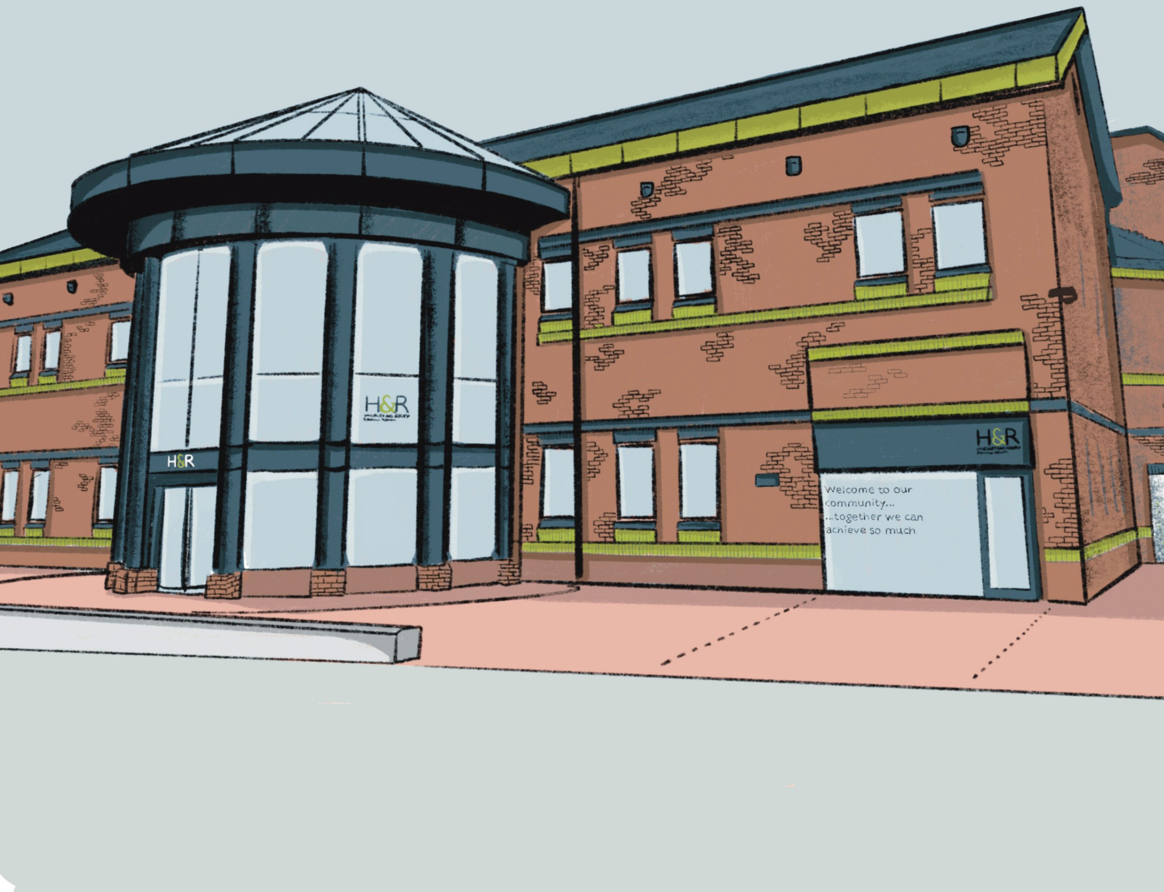
# Annual Review

Incorporating the Summary Financial Statement for the year ended 30 November 2022 and Notice of Annual General Meeting 2023

HINCKLEY AND RUGBY BUILDING SOCIETY



# About us

Hinckley and Rugby Building Society has been serving its members for over 150 years. The Society has an extensive range of competitive savings accounts and mortgage schemes 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

> "Your Society will continue to work to support members, staff and our communities across Leicestershire and Warwickshire who are impacted by the cost-of-living crisis."
>
> **Colin Franklin**
> Chair

**In last year's report I somewhat tongue in cheek said that "I am loath to predict the next year". If we viewed the pandemic as a once in a lifetime experience, I suspect many of us secretly thought and at least hoped that 2022 would revert to a normal year without the same level of life changes and concerns. The pandemic, whilst not fully disappearing from our thoughts, is now appearing to be manageable but has been replaced by a combination of global and national events which will impact the economy and our lives for years to come.**

This cocktail of events, including a European war, an energy crisis, soaring inflation, political instability and change, interest rates rising markedly and an economic downturn in the UK, has added to other global risks such as global warming, poverty and inequality, which need a consistent and continued focus. Your Society will continue to work to support members, staff and our communities across Leicestershire and Warwickshire who are impacted by the cost-of-living crisis. Whilst the full impacts may be felt in the future, we are ready to support members (mortgage or savings) who feel that they are in or approaching financial difficulty. We decided to make a one-off payment to our staff (excluding executives) in August to help with the sudden and sharp rises in costs and we opened a financial assistance grant for staff who needed extra help. Whilst 2023 may be a challenging year, we stand ready with continued support.

2022 has been a successful year for your Society, returning to mortgage book growth, achieving our budgeted level of profitability and navigating the economic and market turmoil of September and October. This has further strengthened our foundations and I am delighted to say that your Board signed a contract for a significant investment in our digital capabilities. Throughout 2023 and 2024 we plan to securely move our key information technology systems into the cloud, we will introduce a new, improved website, new digital systems for our mortgage and savings businesses and, for the first time, an app for use on mobile devices. Our aim is to enable members to open our savings accounts, transfer monies to their current account and save direct from their salaries, all from the comfort of their favourite armchair. However, I want to be very clear to you all, this is a complementary strategy to our branch network and not a replacement. We are committed to providing a local service through our branch network. As banks decide to close, we welcome new members through our doors, and we have no intention of leaving the towns and villages we serve. So, it will be a journey into the digital world of financial services whilst continuing to demonstrate our mutual ethos to our members, staff and communities.

