Hinckley and Rugby Building Society

# Annual Review

Incorporating the Summary Financial Statement for the year ended 30 November 2023 and Notice of Annual General Meeting 2024

# About us

Hinckley and Rugby Building Society has been serving its members for over 150 years. The Society has an extensive range of competitive mortgage and savings products, and remains committed to providing the highest standards of customer service.

## Summary Financial Statement




Established 1865

Member of the Building Societies Association

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This Summary Financial Statement is a summary of information in the audited annual accounts, Directors' Report and Annual Business Statement, all of which will be available to members and depositors free of charge on our website at hrbs.co.uk and at each office of the Society.

The information contained in the Chair's statement, Chief Executive's report and Chief Financial Officer's report, on pages 3 to 13, addresses the requirements of the Summary Directors' Report. Further information is contained in the full Annual Report and Accounts.

# Chair's statement

"Our biggest investment for the future continues to be our digital programme. This positions your Society well to implement new online mortgage and savings enhancements in 2024 and to introduce a mobile app for the first time."

**Colin Franklin**
Chair

2023 was another year of rising interest rates and during our financial year, we saw the Bank of England base rate rise from 3% to 5.25%. This is the first time that the base rate had risen to this level since February 2008. We have worked hard to ensure that we continue to support both our borrowers, who are being impacted with higher monthly repayments, and savers, who seek good returns on their savings, particularly in times of high inflation. This balance of being fair to borrowers, whilst enhancing saving rates whenever we can, has remained our key objective. We are supportive of the FCA's Cash Savings Review, which was published in July 2023.

This theme of putting the needs of our members first was further emphasised by the introduction of the Consumer Duty by the FCA. Your Board saw this as an opportunity to re-iterate the customer focus of your Society and ensure that good outcomes for our members are always sought.

Linked to our member focus, we decided to review the Society's purpose, ambition and values during the year. At your Society, these are not words spoken once a year or left to gather dust in a drawer, they are embedded in everything the Society does and underpin our goals. Each member of staff's annual objectives include measures linked to our values.

Against the challenging economic environment and new regulation, I am pleased to report that your Society had a strong financial year. Profits increased and exceeded our original budget, so we were able to continue to strengthen our staff base and continue our investment in services for our members. During the year we launched a new website with increased functionality which helped us to communicate more clearly to our members. We also launched a workplace savings initiative, encouraging employers and employees to get into the habit of making regular savings. In difficult times putting a little aside each month is important.

Our biggest investment for the future continues to be our digital programme. In September 2023, we moved our core operating system into a fully managed service in the cloud. This change was delivered on time and within budget and provided your Board with confidence in the Society's ability to manage this level of change. This positions your Society well to implement new online mortgage and savings enhancements in 2024 and to introduce a mobile app for the first time.

The year's financial performance also helped to maintain your Society's capital base, which supports sustainable ongoing growth in the years ahead. We also took the opportunity to replace some of our funding from the Bank of England with members savings, which reinforces our membership funded model.

Support for our local communities continued to be a key priority and, through our Charitable Foundation, we welcomed six local charitable organisations to our 2023 AGM, and not only supported them financially but celebrated the great work that they do. We take great pride in the work we do to support our communities and we will continue to share our knowledge, skills and resources throughout Leicestershire and Warwickshire.

I was very saddened to learn of the recent sudden death of Geneane Bell who retired as a director of the Society in 2023. Geneane served the members of the Hinckley and Rugby for nine years with dedication and expertise. She was very popular with all at the Society and will be sadly missed. We send our sincerest condolences to Geneane's family and friends. David Woodward retired during the year and I would like to thank him for his important contribution to the Board and his excellent leadership of our Audit and Compliance Committee. Gary Wilkinson will also step down

# Chair's statement continued

at the AGM in 2024. Gary has brought his invaluable experience to the Board and, in particular, his excellent stewardship of the Risk Committee during his term.

Retirements are part of our governance and succession planning, so we welcomed four new faces to our Board. John Lowe replaced David as Chair of Audit & Compliance Committee at the start of the year and was joined by Lynda Blackwell at our 2023 AGM. Lynda has taken the role of Consumer Duty champion on the Board and is supporting management with future plans. We recruited Gary's replacement at the start of December 2023 and Tony Alexander will take over as our Chair of Risk Committee in March 2024. In addition, and thinking ahead, we recruited Manuela Pifani as our final Non-Executive Director, and she will join our Board in March 2024 with a very impressive customer focused pedigree.

Colin Fyfe also stepped down from his role on 2 January 2024. Colin took over as Chief Executive in November 2018 and has guided the Society through a challenging but successful five years. He has played a very important role at a key period of the Society's development and I wish Colin well for the next stage of his career. I was delighted that we were able to find a worthy successor from within the Society. Barry Carter joined the Society in July 2022 from HSBC and has worked closely with Colin from day one. In the Autumn of 2023, we undertook a full market search for Colin's replacement, and I am pleased to say that our internal candidate had the skills we were looking for to take the Society to the next level. I wish Barry every success following his appointment as Chief Executive, which is subject to regulatory approval.

Another change will be upon us at the 2024 AGM when I will retire as your Chair. It has been an honour and a privilege to lead your Society and I will look back on my nine years as Chair very fondly. Again, we are lucky to have excellent talent on our Board and the Society will be in good hands when Nemone Wynn-Evans takes over as Chair in March 2024. Nemone has been on our Board since 2017 and knows the business well.

Finally, I would like to extend my sincere thanks to all staff and fellow directors, not only for their support, but also for their hard work and commitment on behalf of the Society's members.

**Colin Franklin**
Chair
9 February 2024

# Chief Executive's report

> "We have been very aware that the economic and financial climate has been challenging for everyone in 2023. We have worked hard with our members and looked to identify those who have been most impacted. We stand ready to support our members through any challenges in 2024."
>
> **Barry Carter**
> Chief Executive (subject to regulatory approval)

## Balanced performance

**The headlines in Financial Services organisations reports are frequently about their financial performance. However, at your Society our measures are always about a balanced performance, using what we call our Balanced Scorecard. This Scorecard is tailored for every member of staff and allows us to focus on "what counts" and not simply "what is counted".**

This year we have a lot of highlights to report, and I will deliberately start with our most important asset – our people.

## Best Companies

At the start of 2023 we decided to test ourselves, and specifically our staff engagement with your Society, by measuring ourselves against the Best Companies framework. This involves all staff providing feedback on all aspects of life at the Society that affect their engagement. We had two sets of staff feedback during the year, and worked through the ideas, challenges and concerns raised. I was very proud when Best Companies awarded us a rating that reflected a very good level of staff engagement. This will continue to be an area that Society will focus on, enhancing this engagement as a key strategy to support our future growth.

## A values-led organisation

Your Society and other mutual organisations hold a unique position in the Financial Services sector. With no shareholders, and no market analysts pressing for profits and dividends to be maximised, we are able to follow our values in everything we do. In 2023 we decided it was time to revisit these important principles, and working from the Board through to our staff base, we restated our values by using the definitions of five 'E's. We believe that the following words, and the context in which we use them, will help to guide your Society though the years ahead:

- Excellence
- Expertise
- Ethical
- Engage
- Efficiency

Linked to this, we reviewed the Society's purpose to ensure if it was fitting for our current stage and future direction. To ensure we emphasised the importance of supporting our local communities and focused on a better financial future, we restated our purpose as follows:

We are here to support our members and communities to create a better financial future for themselves.

Working with our staff, we will ensure that our values and purpose are brought to life throughout the Society.

