

Welcome

to our review of 2021



“ It has been a privilege to lead your Society ”

Dear Member

I am delighted to welcome you to our review of 2021. Last year was one for “digging deep” as we all suffered another 12 months of the pain and inconvenience of the pandemic.

MHBS has been here since 1870 and against that big backdrop the current conditions are part of the long cycles of highs and lows of the last 151 years. I am very proud of our team that has served you, our members, and cheerfully maintained high standards of care throughout the pandemic.

2021 was a highly successful year for your Society. We achieved record profits (more than £5m before tax) as well as record levels of mortgage lending (£132m). This latter figure was 40% up on 2020 and reflected a strong housing market, but also our success in developing attractive products and gaining market share. Lending is not without well-understood risks but we did not repossess a single property in 2021 and our arrears position improved. The end of Covid-19 payment holidays allowed members to restart payments.

As conditions improved we released some provision which had been set aside to cover potential losses.

Our commitment to local communities is very strong and you will see in the pages that follow how our Charitable Foundation delivered significant benefits locally. Our staff also made great personal endeavors giving time and money to many, many worthwhile causes including our charity of the year.

This will be my last year as CEO as I will retire later this year. It has been a privilege to lead your Society for the last 14 years and I want to thank all the MHBS team for the success we have achieved during this time. I know MHBS' values will persist well into the future.

Mark Robinson
Chief Executive

Results for 2021



Lent **£132m**
in new mortgages



We donated over
£7,000 to
Air Ambulance



89% of new customers
would recommend us
to others



MHBS Charitable
Foundation donated
over **£25,000**



Mortgage balances
grew by **£12m** to
£439m



Over 6,000 km covered by
the Society's employees in
the November Challenge



Feefo Gold Trusted
Service Award Winner



Summary

Financial Statement

For the year ended 31 December 2021

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 6 April 2022.

Approved by the Board of Directors on 11 March 2022.

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 2021.

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 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

Reviews of this kind often focus on the numbers – asset size, profits and credit performance. These are of course essential elements but it is important to start by recognising the people who have been directly responsible for the Society's success in 2021 which was another extraordinary year.

MHBS is a mutual organisation and members are the reason for its existence. Life has been especially challenging over the last two years with the pandemic and the variants of Covid-19 impacting everyday life and the economy. The Society's members' commitment to MHBS has been outstanding in supporting the savings and mortgage business and it is hoped that this loyalty has been rewarded with good service and positivity. The Society wants to thank its staff who have handled these immense changes in working practices in such a cheerful way and continued to deliver quality service.

2021's success is built on this foundation – and the Society offers its thanks to both members and the MHBS team.

Mortgages

The housing market is an important influence on the Society's mortgage lending. 2021 saw record sales of homes as the Stamp Duty concession and buyers who were re-evaluating their lives fuelled transactions. House prices rose by around 10% in the year and detached homes with gardens were especially in demand as lockdowns and homeworking became normalised. June saw the peak of business volumes as the Stamp Duty holiday stepped down and the Society advanced £30m of mortgages in a single month. Over the year mortgage lending was £132m – 40% more than lending in 2020 (£94m) and also a record.

This focus on scaling up lending progressed further in the autumn with the launch of a new online portal (Case Hub) which allows online application and "straight through" processing. This scalable technology will allow the Society to update processes as significant changes impact the industry in the next few years.

Summary Financial Statement

Mortgage brokers are key partners and the Society listens carefully to customers' needs. The Society is pleased to report that satisfaction levels collected via independent organisation Feefo ran at 5 stars in 2021 and the Society was given many positive testimonials which are proudly shared on the Society's website.

Funding

As an essential service, the Society never closed branches and when lockdowns relaxed, the Society saw withdrawals pick up as many members made long delayed "big ticket" purchases. As a result, the significant net inflow of 2020 reversed in 2021. To fund mortgage growth the Society took advantage of the government funded TFSME scheme, ending the year with £59m of this four year funding and replaced all previous drawings under earlier schemes. The Society kept savers' rates under constant review and chose to not accept new accounts rather than punish loyal members by dropping rates to push them away. Strong mortgage revenues also allowed us to do this whilst increasing profits.

Financial strength

The Society's focus on high quality but more complex mortgages meant that growth has been profitable. Growing the Society whilst diluting key ratios has little attraction. On the back of record lending the Society delivered record profits of £5.0m (2020: £2.7m). This was despite significant investment in the business and only slightly boosted by a modest release of mortgage provision (£0.27m).