We have had three changes to our Board this year, starting with the retirement of Dean Waddingham in May, with Barry Carter taking the role of Chief Operating Officer in July. I would like to thank Dean for his service to the Society and wish him well. Barry has extensive experience in leading the operational performance of financial services businesses, and within his responsibilities he will take the lead and sponsorship of our digital programme. Rebecca Griffin was appointed as the Society's first Chief Risk Officer in July 2020. I am delighted to say that the Board approved her appointment as an executive director, and Rebecca joined our Board in July 2022.

During the year we received the results of an independent review of your Board's effectiveness. We were looking to identify opportunities to improve our representation and support for members' interests, together with our effectiveness in supporting and overseeing management. I am pleased to say that my fellow Board members all embraced the findings

# Chair's statement continued

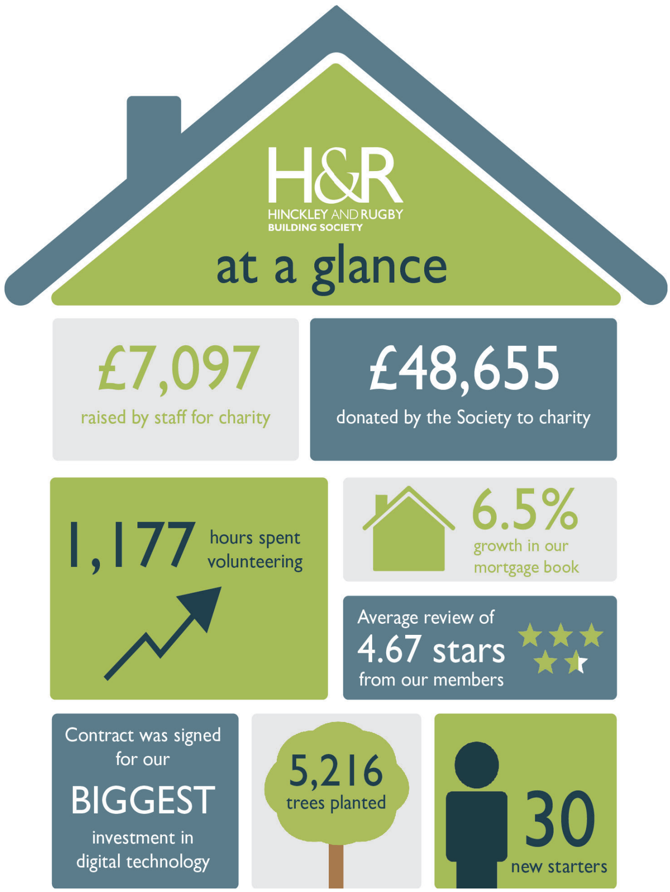
and we have implemented better Board processes which enhance the efficiency of our meetings. This has also helped us to prepare for the planned retirement of four non-executive directors which will take place between March 2023 and March 2024. We have created a succession plan which will ensure that we have the right skills and experience at the board table for the future. We are making good progress with our recruitment, and welcome John Lowe, who was appointed to the Board on 1 December 2022, and Lynda Blackwell, who will take up a Board position on 29 March 2023. Both will stand for election as directors at the Annual General Meeting in March 2023.

Geneane Bell and David Woodward will retire from the Board at our March 2023 AGM. Both will be missed, and I would like to thank them for their support and valuable contribution to the Society.

Your Society continues to place the interest of members first and I am proud to lead a team of directors and staff who make this their focus every day.

Finally, on behalf of members, I would like to sincerely thank my fellow directors and all staff at the Society for their hard work.

**Colin Franklin**
Chair
14 February 2023



# Chief Executive's report

> "Our branches are at the centre of our communities and, whilst other financial services providers close theirs, we will be happy to welcome their customers into our branches."
>
> **Colin Fyfe**
> Chief Executive

## Looking back

**I am delighted to report a very successful year for your Society. We successfully navigated the Covid lockdown period and, whilst we have adjusted to new ways of working, it has also been good to see our colleagues back working together in our branches and head office, supporting our members with their financial goals. I am sure that the Covid period will be remembered by us all for many different reasons, but the Society was able to embrace differing ways of working that expanded the service channels we had available for our members.**

During the year we implemented a new digital telephone system, grew our use of Live Chat in both our mortgage and savings businesses, created a new website that launched in January 2023, and were the first UK lender to complete a digital mortgage. PEXA (Property Exchange Australia) was looking to enter the UK market and your Society was chosen to be their partner in the design, build and implementation of a portal and process to digitally complete mortgage transactions more quickly and securely. We were proud to be able to demonstrate our knowledge of the mortgage market and our skills to a partner in such an innovative project, and we will continue this partnership with PEXA as they develop their UK proposition. We were also able to spend time looking at our services across the Society and consider how we could improve their efficiency and effectiveness. Our savings business completed a thorough review during the year, looking for opportunities to improve the experience of our members when they make contact with us. Additionally, as we finished the year, we have implemented a new operating model in our mortgage business which will streamline our processes and delivery times.

## Community

Whilst we completed significant service developments in the Society over the last year, we were also very conscious of the challenges our local communities were facing. In 2022, we formally launched the Hinckley & Rugby Building Society Community Foundation. Working in partnership with Leicestershire & Rutland Community Foundation, we identified six local charities split evenly between Leicestershire and Warwickshire, whose work focused on mental health and wellbeing, poverty and disadvantage, and the environment. Our staff took a personal interest not only in the selection of these important areas, but by getting involved with the activities our monies have supported.

Sharing our knowledge, skills and experience within our local communities has always been an important focus for the Society and we increased our volunteering hours again in 2022. Volunteering comes in many shapes and forms and an important addition to this last year was our financial education programme, working with local schools and colleges. This proved a great success and these "life skills" will continue to help young people make the right financial choices.