## Community focus

The staff at the Society embraced their support for our local communities with their usual strong enthusiasm. We focused our support through our Community Foundation and also through our hospices savings account, which continues to provide healthy income for three local hospices. Our Community Foundation concentrated on supporting local causes which are focused on mental health and wellbeing, poverty and disadvantage, and the environment. We also supported two other worthy causes. The Friends of St Cross Hospital, based in Rugby, do a fantastic job to raise funds and support for an important part of the local community. We were delighted to contribute a donation which will help purchase an ultrasound machine at the hospital. In line with our environmental responsibilities, we again sponsored the planting of almost 29,000 trees with Hinckley & Bosworth Borough Council. This scheme was a great success and was well received by residents, local businesses, community groups and councillors.

## Awards

We were determined to honour our member of staff, Evan Crosskey, who tragically died on the 26 December 2022. He was much loved in the Society, but also by the other organisations he touched.

The Building Society Association was keen to remember Evan through the launch of the Evan Crosskey Award for Academic Achievement. This award was

# Chief Executive's report continued

created for master's degree students who are part of the Building Society Association programme at Loughborough University. Our local partner, Leicestershire Cares, also launched the Evan Crosskey Education Volunteer of the Year Award to recognise the work Evan did with local schools and colleges.

Your Society was keen to provide a fitting memory using Evan's story and something that he was very passionate about. We therefore announced in December the Evan Crosskey scholarship which will help individuals to join the Society and through an apprenticeship be able to develop their career in the way Evan did.

An award that Evan may have lifted himself was the Best Self Build Mortgage Lender at the Build It Awards, and I am delighted to say that your Society received this recognition towards the end of the year.

## The climate challenge

As a responsible mortgage lender, we have a role to play in helping borrowers make their properties as energy efficient as they possibly can be. This typically sees us looking at the energy performance ratings of mortgaged properties and informing homeowners and landlords of possible improvement actions. During 2023 we took this one step further and worked with a business whose speciality is to support the homeowner and landlord through the whole retrofit process. Together we created the "with you all the way" proposition which will help potential retrofitters to understand what needs to be done, in what order, who they can trust to carry out the work, and to verify that the work has delivered the anticipated results. I was delighted when a gentleman from our members panel agreed to be one of our test cases, which demonstrates our ability to liaise with our member base. We will market this proposition through 2024, both to existing borrowers and potential new members. The climate challenge is not going away, and we are keen to play our part.

## Efficiency focus

Perhaps the Society value that is easiest to say but hardest to deliver is Efficiency. We are a multi-channel business in a heavily regulated sector and therefore, in what appears to be a straightforward business model, there are a number of complexities.

One of the UK's processes in most need of an efficiency review is the end-to-end home buying journey. I am very aware of the frustrations of buyers and sellers, particularly when their buying chain is delayed or collapses. Our completion of the first UK digital remortgage transaction in 2022 was a start, and we hope to be involved in the first digital sale and purchase transaction in 2024. I was particularly pleased that, through 2023, we were able to reduce the number of days to offer a mortgage, following a review of our lending processes. We still have quite a way to go, but we are focused and talking to both our mortgage system provider and industry professionals on how we can improve further.

The best observations on how we can improve our processes usually come from our staff who seek the best outcomes for our members. As 2023 came to an end, we launched our IDEAS (Improve, Develop, Enhance and Share) suggestion scheme with our staff and this will drive our efficiency focus in 2024.

An opportunity to improve our internal processes is also very welcome, and in 2023 our Human Resources team introduced a new payroll system in addition to a new information platform for our staff.

## Transforming the business

2023 was a big year for the Society with multiple changes being managed across different areas of the business. We had built our Transformation team for the start of the year, but we had still to prove that this investment would be successful. Twelve months on, and I can say without hesitation that the team has added a lot of value to the Society and improved our approach and methods of delivering change. My feelings were replicated by the staff who voted the Transformation team as Team of the Year at the staff conference in December 2023. In all, eight major projects were worked on successfully during the year.

The biggest investment in our transformation workload is our digital programme. 2023 was the start of our delivery, and in September we successfully moved our core operating system into a managed service in the cloud. Close collaboration across the Society meant that it was a very successful implementation and our Information Security team ensured there was no impact on our staff or customers. We have now moved on to the planning of the next stages and this is where we will see benefits for our members come to life with new online mortgage and savings enhancements and the Society's first mobile app. Whilst we are not the first organisation to launch an app, it is a clear statement of our intention to complement face to face services through our branches with digital services.

## Consumer Duty

Consumer Duty was one of our eight projects which started last year and has become an embedded part of the way we operate as a

Society. A strong customer focus is something we pride ourselves on and we have looked on the FCA's Consumer Duty regulation in order to strengthen further. No practice or process within the Society will be ignored and our focus on good customer outcomes will see additional testing and feedback loops to ensure we take the improvement opportunity.

## Headwinds and challenges

We have been very aware that the economic and financial climate has been challenging for everyone in 2023. The combination of increasing inflation, where we saw significant increases in the prices of essentials such as food and energy, along with the steady rise of the Bank of England Base rate, meant that mortgage and day to day living affordability was under pressure.

We remain cautious in our outlook for the year ahead with these economic headwinds likely to impact our members in some way. As you may be aware, we have worked hard with our members and considered those who have been, or may be, impacted during these times. To support our members, we were an early supporter of the Mortgage Charter, which was launched over the summer by the Government as a means of assisting mortgage borrowers.

Throughout this economic backdrop, we have closely monitored the credit quality of our mortgage book. Due to your Society's prudent approach to lending, I am pleased to say that our mortgage arrears stand at a low level, with 1.12% of the book one month of more in arrears. This is an area we will monitor closely throughout 2024.

Demand for our Self Build, Joint Borrower Sole Proprietor and Flex products have proved popular during 2023 and we believe they will continue to do so over 2024. However, uncertainty around the housing market will persist and we will need to navigate this uncertainty with caution and capability. The savings market is also predicted to be very competitive as savers look to lock in rates for longer whilst also looking to maintain sufficient liquidity.

To assist with this, we aim to make further improvements to our risk management and controls, including enhanced monitoring of external market conditions. We will also continue to improve the quality of our people and technology, increasing our capabilities throughout 2024, and beyond. Additionally, we will make adjustments to our product and criteria offering, as the market demands, ensuring your Society balances risk and reward opportunities appropriately.

## The financial bottom line

Whilst 2023 was fast paced, I am delighted that the Society produced one of its strongest performances for many years. Profit before tax saw a year-on-year increase of 23% and allowed us to maintain our total capital ratio at 16.0%, despite asset growth. The key underlying strength was the increase in our net interest margin from 1.45% to 1.65% after careful management during 2023 and prior years.

We set ourselves a solid growth challenge and the Society's staff delivered. This resulted in mortgage growth of 4.8%, retail savings growth of 6.5%, and we grew our number of savings accounts by 3.6%.

We highly value our loyal savings members and continue to develop new attractive products to meet a wider range of needs, including additions to our notice and fixed rate savings ranges. We expect this innovation to continue in 2024.

Overall, it has been a very pleasing year with a balanced focus and strong results.

## The Executive Team

2023 proved to be a stable year for the Executive team. We only had one departure when Maggie Long, our Company Secretary, secured another opportunity to continue growing her career. We wished Maggie well in her next role and welcomed Grace Tavener as our new Company Secretary.

In 2024, two of our Executives who have led the customer facing sides of our business have decided to step down. Andrea Belle and Carolyn Thornley-Yates have been fantastic members of my team and will be missed by staff, customers and mortgage intermediaries. I am grateful for their support and wish them well with their next roles.

## With thanks

In January 2024, we said goodbye to Colin Fyfe as Chief Executive, following my announcement as his replacement in late 2023. Colin leaves the Society after five transformative years and will be sorely missed by the staff, the Board and our local communities.

