

2019



# Summary Financial Statement

Including Notice of Annual General Meeting

**esbs**

 as individual as you

# SUMMARY FINANCIAL STATEMENT

## For the year ended 31st March 2019

This 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 demand at every office of the Earl Shilton Building Society from 17th June 2019.

Approved by the Board of Directors on 20th May 2019.

M J RICE     Chairman  
P E BEARDSMORE     Vice-Chairman  
P TILLEY     Director & Chief Executive

## CHAIRMAN'S STATEMENT

### Introduction

I am pleased to report the Earl Shilton Building Society ("the Society") has delivered strong financial results during its 2018/19 business year and remains in excellent financial health.

As a regional society our primary objective is to operate in the best interests of you, our members, and ensure the safety and security of your savings, backed by the foundation of strong levels of capital (to protect the Society if economic conditions become less favourable).

The Society was established in the town of Earl Shilton and the Board is proud that we still have very strong ties to the local community. At its inception, the Society's purpose was to help families to save and buy their own homes. Serving our members by offering good value savings and mortgages is still our sole purpose and we believe this enables the Society to remain relevant to its members' needs, 162 years after it came into being.

### Developments During The Year

The Society has made a number of investments in the future of its business during the last year. For example, the major refurbishment of our branch in Barwell, completed in June 2018, has brought that office into line with our Earl Shilton Head Office. Both now provide modern and pleasant environments for members and staff.

As you may be aware, the Society has altered its branding, becoming "esbs - as individual as you". This builds on the Society's URL (our web address) and reinforces our confidence that we can continue as an independent mutual society enjoying a strong midlands franchise and placing our members at the heart of everything we do. You may have seen examples of our new branding, some of which feature real life stories of our members.

The new brand-name also coincided with an increase in our social media activity, allowing you to interact with us in a different way and making internet searches about the Society more intuitive. Furthermore, as the popularity of social media is so widespread, we chose to make greater use of that medium to increase our marketing activity. For example, in the second half of last year we launched a direct mortgage campaign which connects us with people who may not be aware of the types of mortgages we have available. The campaign has proved to be popular with prospective new borrowing members and has led to a pleasing number of successful mortgage applications and completions.

You can find us on Facebook, Twitter, Instagram and LinkedIn and I hope you will feel these channels provide a new way to connect with us and share your views about our services. However, our commitment to the branch network remains as demonstrated by the refurbishment to the Barwell branch mentioned earlier.

Mortgage Brokers are very important to the Society, as many consumers seek the help of a Broker to search the market when they are looking to buy or re-mortgage. We have continued to strengthen our links with Brokers during the last year and we will be even more active in promoting the Society through this distribution channel in the coming year.

Our decision to support Action Homeless in Leicester reflects the tragedy of increasing homelessness, which is plain for all to see. As a truly mutual organisation, the Society considers it should play some part in helping those who find themselves in vulnerable circumstances. Action Homeless offers accommodation to people and families in housing crisis. They provide 200 units of accommodation across Leicester and Hinckley with various levels of support. They also have a specialist women's refuge, a project for discharged mental health patients, run an empty homes project and a city centre food and clothing bank. Our commitment to this worthwhile charity, involving the fundraising activities of our staff as well as our members, hopes to make at least a small contribution to tackling the housing crisis that is affecting vulnerable people on our very own doorstep.

### Mortgage Lending and Savers

Competition in mortgage lending remains at an intense level and when combined with subdued activity in the housing market, has meant our staff have been working very hard to attract high quality borrowers. Despite those pressures, I can report we have made good progress with our lending programme, achieving our lending target for the year. Importantly, we have done so without diluting our aversion to higher credit risk lending (which is particularly exposed if an economic down-turn occurs) and the credit quality of our mortgage assets remains strong.

Our flexibility and expertise in mortgage underwriting allows us to serve particular segments of the mortgage market which the larger banks tend to avoid. Examples include lending to self-builders, serving the needs of older people and constructively considering applications from the self-employed. Many consumers in these categories can find it hard to obtain a mortgage, simply because of their age or employment status or because of the nature of the property they wish to build.

Our saving members continue to be supportive of the Society, reflecting the competitive savings rates we can offer and the service we provide. However, we are very conscious of the persistent low interest rate environment being unkind to savers. Unfortunately, the prospect of a normalisation in the Bank of England's base rate, which tends to guide other rates in the economy, still appears some way off.

A number of new banks have come into being recently. Partially, this reflects government policy to encourage competition in banking. Your Society is carefully observing how these new banks are faring to judge whether they will truly add to the levels of competition we will face in future years.