Key performance indicators

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

	2021 Group	2020 Group	2019 Group
Total assets	£541m	£531m	£469m
New mortgage lending	£132m	£94m	£101m
Growth in mortgage assets	2.4%	0.5%	5.5%
Net increase / (decrease) in retail deposits	(£30m)	£21m	£15m
Liquidity to funding ratio*	20.4%	20.9%	17.8%
Management expenses as a percentage of mean total assets	1.6%	1.5%	1.5%
Profit before tax	£5.0m	£2.7m	£3.3m
Post-tax profit	£4.0m	£2.2m	£2.7m
Profit as a percentage of mean total assets	0.8%	0.4%	0.7%
Net interest receivable as a percentage of mean total assets	3.0%	3.1%	3.4%
Gross capital as a percentage of shares and borrowings	10.1%	9.3%	9.4%
Free capital as a percentage of shares and borrowings	9.9%	9.1%	9.2%

Highlights of 2021

- **Growth in mortgage assets of 2.4%**
- **Very low levels of mortgage arrears**
- **Gross lending of £132m**
- **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 2021 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

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 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 2021 to attend to normal governance matters. 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 Covid-19 pandemic.

Summary Financial Statement

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's staff are encouraged to support local good causes through a Charity Day off scheme where the Society allows paid absence. Despite the restrictions arising from lockdowns staff collectively notched up 1,486 hours of charitable work under the scheme – double that for 2020.

The Society also supports a member nominated Charity of the year and in 2021 this was the Derbyshire, Leicestershire & Rutland Air Ambulance. In total staff, the Society and members raised £7,450 for this fantastic organisation.

In total the Society directly donated £32k to Charities including £25k 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) 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

Pandemic restrictions are easing across the UK and it is to be hoped that this provides a more stable basis for the economy. However cost pressures on both individuals and the Society are increasing and the outlook is for base rates to rise further in 2022. The credit quality of the Society's loan book has proved resilient and this is expected to remain the case as rates rise because of the Society's prudent affordability stress tests and conservative Loan to Value ratios.

Summary Statement

Results for the year. All figures £'000	2021	2020
Net interest receivable	13,119	10,803
Other income and charges	71	61
Fair value gains and losses	185	(71)
Administrative expenses	(8,641)	(7,901)
Impairment gains / (losses) on loans and advances	267	(224)
Profit for the year before taxation	5,001	2,668
Taxation	(967)	(506)
Profit for the year	4,034	2,162

Financial position at the end of the year. All figures £'000	2021	2020
Assets		
Liquid assets	99,957	100,912
Mortgages	437,080	426,830
Derivative financial instruments	1,021	0
Fixed and other assets	3,111	3,342
Total assets	541,169	531,084
Liabilities and Reserves		
Shares	395,419	420,526
Borrowing	93,956	61,958
Derivative financial instruments	86	782
Other liabilities	2,063	2,864
Reserves	49,645	44,954
Total liabilities	541,169	531,084

Summary of key financial ratios	2021	2020
As a percentage of shares and borrowings		
Gross capital	10.1%	9.3%
Free capital	9.9%	9.1%
Liquid assets	20.4%	20.9%
As a percentage of mean total assets		
Profit after taxation	0.8%	0.4%
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	0.7%	0.4%

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 2021 and 2020 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.

Summary Financial Statement

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

Opinion on the summary financial statement

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 Group and Society for the year ended 31 December 2021 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

We have examined the summary financial statement of Market Harborough Building Society ('the Society') for the year ended 31 December 2021, which comprises the Results for the year and of the Financial Position at the end of the year, together with the Summary Directors' report.

Basis for Opinion

Our examination of the summary financial statements 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 Group and the Society for the year ended 31 December 2021, 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 Group and 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 Group and Society for the year ended 31 December 2021.

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 Group and 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 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 2022

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

Directors' Remuneration

Executive directors' remuneration

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

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	266,372
Nicholas Fielden	140,813	16,369	25,380	12,451	14,313	209,326
Total	315,605	50,974	56,880	27,926	24,313	475,698

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 £	2021	2020
Nicholas Johnston to 30 April 2020	0	14,329
Michael Thomas	43,462	39,255
Michael Bury to 31 July 2021	17,625	35,966
Lindsay Forster	23,917	24,504
Jonathan Fox	30,963	29,355
Justin Fox to 30 June 2020	0	12,496
Andrew Merrick	33,125	31,268
Zoe Shapiro	27,213	27,642
David Stunell from 1 December 2020	24,946	1,958
Nala Worsfold from 1 December 2020	24,792	1,958
Total	226,042	218,731

Fees include amounts paid to the Chairs of the Assets & Liabilities Committee, Audit & Compliance Committee, Risk Committee and Remuneration Committee of £3,400 in 2021 (2020: £3,400) and an annual fee of £1,500 to the Chair of the associated Pension and Life Assurance Scheme commenced during 2021. (2020: nil). A taxable annual travel allowance of £1,875/£2,500 (2020: £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 2021 and 2020 while meetings were 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 2021 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 2021 the members were: Jonathan Fox (Chair), Lindsay Forster and David Stunell (from 1 September 2021). 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.