As you will be aware, I joined in July 2022 from HSBC, and have had the pleasure of being the Society's Chief Operating Officer since that date. From day one Colin and I worked closely together on strategy, structure and the future direction of the Society. This has enabled your Board to plan a smooth transition and to ensure the impact of the change is minimised.

**Barry Carter**
Chief Executive
(subject to regulatory approval)
9 February 2024

# Chief Financial Officer's report

"The positive financial performance allowed the Society to continue to invest in new technology and staff resources during the year, and this is planned to continue during 2024 and future years to enhance products and services to the benefit of members."

**John Mulvey**
Chief Financial Officer

**This section of the annual report reviews the current financial position and performance of the Society, and details the key financial indicators monitored by the Board.**

**Details of the progress made by the Society in the implementation of the Board's strategy are set out in the Chief Executive's report on pages 5 to 7.**

## Summary financial position

The Society maintained a strong overall financial performance during 2023, despite the continuing cost-of-living crisis and rising interest rates impacting financial markets and our members, which have kept UK economic growth at minimal levels. To control inflation, the Bank of England continued to increase its bank base rate from 3.00% at the beginning of the financial year to 5.25% in August 2023, where it remained at the year-end. In response to the rising interest rates, the Society's management carefully considered and managed the interests of borrowing and saving members, with a balance of mortgage growth, savings growth and profit growth achieved in the year.

Profit before tax was ahead of the Board's plan set at the beginning of the financial year, and higher than the prior year, at £1.62m (2022: £1.32m), with improvements in net interest receivable more than offsetting increased operational costs. This resulted in an improvement in the cost / income ratio which reduced to 86.3% (2022: 90.3%). Prudent levels of liquidity and capital were maintained throughout the year. The positive financial performance allowed the Society to continue to invest in new technology and staff resources during the year, and this is planned to continue during 2024 and future years to enhance products and services to the benefit of members.

The Society achieved mortgage lending growth during the year by pursuing its niche lending strategy, including the launch of a new 'income flex' mortgage range available to those with complex or irregular incomes, and continued lending to self-build borrowers. These new lending initiatives were carefully balanced with the management of mortgage pricing in the rising interest rate environment, and a continued focus on retention of existing borrowers at the end of their initial product term. Loans and advances to customers, including the impact of impairment provisions and other accounting adjustments, increased to £679m (2022: £648m), representing growth of 4.8%.

Savings grew during the year to £718m (2022: £674m), and this was used to fund the mortgage growth and to repay funding received from the Bank of England. The growth in savings was achieved through a focus on longer-term notice and fixed rate savings products.

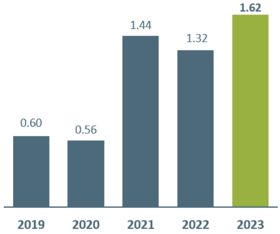
Impairment provisions held against loans and advances to customers increased during the year as the cost-of-living crisis and increasing interest rates impacted the ability of some borrowers to pay their mortgages. Such cases are expected to increase in the coming months, as borrowers with maturing fixed rate mortgages see their mortgage payments increase as they move to new products that reflect higher interest rates. The number of individual mortgage cases in arrears or in receipt of forbearance increased during the year but remain at relatively low levels at the year-end.

# Chief Financial Officer's report continued

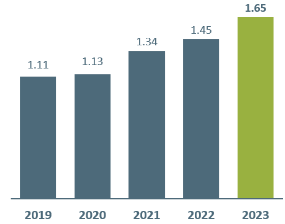
## Key financial measures

| | **2023** | 2022 | 2021 |
|---|---|---|---|
| Profit before tax (£m) | **1.62** | 1.32 | 1.44 |
| Loans and advances to customers (£m) | **679.4** | 648.2 | 619.0 |
| Retail savings (£m) | **717.8** | 674.2 | 693.0 |
| Liquid assets (£m) | **126.1** | 143.3 | 172.3 |
| Wholesale funding (£m) | **46.7** | 78.6 | 60.0 |
| Gross capital (£m) | **46.5** | 46.2 | 47.3 |
| Total assets (£m) | **823.4** | 812.4 | 803.6 |
| Net interest margin as a percentage of mean total assets | **1.65%** | 1.45% | 1.34% |
| Management expenses as a percentage of mean total assets | **1.43%** | 1.34% | 1.22% |
| Cost/income ratio | **86.3%** | 90.3% | 88.4% |
| Liquid assets as a percentage of shares and borrowings | **16.5%** | 19.0% | 22.9% |
| Gross capital as a percentage of shares and borrowings | **6.1%** | 6.1% | 6.3% |
| Total capital ratio | **16.0%** | 16.3% | 17.3% |
| Balances in arrears as a percentage of gross loans and advances | **1.12%** | 0.55% | 0.71% |

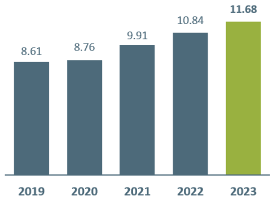
Profit before tax
(£ million)




Net interest margin
(%)




Administrative expenses including depreciation and amortisation
(£ million)




## Profit before tax

As a mutually owned business, the Society is not aiming to maximise profit for shareholder gain, but it does need to make sufficient profit to support the capital it maintains for the protection of shareholding members and other depositors, to support asset growth and invest for the future. Profit before tax in 2023 increased by £0.30m to £1.62m. The key components in the improved profit performance were:

- Net interest receivable increasing by £1.78m to £13.49m (2022: £11.71m), with the net interest margin earned reaching 1.65% (2022: 1.45%) and growth in loans and advances to customers of 4.8%. The growth in margin was largely due to higher returns earned on liquid assets, as interest rates increased during the year, and growth in higher margin mortgage products. These factors, which lead to higher interest receivable were partly offset by the increased rates we paid to savers, demonstrating the action taken to balance profitability against value given to members.

The improvement in net interest receivable was partly offset by:

- Administrative expenses, including depreciation and amortisation, increasing by £0.84m to £11.68m (2022: £10.84m) due to increased staff costs, part of which represents the full year impact of staff recruited part way through the prior year, and IT expenditure, reflecting the costs of improving customer services and new regulation, such as operational resilience requirements and implementing Consumer Duty.
- An impairment charge recognised on loans and advances to customers of £0.22m during the year (2022: £0.15m credit). This impairment charge reflects an increase in the number and severity of arrears and forbearance cases during the year, and an expectation of further cases in the coming months due to the continued impact of high costs of living and elevated interest rates paid by the Society's borrowers.
- Net losses on derivative financial instruments held for hedging purposes of £0.14m recognised in the year (2022: £0.01m gain). In common with many financial institutions, the Society uses derivatives (in the form of interest rate swaps) to hedge the risk of interest rate movements impacting adversely the net interest receivable earned on its portfolios of fixed rate mortgage and savings products. Movements in the fair value of these derivatives result in a charge or credit to income and largely represent timing differences recognised over the duration of each derivative contract.
- A loss on the revaluation of investment properties of £0.01m. In the prior year, a gain on disposal of an investment property of £0.06m was recognised, with a third-party tenant exercising an option within the lease to purchase the property at the prevailing market value.

## Net interest margin

The difference between interest rates earned from mortgages and liquid assets, compared with those paid on savings and wholesale funding, is referred to as the net interest margin (NIM) and is a key measure of the underlying performance of the Society. It is expressed as a percentage of the Society's average total assets.

Factors affecting the Society's NIM include the level of competition within the mortgage and savings markets, the returns achievable on liquid assets, the costs of wholesale funding, and the level of SONIA, a variable rate that governs the interest received and paid on the Society's interest rate swaps that are used to hedge fixed rate mortgages and savings. A higher level of SONIA increases the overall level of interest earned since the

# Chief Financial Officer's report continued

Society has a higher notional value of interest rate swaps hedging fixed rate mortgages than those hedging fixed rate savings.