You may have read about a new concept, "Open Banking". Open Banking is intended to create greater choice in the current account market, to reduce the dominance of the major established banks. Put simply, if your bank is engaged in Open Banking, they may have asked for your agreement to allow your personal financial information to be shared with other providers. The aim is to give you a view of your finances all in one place, to help you make the most of your money. It is not yet clear how successful this initiative will be; so far it appears Open Banking hasn't caught on to the extent that many had expected, with consumers likely being wary about the security of their personal information and switching between current account providers still remaining at relatively modest levels. Please be assured that the Society does not share your data for this purpose and as we do not offer a current account product, we have no immediate plans to do so.

Digital technology is starting to make its mark in financial services. For example, "apps" on mobile devices have become popular with consumers of all ages and some now prefer to undertake their banking transactions using these facilities, even in preference to on-line banking. The use of these new innovations may take slightly longer to emerge for smaller building societies and given the Society's scale and focus on savings and mortgages, the Board considers it is not yet at a point where we could deploy a purely mobile transactional facility for our members. Nevertheless, we continue to monitor how this technology is evolving and we are exploring where it might help us make available new transactional channels for our members to use in the future.

## The Society's Governance

A new version of the UK's Corporate Governance Code has been published by the Financial Reporting Council. Strictly speaking, the Code only affects public companies, but the Society has chosen to apply the principles of the new version, where they are thought relevant and appropriate to an organisation of this size, from the commencement of our 2019/2020 financial year, one year ahead of when the Code would normally have to be applied.

During last year we welcomed a number of new colleagues to support the Society's growth and future development, as well as sponsoring some colleagues through a master's degree programme at Loughborough University, which is developing future leaders for the building societies sector.

Also during the year, we made important changes to the Board's sub-committee structure. Previously, a sub-committee known as ARACC (the Audit, Risk Assessment and Compliance Committee) maintained an omnibus view of audit and risk issues and our compliance with legal regulations. Now, we have replaced ARACC with two new committees, one being purely audit focused (both internal and external) and the other overseeing risk and compliance as separate areas of governance. The members of each new committee are Non-Executive Directors and in combination they bring a deeper level of oversight of internal controls through our three lines of defence model.

Considerable work has been applied to enhance the Society's risk management framework, which is overseen by the new Risk & Compliance Committee. Although the Society had always managed its risks efficiently, the new arrangements bring better linkage to an Internal Capital Adequacy Assessment process and Internal Liquidity Adequacy Assessment and gives the Board a more effective view of the criticality rating of the risks that are being managed.

Additionally, we have applied new measures to further strengthen the Society's resilience to cyber-attacks and safeguarding our member's data, in line with best practice expectations promoted by the PRA. In recent years, cyber-crime has increased at an exponential rate and you may have seen several instances mentioned in the news where large organisations have fallen foul of a cyber-attack, because of inadequate security arrangements over their customers' data. The Society recognises the sensitivity of member's data and we are vigilant in monitoring our perimeter defences.

New laws about data protection came into effect last year. In addition to a new Data Protection Act, the UK became subject to the General Data Protection Regulation (or GDPR), which introduced new, and strengthened existing, standards for firms who hold or process personal data. Ensuring compliance with these new laws required a great deal of effort and the Board records its thanks for all of the work that was undertaken to deliver the project on time.

## Colleague Changes

We are sorry to be saying goodbye to Mrs Audrey McNair, one of our Board members. Audrey has keenly supported the Society over the past five years and, in particular, has advised the Board on risk management (being a specialist in that field). The Board offers its thanks for her support and its best wishes for success in her future endeavours. A new Director is expected to be appointed as a replacement shortly.

Mr Neil Adams, our Finance Director, will also be retiring from the Board in the late summer of this year, after 18 years of loyal service to the Society, albeit he will move into the Finance Officer's role thereafter. Neil has made an incalculable contribution to maintaining the Society's independence and ensuring that it remains true to the spirit of mutuality. The Board will be forever grateful for his commitment.

Mr Stephen Wigfull, previously our Financial Controller, has been appointed Finance Director Designate (subject to regulatory approval) and will assume the full position after Mr Adams relinquishes the Director role in the late summer of 2019. Stephen is a chartered accountant and gained high level experience working for Barclays Bank (both in the UK and abroad) before he joined the Society. I am delighted that we have been able to develop an internal successor to Neil and I look forward to Stephen's future contributions to the Society's success.

Mrs Jennie Shaw, formally our Accounts Administrator & Personal Assistant retired earlier this year, after almost 43 years of loyal service to the Society in a variety of roles over the period. The Board wishes her a very happy retirement.