We have also continued our work to encourage local businesses to join us in our support of local charities. We continue to chair the LAMP (Leicestershire Action of Mental Health) Business Club in Leicestershire, where more and more businesses are sharing their mental health strategies. During the year, in partnership with Hinckley & Bosworth Borough Council, we created a local business forum focused on climate change and the actions businesses can take to reduce their carbon emissions. At the end of the year, with the UK in the midst of a cost-of-living crisis, we collaborated with two other Leicestershire building societies to support The Bridge (East Midlands). The Bridge is a specialist homeless charity, and our support will provide preventative services.

# Chief Executive's report continued

## Financial performance

Following the two years of the pandemic where we deliberately moderated our mortgage lending, our aim in 2022 was to restart mortgage growth and we exceeded our expectations by delivering a 6.5% increase in gross mortgage balances. We continued with our "widening the jaws" strategy, aimed at strengthening our net interest margin, together with our profitability and capital base. Our net interest margin increased from 1.34% to 1.45% and we aim to continue this upward trajectory whilst still providing fair value to members.

After many benign years and with interest rates rising, the savings market became more competitive, and we were able to offer our members a range of products, including a new regular saver product introduced during UK Savings week. We are a strong supporter of the savings habit, and this was one of the topics which our staff covered at the financial education sessions they provided in schools. After a lengthy period of low interest rates, savers are able to receive a better return on their monies and we witnessed more members willing to invest for longer to achieve this. Overall, the Society's funding profile remained strong.

Competition in the mortgage market continued to be fierce throughout most of 2022, but we were able to re-enter lending markets which we had paused during the pandemic, such as self-employed and buy to let. Self-build lending continues to be a key growth area for the Society and, with initiatives such as Right to Build, more and more consumers are opting for a choice in the style of home they live in. These homes are also typically energy efficient, which has added an additional benefit during this period of high energy prices. We launched our Green mortgage proposition during the year, but in general consumers had other priorities in their minds, and across the lending sector take up has been low. We moved our focus to consumer and mortgage broker education on property retrofitting to manage climate risks, and we believe this will position us well for an increase in green mortgage demand in future years.

The cost-of-living crisis quickly followed the pandemic and we have been active in our support for members who are in or who are approaching financial difficulty. Whilst our goal will be to protect the Society from cost-of-living and recession related headwinds, we have a co-operative policy and strategy which we use to assist members. At the end of our financial year the quality of our mortgage book remained strong, with a very low number of members in arrears with their mortgage payments (2022: 0.39%, 2021: 0.49%). We stand ready to support our members through, what is predicted to be, a challenging year ahead.

The cost-of-living also impacts our staff and in August 2022 we made a one-off payment to our staff (excluding executives) to help them with the challenges that we were seeing in the energy and food markets. Excluding this payment our profit before tax was broadly consistent with 2021. The fundamentals of the Society strengthened in 2022, with a growing net interest margin, whilst maintaining prudent levels of capital and liquidity. Financially we are well placed to manage the economic challenges ahead.

## Investment

As regulation develops, we have invested in the Society to ensure we have a robust framework for the business to operate within. In 2022 the regulatory focus turned to the important topics of operational resilience and the management of third party relationships. New frameworks were created to ensure that operationally we could continue to provide the service our members value during any periods of service interruption. The work with third parties was extensive and ensures we are well placed to achieve the value and service we require in our contracts. I was delighted when we delivered both projects within the expected timeframe, and a review by our internal auditors provided us with strong assurance that we had adopted the regulation successfully.

Our key investment decision during the year was the contract signed with our core system provider, Sopra, to move our systems into the cloud, establish new front-end mortgage and savings portals and create the Society's first app for members' use. When implemented, our members will be able to open a savings account and transfer money to their nominated bank account from the comfort of their own home. There are many features and benefits this digital transformation will deliver, and I am looking forward to demonstrating them to our member panel meetings that we will reinvigorate over the next year.

Digitisation is only part of our service channels and our commitment to our branch network remains strong. Our branches are at the centre of our communities and, whilst other financial services providers close theirs, we will be happy to welcome their customers into our branches.

During 2023 our workplace savings initiative will give employers in our local communities the opportunity to encourage their employees to save into a Society account direct from their salary.

## Environmental, Social & Governance (ESG)

The Society continues to take a proactive approach with ESG and made good progress in 2022. With our environmental team, the focus was on our own footprint, and we installed 111 solar panels at our head office to improve our energy efficiency. Education for our members and local communities was in big demand, as well as our continued support for Rotary World Savers, our tree planting in Hinckley & Bosworth borough, and our leadership of the Hinckley & Bosworth Business Climate Forum. The retrofitting of a large dolls house, to educate the old and young on the ways in which a home can be retrofitted to reduce carbon emissions, proved a big success and there is no better visual aide to create these conversations.

Under our Social strategy we update our Equality, Diversity and Inclusion strategy for the Society, and we are working through implementing this across our operations. Our work under mental health continues to gain traction, and through chairing the LAMP Business Club, I am delighted to say that over 50 businesses in the county are regularly meeting to discuss the opportunity to support all their employees.

On behalf of the Board, our Company Secretary commenced a full governance review, starting at Board level, and is currently working through all internal policies and sub-committees. This is making a big difference to the efficiency and effectiveness of the way your Society is run and we will continue this exercise throughout the Society.

## Staff

Hinckley & Rugby staff continued to show excellent resilience and dedication throughout 2022, in circumstances where they had to adapt to changing working conditions and a changing market environment. I regularly hear from our members their thanks for the service they receive, and this was further evidenced last year with our overall member satisfaction score of 93.5%, as provided independently by Smart Money People.

We continued to grow our staff numbers from 152 to 156 at the year-end, and increasingly we are using the hybrid working model to recruit staff from outside our operating area, where their specialist skills and experience are needed in our business. During the year, an additional three staff members graduated from Loughborough University with a Masters qualification, and we have now supported six of our executives and senior leaders through this programme with another one commencing in September 2022.

During the year Dean Waddingham, Chief Customer Officer, retired from the Society and Lisa Bengi, Head of Human Resources and People Development, moved from the Society to another role. I would like to thank Dean and Lisa for their support and dedication to our business. We welcomed Barry Carter, Chief Operating Officer and Niki Barker, Chief People Officer and additionally our Company Secretary, Maggie Long, joined our executive team.