The Bank of England raised its bank base rate from 3.00% at 30 November 2022 to 5.25% in August 2023. As a result of these rate increases, the Society earned higher returns on its liquid assets, a significant proportion of which were, and continue to be, invested at the Bank of England earning base rate. These higher returns were partially offset by an increase in wholesale funding interest costs and an increase in interest paid to savers that exceeded the increase in interest received from borrowers. As interest rates rose, management carefully considered the interests of borrowing members, savings members, and the Society's capacity to invest for the future, with the result that the benefit of the rises in base rate were not always passed on in full to all savers.

Overall, the Society's net interest margin increased to 1.65% (2022: 1.45%) and this was used to cover the increased operational costs, impairment charges and losses on derivatives incurred in the year. The Board plans to continue the margin improvement, through growth in higher margin mortgage products.

## Administrative expenses including depreciation and amortisation

The Board is always conscious that higher costs of running the Society restrict the benefits it is able to pass on to its members in the form of better savings and mortgage rates. The Society's level of management expenses expressed as a percentage of average total assets of 1.43% (2022: 1.34%), despite increasing, was below the average in 2022 for a building society with total assets less than £1 billion.

Overall administrative expenses, including depreciation and amortisation, increased by £0.84m to £11.68m (2022: £10.84m).

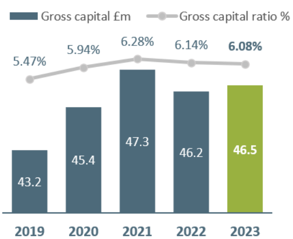
Costs throughout the building society sector have increased significantly in recent years as firms have invested in people and systems to deliver improved customer service commensurate with member expectations and to respond to increasing regulatory requirements, such as improvements to operational resilience and ensuring good customer outcomes through the implementation of Consumer Duty. During the year, the Society incurred increased staff costs and IT expenditure on such projects, including a significant investment to improve the resilience of the core banking system by migrating the hosting from on-premise servers to a cloud based arrangement. This investment will continue in the next financial year as the Society embarks on substantial improvements to the core banking system functionality, including enhanced online savings functionality for members, the introduction of a mobile phone application, and enhanced mortgage application capability for brokers.

## Capital

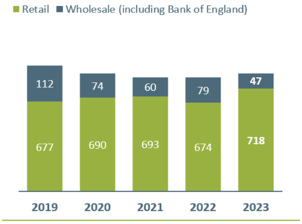
Capital is held to provide protection for members' deposits against credit losses arising from lending and other risks to which the Society is exposed. A feature of the Society's risk management framework is the Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP assesses the level of capital that the Board considers adequate to mitigate the principal risks and uncertainties to which the Society is exposed, as set out in the Directors' report on page 29 of the accounts. The Society runs regular stress tests to ensure it is adequately capitalised, including a severe economic downturn based on that used by the Bank of England to test the capital adequacy of systemic firms within the UK banking system.

The Society generates capital from profit made by normal business activities. The Society's profit after tax for the financial year of £1.24m (2022: £1.07m) was transferred to general reserves. In addition to the increase due to retained profits, the Society's reserves reduced by £0.98m (2022: £2.14m decrease) due to actuarial losses recognised in the pension scheme. As a result of this, gross capital at the year-end increased to £46.50m (2022: £46.24m). The Society's gross capital ratio (gross capital expressed as a percentage of total shares and deposits) was 6.08% (2022: 6.14%). The Society's free capital ratio (gross capital and collective provision less tangible fixed assets, intangible fixed assets and investment properties, expressed as a percentage of total shares and deposits) was 5.32% (2022: 5.42%).

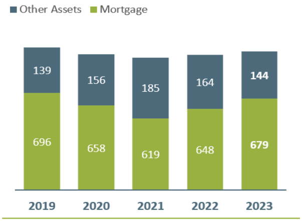
Gross capital ratio (%)
Gross capital (£ million)



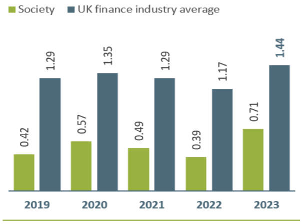
### Overall funding including Term Funding Scheme (TFSME)(£ million)




### Total assets and mortgage balance (£ million)




### Number of borrowers one month or more in arrears (%)




At 30 November 2023 the Society's Total Capital Requirement set by the Prudential Regulation Authority was £26.8m (2022: £26.0m), with £22.7m (2022: £21.9m) relating to the Pillar 1 capital requirement and £4.1m (2022: £4.1m) relating to the Pillar 2A capital requirement. Regulatory capital held by the Society at 30 November 2023 was £45.3m (2022: £44.7m), representing 16.0% (2022: 16.3%) of total risk weighted exposures and well in excess of the minimum Total Capital Requirement and capital buffer requirements.

The audited disclosures required by Article 89 of the Capital Requirements Directive (Country-by-Country Reporting) are shown in note 32 of the accounts.

## Funding

In accordance with its role as a mutual building society, the Society draws most of its funding from its members in the form of retail savings. Total retail savings balances (which include member share balances, as well as other retail accounts such as accounts for corporates, charities and local clubs and associations) increased by £42.6m during 2023 and represented 94% (2022: 90%) of the Society's total funding.

The Society also takes some funding from the wholesale money markets, and for several years has participated in the Bank of England schemes that provide medium to long-term funds secured against mortgages and other assets at cost-effective rates of interest. At the year-end, the Society held £46.4m (2022: £60.2m) of funding from the Bank's Term Funding Scheme with special incentives for SMEs (TFSME), which provides four-year term funding to banks and building societies and is repayable by the end of 2025. In addition, the Society had no outstanding funding (2022: £17.1m) from the Bank's Indexed Long Term Repo (ILTR) facility at the year-end, which provides six month funding.

The Society had unsecured wholesale funding of £0.3m (2022: £1.3m) outstanding at the year-end.

## Liquidity management

The Society undertakes a full review of liquidity adequacy each year, referred to as the Internal Liquidity Adequacy Assessment Process (ILAAP), including an assessment as to the quantity and quality of liquid assets that the Society should hold to mitigate the liquidity risks to which it is exposed under both normal and stressed conditions. The Board approves the ILAAP on an annual basis and this forms a further component of the Society's risk management framework.

The Society's liquid assets of £126.1m (2022: £143.3m) at the year-end represented 16.5% (2022: 19.0%) of shares and borrowings. The reduction in the level of liquidity held, relative to total shares and borrowings, reverses the increase that occurred during 2020 and 2021 as mortgage balances fell during the Covid pandemic. The level of liquid assets held remains significantly above the Board's internal assessment of its minimum requirement and its regulatory minimum requirement. Of the liquid assets held, £119.6m (2022: £121.1m) was on deposit at the Bank of England.

The Society, in common with its peers, has access to various Bank of England liquidity facilities. These range from the provision of funding to assist with the management of short-term cashflow imbalances that may arise through day-to-day operations, to rapid access to liquidity in the event of a severe and unexpected cash flow stress.

# Chief Financial Officer's report continued

## Loans and advances to customers

Loans and advances to customers at 30 November 2023 were £679m (2022: £648m), representing growth of 4.8% (2022: 4.7%). Gross mortgage assets (before the deduction of impairment provisions and other accounting adjustments) grew by 4.5%.

