As the Board re-assessed its priorities, the broker portal project planned for last year will now be delivered in 2021. This important investment in technology will radically improve how mortgages are processed – improving speed and quality – whilst keeping our personalised bespoke underwriting central to the service. Mortgage services generated plenty of positive feedback and “Feefo” ratings have predominantly been five star.

## Funding

The lockdown disrupted normal patterns of savings behaviour and the Society saw the number of transactions fall in the summer. All branches remained open to operate in a Covid safe way and ensured those members needing access to cash got it. Overall the year ended with net receipts of £21m. Bank of England base rate fell twice in March to 0.1% however the Society held off taking any steps to re-price savings rates until late in the year and, in fact, some savings rates remained unchanged all year. When rates were adjusted they remained highly competitive.

Online Service allows savers to access their accounts 24/7. Usage of this facility increased by 33% last year – complementing traditional face to face counter services.

## 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 its strategy. In 2020 profit before tax was £2.7m which was lower than in 2019 (£3.3m) as savers were protected from base rate cuts and modest increases to mortgage provisions were made in line with the business cycle. Retained profit meant capital increased by just under 5% to £45.0m.

## KEY PERFORMANCE INDICATORS

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

	2020 Group	2019 Group	2018 Group
Total assets	£531m	£531m	£469m
New mortgage lending	£94m	£101m	£101m
Growth in mortgage assets	0.5%	3.3%	5.5%
Net increase / (decrease) in retail deposits	£21m	£65m	£15m
Liquidity to funding ratio*	20.9%	21.3%	17.8%
Management expenses as a percentage of mean total	1.5%	1.6%	1.5%
Post-tax profit	£2.2m	£2.7m	£3.2m
Profit as a percentage of mean total assets	0.4%	0.5%	0.7%
Net interest receivable as a percentage of mean total	3.1%	3.2%	3.4%
Gross capital as a percentage of shares and borrowings	9.3%	8.9%	9.4%
Free capital as a percentage of shares and borrowings	9.1%	8.7%	9.2%

\* Includes 2020:£nil (2019:£nil, 2018:£26m) “off-balance sheet” liquidity drawn under the Funding for Lending Scheme.

For an explanation of terms see page 5.

## Highlights of 2020

- Growth in mortgage assets of 0.5%
- Very low levels of mortgage arrears
- Gross lending of £94m
- Continued support for the local community through sponsorship and donations and via the associated Charitable Foundation
- Operational resilience maintained during pandemic

## BOARD COMPOSITION

As at 31 December 2020 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	Executive directors
Michael Thomas	Mark Robinson : Chief Executive
Michael Bury	Nicholas Fielden : Finance Director
Lindsay Forster	
Jonathan Fox	
Justin Fox (until 30 June 2020)	
Nicholas Johnston (until 30 April 2020)	
Andrew Merrick	
Zoe Shapiro	
David Stunell (from 1 December 2020)	
Nala Worsfold (from 1 December 2020)	

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 normally meets six times a year and holds further meetings as and when required. The Board met on six occasions during 2020 to attend to normal governance matters. The Board convened additional meetings during 2020 in order to make decisions regarding the Covid-19 global pandemic, the impact on the economy and the Society's business. The Board maintained focus on operational resilience and staff wellbeing throughout the year, bearing in mind the change in working environment brought about by the 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 STAFF**

The Society aims to give members great service and good safe working conditions for its team. The pandemic and lockdown accelerated the trend towards flexible working and staff have broadly embraced the challenges of being out of the office.

The Society continues to support staff development with regular and relevant training. A fourth member of staff is being supported to follow the Loughborough University Master's degree for Building Societies.

Financial education in the community is also supported by the Society and its staff who again worked with local schools. Staff gave 679 hours of time 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 £56k to Charities including £43k to its Charitable Foundation which supported many smaller local good causes, particularly those impacted by the pandemic.

## **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](mailto: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**

At the start of 2020 it was Brexit that was seen as the most significant external risk factor to the market place. That all changed early in the year with the pandemic and the issues that have dogged the economy for the last twelve months. This is only now lifting with the prospect of widespread vaccination but it's clear that many impacts are long term.