As the calendar year came to a close, we received the tragic news that Evan Crosskey, our Mortgage Sales & Distribution Senior Manager had died. Evan had worked at the Society since 2008 and was an experienced, knowledgeable, respected and popular member of our senior leadership team. Having been awarded his Masters degree with distinction in December 2022, he was passionate about developing his career. Equally, he was admirably enthusiastic about volunteering and always generous with his time in support of charitable activities. We will support Evan's family, friends and colleagues through this difficult time.

I would also like to thank all the Hinckley & Rugby staff for their tireless efforts during the year.

## Looking forward

The UK economy has been resilient throughout the Covid period, but 2022 saw rising interest rates, increasing costs for businesses and consumers, a forecast recession, and the potential for further falls in house prices in 2023. It is likely that 2023 will be a challenging year for many, but your Society is in a strong position to support our members and communities through these times.

2023 will be a busy year for the Society as, in addition to managing our business and growth aspirations, we have a number of projects which will support our continued growth. One of these is the implementation of the Financial Conduct Authority's Consumer Duty regulation and we are embracing this opportunity to enhance all of our member experiences with the Society.

The foundations of this Society have never been stronger, and we have the capacity and capability to grow our business whilst managing the right investments at the right times. Finally, our attention will not be diverted from our local communities, particularly in these challenging times.

**Colin Fyfe**
Chief Executive
14 February 2023

# Chief Financial Officer's report

"The Society maintained a strong overall financial performance during 2022, despite the cost of living crisis and rising interest rates impacting financial markets and our members and leading to a downturn in the UK economy. Profit before tax was ahead of plan at £1.32m but below the prior year (2021: £1.44m). Prudent levels of liquidity and capital were maintained."

**John Mulvey**
Chief Financial Officer

This section of the annual report reviews the current 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 2022, despite the cost-of-living crisis and rising interest rates impacting financial markets and our members and leading to a downturn in the UK economy. Profit before tax was ahead of plan at £1.32m, but below the prior year (2021: £1.44m), with improvements in net interest receivable being more than offset by increased operational costs. Prudent levels of liquidity and capital were maintained throughout the year. The positive financial performance allows the Society to continue to invest in new staff and technology in 2023 and future years that will enhance products and services to the benefit of members.

The Society returned to mortgage lending growth during the year, following two years of reduction. The growth was achieved through new product initiatives, careful management of mortgage pricing in a volatile interest rate environment, and a stronger focus on retention of existing borrowers at the end of their initial product term. Loans and advances to customers increased to £648m (2021: £619m).

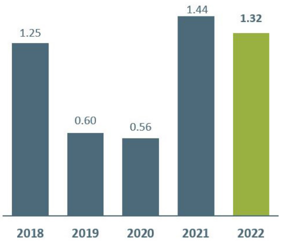
Impairment provisions held against specific mortgage cases in arrears at the prior year-end were released during the year as the cases were resolved without loss. Impairment provisions held at the end of the current year reflect the expected impact that the downturn in the economy, cost-of-living crisis and increasing interest rates are expected to have on the ability of some borrowers to pay their mortgages and on the housing market.

# Chief Financial Officer's report continued

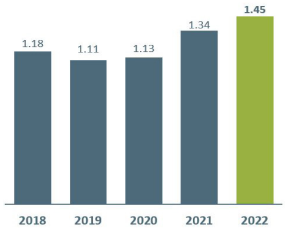
## Key financial measures

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Profit before tax (£m) | **1.32** | 1.44 | 0.56 |
| Loans and advances to customers (£m) | **648.2** | 619.0 | 657.9 |
| Retail savings (£m) | **674.2** | 693.0 | 690.2 |
| Liquid assets (£m) | **143.3** | 172.3 | 145.2 |
| Wholesale funding (£m) | **78.6** | 60.0 | 74.0 |
| Gross capital (£m) | **46.2** | 47.3 | 45.4 |
| Total assets (£m) | **812.4** | 803.6 | 814.0 |
| Net interest margin as a percentage of mean total assets | **1.45%** | 1.34% | 1.13% |
| Management expenses as a percentage of mean total assets | **1.34%** | 1.22% | 1.06% |
| Cost/income ratio | **90.3%** | 88.4% | 93.3% |
| Liquid assets as a percentage of shares and borrowings | **19.0%** | 22.9% | 19.0% |
| Gross capital as a percentage of shares and borrowings | **6.1%** | 6.3% | 5.9% |
| Common Equity Tier 1 capital ratio | **16.2%** | 17.0% | 15.7% |
| Balances in arrears as a percentage of gross loans and advances | **0.55%** | 0.71% | 0.88% |

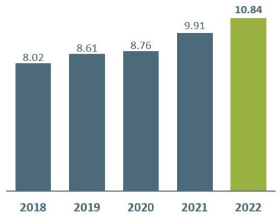
Profit before tax
(£ million)




Net interest margin
(%)




Administrative expenses inlcuding 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 2022 was lower than the prior year, reducing by £0.12m to £1.32m. The key components in the profit performance were:

- Net interest receivable increasing by £0.90m to £11.71m (2021: £10.81m), with the net interest margin earned reaching 1.45% (2021: 1.34%) and growth in loans and advances to customers. 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.

- Gain on disposal of an investment property of £0.06m, with a third-party tenant exercising an option within the lease to purchase the property at the prevailing market value. In the prior year, the Society recognised a gain on the revaluation of investment properties of £0.04m.

- An impairment credit recognised on loans and advances to customers of £0.15m during the year (2021: £0.10m credit). This impairment provision release was due to the resolution of a number of cases in arrears at the end of the prior year, partially offset by assumptions reflecting the deteriorating state of the UK economy and its impact on the Society's borrowers at the balance sheet date.

The above factors were more than offset by:

- Administrative expenses, including depreciation and amortisation, increasing by £0.93m to £10.84m (2021: £9.91m). This was 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.