New mortgages advanced during 2023 amounted to £144m (2022: £183m) and were spread across a range of lending categories, including standard owner occupied, buy to let and self-build lending. The Board's objective is to achieve a balanced portfolio of mortgage products across a range of borrower segments that generate an interest margin commensurate with the credit risk involved, while maintaining exposures within agreed limits. After standard owner occupied mortgages, which represented 69% (2022: 71%) of the Society's total mortgage book at the year-end, buy to let mortgages were the next largest segment within the Society's portfolio, representing 26% (2022: 27%).

## Credit risk performance

The safety and security of our members' savings has always been of paramount importance. This is embodied in the Society's prudent approach to mortgage lending, resulting in a high-quality mortgage book.

At 30 November 2023, 28 (2022: 16) borrowers were in arrears with their monthly mortgage payments by one month or more, with balances outstanding representing 1.12% (2022: 0.55%) of total gross mortgage balances. Of the borrowers in arrears, one borrower was in arrears by 12 months or more (2022: one), with a balance outstanding of £0.27m (2022: £0.25m), arrears of £0.05m (2022: £0.03m) and an individual impairment provision held of £0.07m (2022: £0.05m). There were no properties in possession at 30 November 2023 (2022: none).

In June 2023, the Society signed up to the Mortgage Charter, an agreement to provide support to owner occupied borrowers during the higher interest rate environment, including a temporary switch to interest-only payments and a term extension to reduce monthly payments. As a result of these measures, the Society has seen a small increase in the number of customers receiving forbearance, and details of these are set out in note 28(c)(ii) of the accounts.

The impairment provision held against loans and advances to customers was increased during the year to £0.62m (2022: £0.40m). In arriving at the year-end impairment provision, the Board has considered the impact of the economic environment on cases where an impairment event has occurred at the year-end date, whether or not observable within arrears and other data. This includes the impact of the cost-of-living crisis and rising interest rates, on the ability of borrowers to pay their mortgage, and on the housing market, with a number of economic forecasts predicting a further decline in house prices during 2024. Further details of the judgements and estimations used in the impairment provision calculation are set out in note 2(b) of the accounts. The Board will continue to monitor this situation closely and will adjust the impairment provision as necessary.

**John Mulvey**
Chief Financial Officer
9 February 2024

# Financial Results for the year ended 30 November 2023

## Results for the year

| | **2023 £'000** | 2022 £'000 |
|---|---|---|
| Net interest receivable | **13,488** | 11,714 |
| Other income and charges | **184** | 287 |
| Net (losses)/gains from derivative financial instruments | **(141)** | 12 |
| Administrative expenses | **(11,679)** | (10,844) |
| Operating profit before provisions | **1,852** | 1,169 |
| Loss on revaluation of investment properties | **(13)** | - |
| Impairment (losses)/gains on loans and advances to customers | **(220)** | 153 |
| Profit for the year before taxation | **1,619** | 1,322 |
| Taxation | **(381)** | (252) |
| Profit for the year | **1,238** | 1,070 |

## Financial position at the end of the year

| **Assets** | **2023 £'000** | 2022 £'000 |
|---|---|---|
| Liquid assets | **126,065** | 143,349 |
| Mortgages | **679,408** | 648,234 |
| Derivative financial instruments | **10,260** | 12,149 |
| Fixed and other assets | **7,647** | 8,681 |
| Total assets | **823,380** | 812,413 |
| **Liabilities** | | |
| Shares | **698,807** | 655,540 |
| Borrowings | **65,770** | 97,293 |
| Derivative financial instruments | **615** | 736 |
| Other liabilities | **11,689** | 12,603 |
| Reserves | **46,499** | 46,241 |
| Total liabilities | **823,380** | 812,413 |

Approved by the Board of Directors on 9 February 2024

**Colin Franklin** Chair

**Barry Carter** Chief Executive

**John Mulvey** Chief Financial Officer

# Summary of Key Financial Ratios

| | **2023** **%** | 2022 % |
|---|---|---|
| Gross capital as a percentage of shares and borrowings | **6.08** | 6.14 |
| Liquid assets as a percentage of shares and borrowings | **16.49** | 19.04 |
| Profit for the year as a percentage of mean total assets | **0.15** | 0.13 |
| Management expenses as a percentage of mean total assets | **1.43** | 1.34 |

## Gross capital as a percentage of shares and borrowings

The gross capital ratio measures the Society's capital as a proportion of its shares and borrowings. Gross capital comprises the general reserve and consists mainly of profit accumulated over many years. Capital provides a financial buffer against any losses which might arise from the Society's activities and therefore protects investors.

## Liquid assets as a percentage of shares and borrowings

The liquid assets ratio is a measure of the proportion of the Society's shares and borrowings that are held in the form of cash or are readily realisable into cash. Liquid assets enable the Society to meet requests by investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.

## Profit for the year as a percentage of mean total assets

The ratio of profit for the year as a percentage of mean total assets measures the proportion that the profit after taxation for the year represents in relation to the average total assets for the year. The ratio is similar to a company's return on assets. The Society needs to generate a reasonable level of profit each year in order to fund the continued development of its business and maintain its capital ratios at a suitable level to protect investors.

## Management expenses as a percentage of mean total assets

The ratio of management expenses as a percentage of mean total assets measures the proportion that administrative expenses, as reported in this document (which include depreciation and amortisation), represents in relation to the average total assets for the year and is widely used to measure administrative efficiency.

# Independent Auditor's Statement

to the members and depositors of Hinckley and Rugby Building Society

We have examined the Summary Financial Statement of Hinckley and Rugby Building Society (the "Society") set out on pages 2 to 15.

### Respective responsibilities of directors and auditor

The directors are responsible for preparing the Annual Review, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement within the Annual Review with Annual Report and Accounts, the Annual Business Statement and the Directors' Report and its conformity with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

### Basis of opinion

Our examination of the Summary Financial Statement consisted primarily of:

- Agreeing the amounts included in the Summary Financial Statement to the corresponding items within the Annual Report and Accounts, the Annual Business Statement and the Directors' Report of the Society for the year ended 30 November 2023 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 Annual Report and Accounts, the Annual Business Statement and Directors' Report of the Society for the 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 information has been omitted which although not specifically prescribed by section 76 of the Building Societies Act 1986 and regulations made under it, in our opinion, is necessary to ensure consistency with the Annual Report and Accounts the Annual Business Statement and the Directors' Report of the Society for the year ended 30 November 2023.

We also read the other information contained in the Annual 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 Annual Report describes the basis of our opinion on those Annual Report and Accounts, the Annual Business Statement and the Directors' Report.

### Opinion

In our opinion, the Summary Financial Statement is consistent with the Annual Report and Accounts, the Annual Business Statement and the Directors' Report of Hinckley and Rugby Building Society for the year ended 30 November 2023 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

### Use of the statement

This statement is made solely to the Society's members as a body and the Society's depositors as a body in accordance with section 76(5) of the Building Societies Act 1986. Our audit 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 audit work, for this statement, or for the opinions we have formed.

Mazars LLP

Statutory Auditor
30 Old Bailey
London
EC4M 7AU

9 February 2024

# Directors' Remuneration report

(Not forming part of the Summary Financial Statement)

This report details the Society's approach to remuneration for the period 1 December 2022 to 30 November 2023. It sets out the Remuneration Policy and remuneration details for the executive and non-executive directors of the Society. Further disclosure details under the Remuneration Code can be found in the Pillar 3 document on the Society website.

Details of directors' remuneration can be found in note 9 of the accounts and provides, for our members, details of the basic salary, variable pay and benefits earned by directors in the year to 30 November 2023. Details of the Remuneration Policy applied to directors are set out below.