The Society in its 151<sup>st</sup> year is well capitalised and has again demonstrated its adaptability to change. This gives confidence in its capacity to cope well with any operational and financial challenges ahead. It remains focused on giving members great value, relevant service and products and will reinvest in its people and processes to deliver this.

# SUMMARY STATEMENT

<b>Results for the year</b>	<b>2020</b>	<b>2019</b>
<b>All figures £'000</b>		
Net interest receivable	10,803	11,118
Other income and charges	61	123
Fair value gains and losses	(71)	(109)
Administrative expenses	(7,901)	(7,765)
Impairment gains / (losses) on loans and advances	(224)	(51)
<b>Profit for the year before taxation</b>	<b>2,668</b>	<b>3,316</b>
Taxation	(506)	(584)
<b>Profit for the year</b>	<b>2,162</b>	<b>2,732</b>

<b>Financial position at the end of the year</b>	<b>2020</b>	<b>2019</b>
<b>All figures £'000</b>		
<b>Assets</b>		
Liquid assets	100,912	103,628
Mortgages	426,830	424,783
Derivative financial instruments	0	73
Fixed and other assets	3,342	2,766
<b>Total assets</b>	<b>531,084</b>	<b>531,250</b>
<b>Liabilities and Reserves</b>		
Shares	420,526	394,896
Borrowings	61,958	91,008
Derivative financial instruments	782	356
Other liabilities	2,864	1,578
Reserves	44,954	43,412
<b>Total liabilities</b>	<b>531,084</b>	<b>531,250</b>

<b>Summary of key financial ratios</b>	<b>2020</b>	<b>2019</b>
<b>As a percentage of shares and borrowings</b>		
Gross capital	9.3%	8.9%
Free capital	9.1%	8.7%
Liquid assets	20.9%	21.3%
<b>As a percentage of mean total assets</b>		
Profit after taxation	0.4%	0.5%
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	0.4%	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 2020 and 2019 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

# 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 2020 which comprises the 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 2020 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 2020, 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 2020.

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 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 financial statement within the Annual Members' Review, 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 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  
11 March 2021

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

# DIRECTORS' REMUNERATION

## Executive Directors' Remuneration

2020 All figures £	Base Salary	Benefits & Allowances	Performance pay annual incentive scheme	Performance pay long-term incentive scheme	Pension Contribution	Total
Mark Robinson	174,792	34,605	31,500	15,475	10,000	<b>266,372</b>
Nicholas Fielden	140,813	16,369	25,380	12,451	14,313	<b>209,326</b>
<b>Total</b>	<b>315,605</b>	<b>50,974</b>	<b>56,880</b>	<b>27,926</b>	<b>24,313</b>	<b>475,698</b>

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	16,019	10,000	<b>264,353</b>
Nicholas Fielden	138,460	16,422	27,750	12,877	13,846	<b>209,356</b>
<b>Total</b>	<b>310,613</b>	<b>49,830</b>	<b>60,525</b>	<b>28,896</b>	<b>23,846</b>	<b>473,710</b>

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 £	2020	2019
Nicholas Johnston to 30 April 2020	14,329	42,408
Michael Thomas	39,255	30,087
Michael Bury from 1 May 2019	35,966	17,032
Melanie Duke to 30 September 2019	0	23,638
Lindsay Forster from 1 July 2019	24,504	12,774
Jonathan Fox	29,355	28,237
Justin Fox from 1 May 2019 to 30 June 2020	12,496	16,632
Andrew Merrick	31,268	28,008
Zoe Shapiro	27,642	28,237
David Stunell from 1 December 2020	1,958	0
Nala Worsfold from 1 December 2020	1,958	0
<b>Total</b>	<b>218,731</b>	<b>227,053</b>

Fees include amounts paid to the Chairs of the Assets & Liabilities Committee, Audit & Compliance Committee, Risk Committee and Remuneration Committee of £3,400 in 2020 and £3,350 in 2019. A taxable annual travel allowance of £1,875/£2,500 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 allowance was suspended during 2020 due to meetings being held virtually.

## **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 2020 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 2020 the members were: Jonathan Fox (Chair), Lindsay Forster and Justin Fox (until 30 June 2020). 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 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 Senior Independent Director, assesses the Chair's performance.