- Net gains on derivative financial instruments held for hedging purposes reduced by £0.19m to £0.01m (2021: £0.20m 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.

## 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 on the Society's interest rate swaps that are used to hedge fixed rate mortgages. A higher level of SONIA increases the overall level of interest earned on the Society's fixed rate mortgages.

# Chief Financial Officer's report continued

Commencing in December 2021, the Bank of England raised its bank base rate from the historic low of 0.1% to 3.0% in November 2022. 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, particularly on central bank funding, and resulted in an increase in the Society's net interest margin to 1.45% (2021: 1.34%). The increase in margin was used to fund the increased operational costs incurred in the year, with the consequence that the benefit of the rises in base rate could not always be passed on in full to all savers.

We aim to continue the margin improvement, through growth in higher margin mortgage products, whilst balancing the interests of borrowing members, savings members and the Society's capacity to invest for the future.

## 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 remains an efficiently run organisation and its level of management expenses expressed as a percentage of average total assets of 1.34% (2021: 1.22%), despite increasing, was below the average in 2021 for a building society with total assets less than £1 billion.

Overall administrative expenses, including depreciation and amortisation, increased by £0.93m to £10.84m (2021: £9.91m).

Costs throughout the building society sector have increased significantly in recent years as firms, including the Society, have invested in people and systems to deliver improved customer service commensurate with member expectations and to respond to increasing regulatory requirements. As a result, during 2022 the Society incurred increased staff costs and IT expenditure. This trend is expected to continue in the next two financial years as the Society embarks on a significant investment programme to improve the resilience and functionality of its core banking system. This will include delivery of enhanced online savings functionality for members, including the introduction of a mobile phone app, and enhanced mortgage application capability for brokers.

## Capital

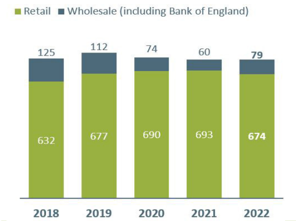
Capital is held to provide protection for members' deposits against credit losses arising from lending and other risks to which the Society is exposed. A feature of the Society's risk management framework is the Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP assesses the level of capital 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 28 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 £1.07m (2021: £1.08m) was transferred to general reserves. In addition to the increase due to retained profits, the Society's reserves reduced by £2.06m (2021: £0.84m increase) due to actuarial losses recognised in the pension scheme. As a result of this, gross capital at the year-end reduced to £46.2m (2021: £47.3m). The Society's gross capital ratio (gross capital expressed as a percentage of total shares and deposits) was 6.14% (2021: 6.28%). 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 5.42% (2021: 5.52%).

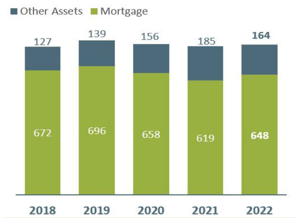
At 30 November 2022 the Society's Total Capital Requirement set by the Prudential Regulation Authority was £26.0m (2021: £24.3m), with £21.9m (2021: £20.2m) relating to the Pillar 1 capital requirement and £4.1m (2021: £4.1m) relating to the Pillar 2A capital requirement. Regulatory capital held by the Society at 30 November 2022 was £44.7m (2021: £43.6m), representing 16.3% (2021: 17.3%) of total risk weighted exposures and well in excess of the minimum Total Capital Requirement and capital buffer requirements.

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

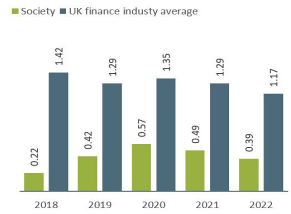
### Overall funding including Term Funding Scheme (TFSME)(£ million)




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




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




The audited disclosures required by the Capital Requirements Directive (Country-by-Country Reporting) Regulations 2013, which are prepared to comply with the Capital Requirements Directive, 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) reduced by £18.8m during 2022 and represented 90% (2021: 92%) 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 £60.2m (2021: £60.0m) 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 held £17.1m (2021: £nil) of funding 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 £1.3m (2021: £0.3m) 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 £143.3m (2021: £172.3m) at the year-end represented 19.0% (2021: 22.9%) of shares and borrowings. The level of liquidity held relative to total shares and borrowings remains significantly above the Board's internal assessment of its minimum requirement and its regulatory minimum requirement. Of the liquid assets held, £121.1m (2021: £158.1m) 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.

## Loans and advances to customers

Loans and advances to customers at 30 November 2022 were £648m (2021: £619m), representing growth of 4.7% (2021: 5.9% decline). Gross mortgage balances (before the deduction of impairment provisions and other accounting adjustments) grew by 6.5%.

New mortgages advanced during 2022 amounted to £183m (2021: £119m) and were spread across a range of products, 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.

# Chief Financial Officer's report continued

After standard owner occupied mortgages, which represented 71% (2021: 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 27% (2021: 26%).

## 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 2022, 16 (2021: 21) borrowers were in arrears with their monthly mortgage payments by one month or more, with balances outstanding representing 0.55% (2021: 0.71%) of total gross mortgage balances. Of the borrowers in arrears, one borrower was in arrears by 12 months or more (2021: five), with a balance outstanding of £0.25m (2021: £0.90m), arrears of £0.03m (2021: £0.10m) and an individual impairment provision held of £0.05m (2021: £0.12m). There were no properties in possession at 30 November 2022 (2021: one).

With the reduced number of arrears cases within the mortgage book over the year, including the resolution of a small number of longer-term arrears cases, the impairment provision held against loans and advances to customers was reduced to £0.40m (2021: £0.55m). In arriving at the year-end impairment provision, the Board has considered the impact of the deteriorating 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 economic downturn, 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 decline in house prices during 2023. Further details of the judgements and estimations used in the impairment provision calculation are set out in note 2(b) to the accounts. The Board will continue to monitor this situation closely and will adjust the impairment provision as necessary.