## Policy for non-executive directors

Non-executive director fees are reviewed annually by the Chair of the Board and the Chief Executive. This review is based on comparable data from other building societies and similar financial service organisations, and performance reviews. No director or individual is involved in setting their own remuneration. Remuneration comprises a basic fee, with supplementary payments for committee Chairs. Non-executive director fees are not pensionable, and the individuals do not participate in any incentive schemes or receive any other benefits. The remuneration of the Chair of the Board is reviewed on an annual basis by the committee, without the Chair present, again using comparable external data. All non-executive directors have formal contracts of service. All new appointments are subject to a notice period of three months.

## Policy for executive directors

The remuneration for executive directors reflects responsibilities and roles within the Society. The overall policy of the Board, as recommended by the committee, is set out below:

- the remuneration of executive directors (consisting of basic salary, performance related bonus, pension arrangements and other benefits) should be competitive with those of other comparable organisations in the financial sector, in order to attract and retain high calibre individuals with the necessary skills and experience for the Society to succeed;
- the Society operates a low bonus culture, with bonuses payable against the achievement of both Society and individual objectives. The Society operates a balanced scorecard approach regarding measuring performance under four key pillars of member and community, people, excellence and financial. These are all underpinned by the Society's risk, culture and values, to encourage and reward against a broad range of key metrics that are in the long term interests of the Society's members and other stakeholders;
- performance reviews of the executive directors should be carried out at least annually, to assess their performance in meeting individual and strategic objectives;
- the committee treats any departing executive directors fairly, and is careful to consider the interests of members and ensure that there are no rewards for failure; and
- executive directors are entitled to be paid their basic salary and contractual benefits (including pension contributions) during their notice period. The Society has the discretion to pay these as a lump sum payment in lieu of notice.

The Chief Executive is the Society's highest paid employee, and no employee earns more than any executive director.

## Basic salary

The executive directors receive a basic salary, in line with the policy detailed above, which recognises individual development and progression.

## Performance related bonus

The executive directors are eligible for a non-pensionable performance bonus, in line with the policy detailed above. As a mutual organisation, the Society has no share option scheme.

## Pension

Executive directors were eligible to participate in the Society's defined contribution pension plan, which is offered to all employees. The Society makes contributions to the scheme of 14.25% of pensionable salary, with the cost equivalent to 4% of pensionable salary recovered through a salary sacrifice scheme.

# Directors' Remuneration report continued

- Colin Fyfe, Chief Executive, opted to receive cash alternatives in lieu of pension contributions equivalent to 9% of basic salary.
- John Mulvey, Chief Financial Officer, opted to receive cash alternatives in lieu of pension contributions equivalent to 9% of basic salary.

The rate of pension contribution from the Society differs between the executive directors and the other employees, in that executive directors on appointment receive the level of contributions for an employee with 10 years' service, which is not in line with the most recent corporate governance guidelines. The contributions paid are benchmarked against other organisations and the committee is satisfied that the total reward is set at a level which allows the Society to attract a high quality of employees at all levels.

## Other benefits

Each executive director is provided with private medical insurance, group life cover of four x basic annual salary and a healthcare cash plan scheme.

## Service contracts

The general policy for appointments at executive director level includes a contractual notice period of six months. The Chief Executive was required to give a notice period of 12 months, however this is now aligned to the other executive directors at six months.

## Member consultation

The committee takes into account any feedback given by members. Members are invited to vote on the annual Directors' Remuneration report.

On behalf of the Remuneration committee

**Barbara Taeed**
Chair of the Committee
9 February 2024

# Directors' Emoluments

(Not forming part of the Summary Financial Statement)
For the year ended 30 November 2023

Emoluments of the Society's directors and key management are detailed below:

(a) To independent non-executive directors for services as directors

| Aggregate emoluments | **Fees 2023 £'000** | Fees 2022 £'000 |
|---|---|---|
| Colin Franklin | **53** | 53 |
| David Woodward (resigned 28 March 2023) | **13** | 38 |
| Geneane Bell (resigned 28 March 2023) | **10** | 32 |
| Barbara Taeed | **36** | 31 |
| Gary Wilkinson | **38** | 38 |
| Nemone Wynn-Evans | **33** | 32 |
| Lynda Blackwell (appointed 29 March 2023) | **28** | - |
| John Lowe (appointed 1 December 2022) | **35** | - |
| | **246** | 224 |

No pension contributions were made in respect of these directors.

(b) To executive directors for services in connection with the management of the Society

| **2023** | **Salary £'000** | **Bonus £'000** | **Contribution to defined contribution pension scheme £'000** | **2023 Total £'000** | 2022 Total £'000 |
|---|---|---|---|---|---|
| Colin Fyfe | **259** | **-** | **-** | **259** | 267 |
| Barry Carter (appointed 1 July 2022) | **179** | **10** | **18** | **207** | 82 |
| Rebecca Griffin (appointed 1 July 2022) | **137** | **8** | **14** | **159** | 64 |
| John Mulvey | **178** | **15** | **-** | **193** | 181 |
| Dean Waddingham (retired 31 May 2022) | **-** | **-** | **-** | **-** | 150 |
| | **753** | **33** | **32** | **818** | 744 |

Salary costs, including any pension allowances, and pension contributions shown are before any adjustments for the payment of employee pension contributions by salary sacrifice.

# Notice of Annual General Meeting

Notice is given that the one hundred and fifty eighth Annual General Meeting of the members of Hinckley and Rugby Building Society will be held on 26 March 2024 at 6.00pm for the following purposes:

### Ordinary Resolutions

1. To receive the Directors' Report, Annual Accounts and Annual Business Statement and the Auditor's Report for the year ended 30 November 2023.

2. To re-appoint Mazars LLP to hold office as auditor of the Society until the conclusion of the next Annual General Meeting.

3. To approve the Directors' Remuneration Report for the year ended 30 November 2023.

4. To vote on the election and re-election of directors:

   a. To elect Anthony Alexander
   b. To elect Manuela Pifani
   c. To re-elect Lynda Blackwell
   d. To re-elect Barry Carter
   e. To re-elect Rebecca Griffin
   f. To re-elect John Lowe
   g. To re-elect John Mulvey
   h. To re-elect Barbara Taeed
   i. To re-elect Nemone Wynn-Evans

By Order of the Board

**Grace Tavener**
Secretary
9 February 2024

### Notes

1. **These notes form part of the Notice of Meeting.**

2. **Meeting location:** Hinckley and Rugby Building Society, Principal Office, Upper Bond Street, Hinckley, LE10 1NZ. The meeting will start at 6.00pm.

3. **The Report and Accounts:** Copies of the Annual Report & Accounts can be found on the Society's website or on request from Principal Office and the Branches.

4. **Voting:** Members can vote by post, online, in branch or at the meeting. The deadline for postal and online voting is midnight on Saturday 23 March 2024. The deadline for in branch voting is Monday 18 March 2024. A Member entitled to attend the Meeting and vote may appoint the Chair of the Meeting to attend and vote for them. All voting instructions are outlined on the Proxy Voting Form.

**5. To qualify to vote:**

## Shareholding members

**a. To qualify as a shareholding member, you must:**

i. if you are an individual, be at least 18 years old on 26 March 2024, and
ii. have held shares to the value of not less than £100 in the Society on 30 November 2023, and
iii. not have ceased to hold a share or shares in the Society at any time between 30 November 2023 and the voting date, and
iv. hold a share or shares in the Society on the voting date.

b. Where the shares are held jointly by two or more persons, only the first named in the records of the Society in respect of those shares can have any voting rights.

## Borrowing members

**a. To qualify as a borrowing member, you must:**

i. be at least 18 years old on 26 March 2024, and
ii. have owed the Society not less than £100 in respect of a mortgage debt on 30 November 2023, and
iii. owe the Society not less than £100 in respect of a mortgage debt on the voting date.

b. Where a mortgage debt is owed jointly by two or more persons, only the first named in the records of the Society in respect of that mortgage can have any voting rights.