**John Mulvey**
Chief Financial Officer
14 February 2023

# Financial Results for the year ended 30 November 2022

## Results for the year

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Net interest receivable | **11,714** | 10,813 |
| Other income and charges | **287** | 196 |
| Net gains from derivative financial instruments | **12** | 198 |
| Administrative expenses | **(10,844)** | (9,905) |
| Operating profit before provisions | **1,169** | 1,302 |
| Gain on revaluation of investment properties | **-** | 37 |
| Impairment gains on loans and advances to customers | **153** | 104 |
| Profit for the year before taxation | **1,322** | 1,443 |
| Taxation | **(252)** | (359) |
| Profit for the year | **1,070** | 1,084 |

## Financial position at the end of the year

| **Assets** | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Liquid assets | **143,349** | 172,269 |
| Mortgages | **648,234** | 618,963 |
| Derivative financial instruments | **12,149** | 404 |
| Fixed and other assets | **8,681** | 11,918 |
| Total assets | **812,413** | 803,554 |
| **Liabilities** | | |
| Shares | **655,540** | 674,809 |
| Borrowings | **97,293** | 78,482 |
| Derivative financial instruments | **736** | 525 |
| Other liabilities | **12,603** | 2,427 |
| Reserves | **46,241** | 47,311 |
| Total liabilities | **812,413** | 803,554 |

Approved by the Board of Directors on 14 February 2023

| | |
|---|---|
| **Colin Franklin** | Chair |
| **Colin Fyfe** | Chief Executive |
| **John Mulvey** | Chief Financial Officer |

# Summary of Key Financial Ratios

| | **2022** % | 2021 % |
|---|---|---|
| Gross capital as a percentage of shares and borrowings | **6.1** | 6.3 |
| Liquid assets as a percentage of shares and borrowings | **19.0** | 22.9 |
| Profit for the year as a percentage of mean total assets | **0.13** | 0.13 |
| Management expenses as a percentage of mean total assets | **1.34** | 1.22 |

## 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.

mazars

# 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 the full annual 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 for 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 full annual accounts, the Annual Business Statement and the Directors' Report of the Society for the year ended 30 November 2022 including consideration of whether, in our opinion, the information in the Summary Financial Statement has been summarised in a manner which is not consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for 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 full annual accounts, the Annual Business Statement and the Directors' Report of the Society for the year ended 30 November 2022.

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 accounts describes the basis of our opinion on those annual accounts, the Annual Business Statement and the Directors' Report.

## Opinion

In our opinion, the Summary Financial Statement is consistent with the full annual accounts, the Annual Business Statement and the Directors' Report of Hinckley and Rugby Building Society for the year ended 30 November 2022 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

14 February 2023

# Directors' Remuneration report

(Not forming part of the Summary Financial Statement)

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 2022. 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;
- part of the remuneration should be based on the Society's balanced scorecard performance in terms of financial, business and service performance compared to a range of objectives (including compliance with the Board's risk appetite), so as to encourage and reward behaviours which 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 Society's reward strategy for executive directors aims to pay competitive, industry comparable salaries, and to recognise individual development and progression through the annual salary and performance management review processes.

## Performance related bonus

The executive directors are eligible for a non-pensionable performance bonus, the elements of which reflect the Society's balanced scorecard measures for long-term sustainable success in the areas of customer and community, people, excellence, financial, risk and compliance, and behaviours. As a mutual, 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.

- 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, was an active member of the Society's defined contribution pension scheme until January 2022, and then opted to receive cash alternatives in lieu of pension contributions equivalent to 9% of basic salary.

# Directors' Remuneration report continued

- Dean Waddingham, Chief Customer Officer until his retirement in May 2022, 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 and income protection insurance.

## Service contracts

The general policy for appointments at executive director level includes a contractual notice period of 12 months, with executive directors required to give a notice period of six months. The Chief Executive is required to give a notice period of 12 months.

## Member consultation

The committee does not consult with members on its Remuneration Policy but 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
14 February 2023

# Directors’ Emoluments

(Not forming part of the Summary Financial Statement)
For the year ended 30 November 2022

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 2022 £’000** | Fees 2021 £’000 |
|---|---|---|
| Colin Franklin | **53** | 52 |
| David Woodward | **38** | 37 |
| Geneane Bell | **32** | 33 |
| Barbara Taeed | **31** | 28 |
| Gary Wilkinson | **38** | 37 |
| Nemone Wynn-Evans | **32** | 28 |
| | **224** | 215 |

No pension contributions were made in respect of these directors.

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

| **2022** | **Salary £’000** | **Bonus £’000** | **Contribution to defined contribution pension scheme £’000** | **2022 Total £’000** | 2021 Total £’000 |
|---|---|---|---|---|---|
| Colin Fyfe | **258** | **9** | **-** | **267** | 263 |
| Barry Carter (appointed 1 July 2022) | **73** | **3** | **6** | **82** | - |
| Rebecca Griffin (appointed 1 July 2022) | **52** | **7** | **5** | **64** | - |
| John Mulvey | **170** | **8** | **3** | **181** | 179 |
| Dean Waddingham (retired 31 May 2022) | **150** | **-** | **-** | **150** | 174 |
| | **703** | **27** | **14** | **744** | 616 |

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

Dean Waddingham left the Society on 31 May 2022, and a payment in lieu of notice of £63,971 is included in his salary and pension contribution costs for the year shown above.

# Notice of Annual General Meeting

Notice is given that the one hundred and fifty seventh Annual General Meeting of the members of Hinckley & Rugby Building Society will be held on 28 March 2023 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 2022.

2. To consider an Ordinary Resolution to appoint Mazars LLP to hold office as auditor of the Society until the conclusion of the next Annual General Meeting.

3. To consider an Ordinary Resolution to approve the Directors' Remuneration Report for the year ended 30 November 2022.

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

   a. To elect Lynda Blackwell
   b. To elect Barry Carter
   c. To re-elect Colin Franklin
   d. To re-elect Colin Fyfe
   e. To elect Rebecca Griffin
   f. To elect John Lowe
   g. To re-elect John Mulvey
   h. To re-elect Barbara Taeed
   i. To re-elect Gary Wilkinson
   j. To re-elect Nemone Wynn-Evans

By Order of the Board

**Margaret Long**
Secretary
14 February 2023

## 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 full Annual Report and Accounts can be obtained from the Society's website at www.hrbs.co.uk.