**6. Number of votes:** You can vote only once as a member, irrespective of:

a. the number of accounts you hold and whether you hold accounts in different capacities (for example, on your own behalf and as a trustee), and
b. whether you qualify to vote as both a shareholding member and a borrowing member.

# Information on candidates seeking election as a director at the AGM

Anthony Alexander
Non-Executive Director

Tony joined the Society as a non-executive director in December 2023. He qualified as a Chartered Accountant at Grant Thornton, Coventry. He spent 30 years of his career at Nationwide Building Society in a variety of senior Finance, Risk, Audit and Business roles.

Tony is also a trustee for the charity Homeless Oxfordshire that provides accommodation and support for homeless people.

Manuela Pifani
Non-Executive Director

Manuela joins the Society as a non-executive director in March 2024.

After graduating in Italy, Manuela moved to the UK and began a career focused on customer experience and transformation that has spanned more than 25 years. She started in the financial services sector, leading Customer Experience functions in Barclays, RBS/Natwest and Direct Line Group, before moving into the retail sector with Kingfisher and ASDA.

For six years, Manuela has been a consultant and thought-leader, using her extensive experience and knowledge of the continuously evolving consumer market to help organisations across sectors to improve their customer experience to drive loyalty and increase profitability. She also volunteers as a member of the Board of directors for the not-for-profit Customer Institute.

# Information on candidates seeking re-election as a director at the AGM

Lynda Blackwell
Non-Executive Director

Lynda joined the Society as a non-executive director in March 2023.

After qualifying as a solicitor, Lynda began a career in the mortgage sector that has spanned more than 35 years. She started in private practice advising retail banks, then moved into the building society sector, before spending 16 years at the financial services regulator, the FCA, in a variety of legal and policy-related roles.

For the last six and a half years, Lynda has been a consultant and non-executive director for fintech businesses, using her extensive regulatory experience and knowledge of the financial services industry to support good innovation and best practice, staying closely involved in the continuing evolution of the market.

Barry Carter
Chief Executive Officer

Barry joined the Society in July 2022 as Chief Operating Officer and was appointed Chief Executive Officer, subject to regulatory approval, in January 2024. He has 20 years of experience in private and retail banking and previously held a position as Chief Operating Officer at HSBC Private Bank. Barry is a Chartered Certified Accountant, Chartered Banker and is a Member of the Chartered Institute for Securities and Investments.

Rebecca Griffin
Chief Risk Officer

Rebecca joined the Society in 2013, having qualified and worked as a Chartered accountant with KPMG, Grant Thornton and NFU Mutual. During her time at Hinckley & Rugby Building Society, she has led the creation and embedding of the independent second line within the Society, becoming Chief Risk Officer in July 2020 and joining the Board in July 2022. She is responsible for risk management and compliance at the Society and chairs the Conduct & Operational Risk Committee.

She was part of the first cohort of the BSA/Loughborough University Masters in Leadership and Management and, since qualifying, now sits on the Advisory Panel for the course. Rebecca is also a Trustee for a local charity, Hinckley Ladies Circle, a Girlguiding Leader and has lived in Hinckley for over 10 years.

John Lowe
Non-Executive Director

John joined the Society in December 2022 as a non-executive director. He is a member of the Audit and Compliance Committee and the Risk Committee.

Along with over 25 years' experience of working in financial services, John also brings a wealth of experience as a Board director. After qualifying as a Chartered Accountant with Deloitte, John worked for retail banks, specialist lenders and within the building society sector. He spent 10 years at Coventry Building Society in roles including Head of Credit Risk, Head of Product Development and seven years as the Group Finance Director.

He is currently a non-executive director at Redwood Bank and Chair at Primis, the mortgage and protection insurance intermediary network.

# Directors standing for re-election at the AGM continued

John Mulvey
Chief Financial Officer

John joined the Society in March 2020 as Chief Financial Officer. He has over 20 years of experience in the financial services sector, having previously worked for Melton Mowbray Building Society, where he was the Deputy Chief Executive and Finance Director for 10 years. He is a chartered accountant, having trained and qualified at KPMG, working within their financial services team auditing banks and building societies.

His role at Hinckley & Rugby involves leading the finance and treasury functions, with responsibility for financial and regulatory reporting, and managing the Society's liquidity, funding and capital positions. He chairs the Assets and Liabilities Committee.

Barbara Taeed
Non-Executive Director

Barbara joined the Society as a non-executive director in March 2017. She is currently the Chair of the Remuneration Committee and is the Society's Senior Independent Director.

She is a qualified Risk Manager and in addition to her role at HRBS leads an academic Think Tank which specialises in the measurement and transaction of non-financial values and the use of new technology to enhance this, including artificial intelligence, web3 and digital currencies.

Prior to joining HRBS, Barbara worked at the heart of the UK's banking infrastructure at the not-for-profit UK Payments as Director of Payments Integrity and Security.

Nemone Wynn-Evans
Non-Executive Director

Nemone joined the Society as a non-executive director in March 2017. She currently chairs the Nominations & Governance Committee and is the Society's Vice Chair.

Her background is in the equity capital markets sector of the City of London, including as a former Finance Director on the main board of a stock exchange, having begun her career in corporate finance and broking.

She also holds other non-executive positions as Chair of a mutual friendly society in the savings & insurance sector, at a renewable energy company (where she chairs the Audit & Risk Committee) and at a Venture Capital Trust investing in small, growing companies.

Nemone lives in Warwickshire, is a Fellow of the Chartered Institute of Securities and Investment and holds an MBA from Cranfield School of Management.

# Directors not seeking re-election at the AGM

Colin Franklin and Gary Wilkinson have indicated their intention to retire from the Board at this year's Annual General Meeting. The Society and Board of Directors wish to express their appreciation for the considerable contribution they have made to the Society during their service.

# Environmental, Social and Governance report

**Over the last 12 months we have developed a new Environmental, Social and Governance ('ESG') Framework and Policy and have continued to strengthen our ESG strategy. As a responsible mutual organisation, ESG is a key part of the Society's business plan. This ensures that all practices leading to the success of the Society consider a broad and rounded contribution to the local and wider environment within which the Society operates**

## Environmental

The Society recognises and embraces its responsibility to minimise the energy, carbon, water and waste impacts of its business. The Society seeks to positively influence the awareness of Green Finance and the environmental improvements available to property owners throughout the UK. The Society considers not only the depletion of natural resources and polluting factors as a result of its activity, but also the whole value chain and identifies areas where a positive change and impact can be had on a local and global scale

### Green Finance

The Society's Green Finance goal aims to improve energy efficiency in homes across England and Wales. The Society provides retrofit finance, designed to support homeowners from the start of their journey through to the installation of the retrofitting measures with its "With You all the Way" approach. The Society aims to provide leadership and innovation in the Green Finance space of the financial services sector.

### Society Carbon Footprint

Whilst recognising that climate change is a systemic issue affecting all sectors and geographies, the Society aims to lead by example and ensure that in-house practices reduce the impact the business has on the environment. One year after the effective installation of our solar panels, we are pleased to announce the achievement of our goal to cut our Head Office grid consumption by approximately 20%. Moreover, in July, we committed to 100% green utility tariffs with our energy provider. Additionally, by building frameworks to measure our emissions, we are able to identify areas of focus to reduce our own carbon footprint.