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 25 March 2023. The deadline for branch voting is Monday 20 March 2023. 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 28 March 2023, and
   ii. have held shares to the value of not less than £100 in the Society on 30 November 2022, and
   iii. not have ceased to hold a share or shares in the Society at any time between 30 November 2022 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 28 March 2023, and
   ii. have owed the Society not less than £100 in respect of a mortgage debt on 30 November 2022, 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.

# Directors standing for election at the AGM

Lynda Blackwell
Non-Executive Director

Lynda joins the Society as a non-executive director on 29 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 five 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 Operating Officer

Barry joined the Society in July 2022. 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.

His role within the Society involves the day to day operations within the business, leading the Lending, Operations, Information Security and Transformation teams.

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/Treasurer for a local charity, Hinckley Ladies Circle, and has lived in Hinckley for 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 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 at Primis, the mortgage and protection insurance intermediary network.

# Directors standing for re-election at the AGM

**Colin Franklin**
Chair

Colin joined the Society in July 2015 as a non-executive member of the Board and was appointed Chair in March 2016. Having worked at building societies for 42 years, he has a wealth of expertise and experience in the sector.

Colin lives in the Rugby area and his most recent role was as interim Chief Executive at Coventry Building Society, where he had been a Board member since 2008.

During his 35-year career at the Coventry, Colin had many roles including sales and marketing director and managing director of its subsidiary lender, Godiva Mortgages.

**Colin Fyfe**
Chief Executive

Colin joined the Society in November 2018 after leading the Darlington Building Society since 2014.

Prior to that Colin worked for 29 years in banking with Clydesdale and Yorkshire Banks. He worked in commercial and corporate banking, risk management and marketing and held the position of Divisional Director in his last role.

Colin supports a number of charitable and social organisations and has a strong interest in the building society sector.

**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 at the Annual General Meeting in March 2017 and is currently Chair of the Remuneration Committee.

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.

# Directors standing for re-election at the AGM continued

Gary Wilkinson
Non-Executive Director

Gary joined the Society as a non-executive director in December 2014 and is currently Chair of the Risk Committee. He is a qualified chartered accountant and has extensive experience within financial services, in both the building society and banking sectors.

He was a divisional director at both Alliance & Leicester plc and Nationwide Building Society, where as Managing Director of Regional Brands he had responsibility and accountability for the newly merged Derbyshire, Cheshire and subsequently Dunfermline building societies.

He then became an executive board director at Newcastle Building Society, in the capacity of Finance Director, before joining the Leicester based Pensions Bank as Chief Executive Officer. The undertaking and assets of Pensions Bank were transferred to Cambridge & Counties Bank, a newly formed challenger bank also headquartered in Leicester, where Gary also served as Chief Executive Officer until October 2014.

Since April 2017 he has been the Chief Executive Officer, and is the Co-Founder, of Redwood Bank Limited, a newly formed specialist bank focused on small and medium-sized enterprises in the UK.

Nemone Wynn-Evans
Non-Executive Director

Nemone joined the Society as a non-executive director at the Annual General Meeting in March 2017 and she currently chairs the Nominations & Governance Committee.

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), at a Venture Capital Trust investing in small, growing companies, and at a private investment office based in the Midlands.

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 retiring following the AGM

Geneane Bell
Non-Executive Director

Geneane joined Hinckley & Rugby as a non-executive director in July 2013 and chaired the Remuneration Committee from March 2018 to July 2022. She has lived in the Rugby area since 2001.

Prior to joining Hinckley & Rugby her career with the Lloyds Banking Group spanned 38 years, the last 15 of which specialised in risk management and compliance with regulation.

Her last role was Head of Compliance and Conduct Risk for the Lloyds Retail Bank. Geneane has extensive experience of working with the UK's Financial Services regulators, including the FCA (previously FSA) and FOS.

David Woodward
Senior Independent Director

David joined the Hinckley & Rugby as a non-executive director in 2015 and is currently Vice Chair, Senior Independent Director and Chair of the Audit & Compliance Committee. He is a qualified Chartered Management Accountant.

He has held a number of senior financial positions with organisations based in the East Midlands, including Express Dairies plc. More recently he was Finance Director of train operator Midland Mainline and coach operator National Express. He has previously held a non-executive directorship with Lincolnshire Community Health Services NHS Trust where he chaired the Audit Committee and has recently completed a short, interim term as a Non-Executive Director with United Lincolnshire Hospital Trust as Chair of the Finance, Performance and Estates Committee.

Currently he is a non-executive director of National Savings and Investments, where he chairs the Audit and Risk Committee, and a Trustee with the Consumers' Association trading as Which?, where he chairs the Strategic Finance Committee and is a member of the Group Audit and Risk Committee. He is also an Independent Committee Member for Trent College's Finance and Estates Committee.

# Environmental, Social and Governance Report

Your Society's ESG strategy provides one of the key ways of demonstrating our core purpose, including sharing our knowledge, skills and resources with our local communities in Leicestershire and Warwickshire. Over the last 12 months our ESG strategy has continued to mature as we have moved out of the Covid period, and our staff and local communities have required differing types of support. As a mutual organisation we aim to have ESG and people strategies at the centre of the Society's purpose.

## Environmental

The financial services industry has a crucial role to play in the transition to a lower carbon economy and the Society fully understands and embraces this challenge.

The UK Government has set a net zero goal by 2050 and we understand our role that we play in the climate change and sustainability agenda. To support this agenda, we continue to take steps to identify ways we can support our members and local communities, as well as reducing our own carbon footprint. The diagram below shows the Society's framework for addressing the issue of climate change and includes four key areas of focus.

**1. Our Carbon Footprint**

Focus on the energy efficiency of the Society

- Changes to operational behaviours
- Changes to buying behaviours
- Improving the energy efficiency of the premises
- Target setting

**2. Regulatory Reporting**

Focus on change to reporting requirements

- Non-financial reporting
- Meeting the expectations of the regulators

HINCKLEY AND RUGBY
BUILDING SOCIETY

**3. Existing Mortgage Book**

Focus on climate change risk represented by existing properties in our mortgage book

- Risk assessment
- Data capture methodology and services
- Future housing market risk
- Future lending policy

**4. Green Finance**

Focus on promoting improved energy efficiency in existing housing stock

- Green mortgages
- Green further advances
- Consumer education
- Appropriate partnership

Having identified our own scope one and two emissions in 2021, relating to those arising from owned vehicles and electricity and gas usage, we focused on ways in which we could reduce them. During the year we installed 111 solar panels on the roof of our head office, together with four electric vehicle charging stations. This will allow us to generate our own energy and use this to reduce our "energy footprint". Approaches like this can be shared with other businesses and therefore we have, jointly with Hinckley & Bosworth Borough Council, launched a local Business Climate Change Forum where we have shared the thinking and planning behind the solar panels installation and encouraged other businesses to share their actions. This is already creating local partnerships, including our support and presentations at the Twycross Zoo open days.

Education on the climate challenges we face is increasingly important, and to provide the best visual representation of the opportunities with our residential and tenanted properties we upcycled a large dolls house and have used this at fairs, open days, and school visits to highlight the areas within a property that can be retrofitted to improve energy efficiency.

Continuing with the theme of education, Colin Fyfe, Chief Executive, continues to chair the Building Societies Association Green Finance Taskforce. During the year the Taskforce worked with mortgage intermediary trade bodies to provide education for mortgage brokers in their conversations with consumers. The Taskforce also continues to work closely with the Green Finance Institute on areas where collaboration can improve market education and bring propositions forward which will assist a number of climate change initiatives.

Partnerships are very important to your Society and during the year we supported Hinckley & Bosworth Borough Council to launch a "Free Tree Scheme" which provided 27,000 trees for planting by local residents across the Borough. We are focused on reducing carbon emissions and also on offsetting any that find their way into the environment.

Looking forward we are working with two environmental sector expert businesses on how we can provide a full property retrofitting service to our members and we look forward to supporting these important actions. Additionally, our "Green Team", made up of a cross section of our staff, will continue their work to reduce our carbon footprint.

## Social

The Society is passionate about making an impact on social matters such as wellbeing and mental health, and on diversity and inclusion.

Our work continued with LAMP (Leicestershire Action on Mental Health) where, having established the Business Club with LAMP, Colin Fyfe continues to chair the group which now has over 50 businesses as members. The goal is to reach 100 business members and for the group to share mental health support strategies and approaches to help the Leicestershire work force. Within the Society our mental health first aiders continue to support our staff, and our Mental Health and Wellbeing committee continues to listen to staff views and find new ways to support them. Whilst we enjoy a fruitful relationship with LAMP locally, we are keen to support others with their mental health strategies. With this in mind we signed up to the Mortgage Industry Mental Health Charter and through this and other bodies, such as Women in Finance, we will play our part in supporting an inclusive approach to a significant societal challenge. In addition, mental health and wellbeing is one of our community focal areas and we were delighted to present cheques, at our AGM, to three local charities to support their great work.

During 2021 and 2022 we implemented our mental health and wellbeing strategy, which consisted of various training and awareness workshops for our employees. This will continue in 2023 as we continue to break down the stigma surrounding mental health.

In 2022 we began to engage with our staff to understand what diversity and inclusion means to them. This resulted in our diversity and inclusion strategy being updated and agreed by the Board. Your Society is continuously driving towards a culture where everyone feels supported, included and comfortable to bring their whole selves to work. We will also be continuing to look for opportunities where we can support our local communities with these important issues.

As we moved through 2022 external factors contributed to a cost-of-living crisis. As we move into 2023 it is clear that the rising cost-of-living, including rising interest rates, will impact many people and households. We moved quickly to liaise with an East Midlands homeless charity (The Bridge) and together with two other Leicestershire building societies we made a substantial donation to support a project which prevents local people losing the roof over their heads. This preventative project will signpost and organise the right support, and we will keep close to the outcomes and how we can provide further support.

# Environmental, Social and Governance Report continued

## Governance

The Board's Corporate Governance report is set out on page 14 of the accounts.

Our approach to governance in the context of ESG matured during the last year. With our new Company Secretary on board for the start of 2022 we took up the challenge of reviewing and reorganising our Board and executive policies and our Board and executive committees. This was very much in line with the recommendations from our independent Board effectiveness review conducted in 2021, which encouraged the Board to simplify our governance framework. This simplification has helped to focus Board discussions and has provided more empowerment for the executive team.

We will see three non-executive Board members retiring in 2023 and a further one in 2024. We have been planning for these changes throughout 2022 and we appointed Miles Advisory to support us with our skills assessment and recruitment search. Miles Advisory have brought a diverse group of candidates to us, and we look forward to integrating the skills and experience of new directors into our Society.

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, which will be implemented in 2023 and 2024, provides us with the opportunity to enhance our members' experience of the Society's services and test our application of key conduct and governance approaches. We are embracing Consumer Duty and have appointed one of our executives to lead the project from both a strategic and an operational perspective. This use of experienced resource will allow us to conduct a transparent review and make any enhancements required.

We see the Society as a responsible business, not only in the financial services sector, but in our local communities. Our goal of sharing our knowledge and experience is providing tangible outcomes, not only through our volunteering or from our Community Foundation grants, but from the topics we look to lead on, such as mental health, the environment and homelessness. The themes of sharing and leading will continue to be prominent in your Society.

In the interests of safety, members were able to attend our AGM virtually for the second year in succession. We encourage occasions to hear directly from our members and were pleased that, as a result of your votes, we were able to donate £2,000 each to both the Hinckley Area Foodbank and Rugby Foodbank.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