We also believe in supporting the greening of the local community and as such, the Society has taken great pride in partnering with Hinckley & Bosworth Borough Council for the second year running to sponsor the Free Tree Scheme, an initiative geared towards nurturing a greener and more sustainable local environment. As a community-focused financial institution, we recognise the importance of investing in initiatives that directly benefit our local area. By supporting the Free Tree Scheme, we are actively contributing to the well-being of Hinckley and Bosworth residents, fostering a sense of pride and responsibility among our community.

### Existing Mortgage Portfolio

Working with existing customers, the Society provides support to homeowners to understand the potential areas for improving their properties. In addition to leveraging Green Finance products and services, we aim to encourage customers to begin their journey towards more energy efficient homes. The Society's existing mortgage portfolio is being assessed on an on-going basis for physical as well as transitional opportunities. The Society recognises the importance of understanding the climate risks that its members are facing, such as flooding, subsidence and energy efficiency, in order to address these issues and work with our members to improve the environmental aspects of our existing mortgage portfolio.

### Reporting

In September 2021, the Society conducted an exercise to identify our scope one and two emissions, relating to those arising from owned vehicles and electricity and gas usage, for our head office and branch network. These emissions totalled 152 carbon dioxide equivalent ($CO_2e$) tonnes. Since this time, the Society has been working hard to reduce these and subsequently we have seen a year-on-year reduction, with our emissions calculated at 105 $CO_2e$

tonnes in 2022, and a further reduction to 97 $CO_2e$ tonnes in 2023.

In addition to this, the Society is in the process of reviewing which of the scope 3 emissions categories can be measured and reported.

The carbon footprint measurements have been calculated in accordance with best practice guidance issued by the Greenhouse Gas Protocol using 2019 conversion factors for $CO_2e$ published by the Department for Business, Energy & Industrial Strategy (BEIS).

## Social

Under our ESG framework, we believe in the key areas of Community Impact: Colleague Engagement, Health, Wellbeing & Welfare and Equality, Diversity & Inclusion to support a strong Social Impact.

### Community Engagement and Charitable Activities

The Society aims to proactively engage with local communities through a combination of sharing time, experience, knowledge and resources. We believe in creating partnerships that make a sustainable impact on the communities we serve. The Society recognises the importance of ensuring that branches remain available and accessible to its members, and that advice and support is readily available on the high street. The Society believes in providing valuable financial education in schools to support children and young adults to better understand financial best practice and to develop skills which will help them achieve a sustainable financial future.

We actively engage with local charities and communities, encouraging our employees to get involved through our volunteering programme. Through our partnership with Leicestershire and Rutland Community Foundation we also aim to support charities and good causes through our financial grant application process and are proud of our savings affinity products that support a number of local hospices in the region.

### Colleague Engagement

The Society believes that the first step in hiring and retaining the best talent is to create a culture of openness and honesty. We are proud that we are able to give our employees an important voice to shape the organisation. We have achieved this through regular employee engagement surveys, workshops and all staff communications. All employees are offered an attractive benefits package, including benchmarked remuneration, Society pension scheme, private health cash plans and a day off on their birthday. Starting our partnership in 2023 with an employee engagement firm, Best Companies, has captured our employees' views and opinions, and through their direct feedback we have been able to shape our future people strategy. We were delighted to be awarded a 1 Star Accreditation in 2023, recognising a very good level of employee engagement.

### Health, Wellbeing & Welfare

Through a culture of 'togetherness' the Society provides a safe and supportive environment, with a focus on mental health and wellbeing practices. We have a team of dedicated mental health first aiders to support our employees on a day-to-day basis and in 2023 the Society launched a wellbeing portal for all employees to access and benefit from. In October 2023 we launched a dedicated Wellbeing focus month, covering topics such as mental health and resilience, women's and men's health, nutrition and physical wellbeing. Furthermore, our employee wellbeing working group meet monthly to ensure we continue to raise awareness on these topics and engage with our employees.

### Equality, Diversity and Inclusion (ED&I)

The Society believes that the workplace should be a great place to work for everyone and as such values diversity in all its forms, irrespective of gender, age, ethnicity and cultural background. The Society recognises that a diverse talent pool is essential to its success. This is reflected in all recruitment practices, for employees as well as the Board of directors. All workplace practices protect and maintain a culture of equality and fairness, ensuring that the workplace is free from discrimination and harassment.

## Governance

The Board's Corporate Governance report is set out on page 15 of the accounts.

The Society recognises that good governance is essential to delivering long-term sustainable success for all stakeholders. This includes a sound approach to corporate governance that adheres with all applicable laws, rules and regulations, as well as upholding the Society's values. The Society's practices aim to deliver the strategy in a risk-aware and well-governed manner, providing assurance and confidence to its stakeholders and regulators.

The Society operates a tiered governance structure ensuring strategic oversight and monitoring throughout all areas.

# Environmental, Social and Governance Report continued

Each committee has established and agreed terms of reference detailing its duties and responsibilities. To ensure continued improvement, each committee undertakes a self-assessed effectiveness review against its terms of reference. In line with the UK Corporate Governance Code recommendations, the Board considers an external evaluation every three years. The Society recognises the importance of sound corporate governance practices to ensure its success, and as such aligns its policies with recognised standards and codes, including the UK Corporate Governance Code and the FRC Guidance on Board Effectiveness.

**Board Diversity**

The Society seeks to ensure that a diverse board leads and directs the delivery of the strategy. Board diversity is assessed and sought out through the analysis of the board skills matrix and by evaluating strategic requirements. Examples of board diversity considerations are skills, experience, behaviours, gender, ethnicity, age and sector knowledge. Recruitment practices for new Board members consider a wide pool of talent to ensure the Board remains diverse and independent. The Board's new Chair, starting in March 2024, was appointed from existing Board members.

We will see two non-executive Board members retiring in 2024, as well as a change in Chief Executive Officer. These changes have been planned throughout 2023 and have been supported by Miles Advisory in the non-executive recruitment and Warren & Partners in the Chief Executive recruitment. In both searches we have received a diverse group of candidates, and look forward to integrating the skills and experience of our new directors into the Society.

Following the Board changes noted in the Chair's report, the gender composition of the Board from 27 March 2024 will have a female majority, led by the Society's first female Chair.

**Member Engagement**

The Board actively seeks member feedback and opinion to ensure the successful delivery of member needs and requirements. A member panel has been established to meet with our members and discuss key challenges and opportunities for the future. The Board of directors attend the Annual General Meeting and are on hand to answer questions and to outline how the Society has delivered the best possible service for its members.

The conduct of our Board and staff members is of primary importance to the Society as we aim to demonstrate our values in everything that we do. The Financial Conduct Authority's regulation on Consumer Duty was introduced in 2023, and Lynda Blackwell has been the Board Consumer Duty champion, providing challenges to how the Society has adopted the Consumer Duty principles.

**Executive Remuneration**

The Remuneration Committee provides oversight and challenge for all Society remuneration practices. The Society endeavours to ensure that a fair and transparent framework is in place for all remuneration decisions. The Society's Remuneration Policy clearly outlines Society practices, thresholds and controls.

**Corporate Behaviours and Business Ethics**

All directors and employees uphold the Society values and conduct themselves with integrity and honesty. The Board operates under its Code of Conduct and ensures that all working practices are fair and transparent. The Board provides oversight and approval of key strategic policies and documentation and ensures that all working practices protect against discrimination and harassment.

**Conduct Policies and Practices**

All Society conduct policies and practices aim to ensure that all our employees uphold the highest moral standards and conduct principles. The Board provides oversight and approval for key strategic policies, including the Conduct Risk, Conflicts of Interest, Remuneration and People policies. The Board Chair is the Whistleblowing Champion and ensures that there is always a confidential, trusted channel for whistleblowing communications. The Board receives an annual report from the Company Secretary on all whistleblowing, conflict of interest and health and safety matters.





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