We are proposing to change our external audit arrangements in the coming financial year from KPMG LLP to BDO LLP. In consequence, this is the last year in which KPMG will conduct an audit of our accounts. It is planned that BDO will commence as our independent external auditor from later this year. You are being asked, via the Annual General Meeting voting process, to approve this change, which the Board fully supports.

## Conclusion

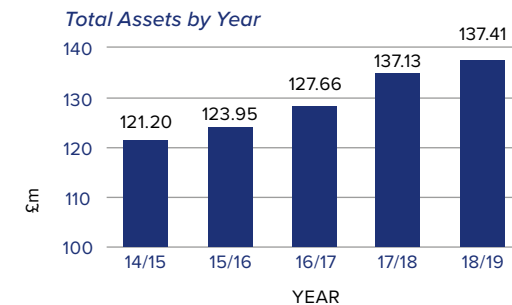
May I close with a note of thanks to the Society's membership for your continuing support, and on behalf of my colleagues offer a well done to all our staff who have worked tirelessly during the year to ensure members continue to enjoy a first-rate service.

# CHIEF EXECUTIVE'S REPORT

The Society is owned by you, our members, and your best interests are at the heart of everything we do. Offering competitive and specialist products allied to a first class service is a core strategic aim. Additionally, we strive to provide easy to understand processes to make your engagement with us fulfilling. This was a driving force behind the new strapline "as individual as you" introduced during the last year, as mentioned by the Chairman earlier.

## Growth

The last twelve months have seen the Society continue to grow the business, with increasing balances held by individual savers and owed by borrowers, despite the continued uncertain political and economic backdrop, particularly over the UK's process for exiting the European Union ("Brexit").



Growth in total assets was modest as the Society targeted a reduction in the level of liquid assets held to improve financial efficiency. The resultant reduced liquidity sum still remains robust with high quality assets held.

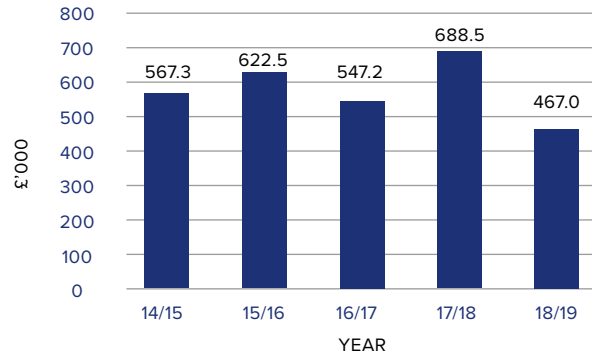
Given the above short term objective, the need for the Society to grow savings balances was muted.

Pleasingly, the rate of increase in mortgage assets shows an uplift year-on-year and total mortgage balances are at an all-time record of nearly £107m. This was primarily attributable to an effective retention strategy to retain borrowers who are reaching maturity of their product; 70% chose to stay with the Society. New lending for the twelve months was marginally down when compared to the preceding year but the pipeline of loan commitments for the forthcoming year is healthy and provides optimism for continued total mortgage asset growth.

## Profit / Capital

The level of profit reported this year shows a planned-for reduction, given the investment in the Society, when compared to 2018 but remains entirely satisfactory. Additionally, the difference between average saver and average mortgage interest rates has deliberately fallen as we try to protect both sets of members, as far as it is financially sensible to do so. The Society does not have shareholders to pay dividends to, so seeks to optimise profit rather than maximise it. Capital, which is the accumulation of profit over the years, continues to increase both as an absolute number and in percentage terms. The Society remains in a very sound and stable financial position.

Profit for year after taxation in £'000

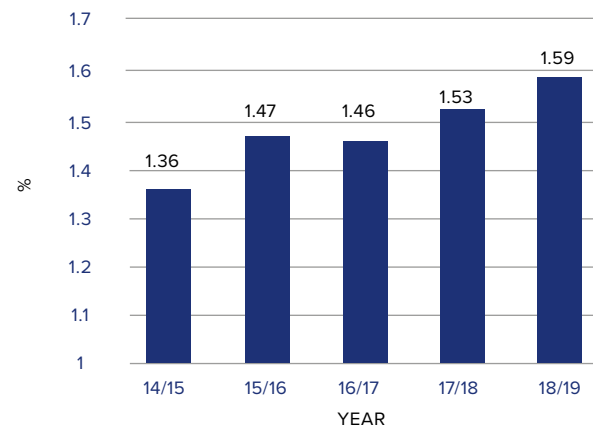


## Management Expenses

Expenses have increased as a continued result of investing in the Society for member benefit and to ensure the business has the necessary infrastructure moving forward. Each and every expenditure item is subject to evaluation and contracts with external suppliers are regularly reviewed to ensure they remain value for money.

The two major costs incurred are staff salaries and investment in information systems. The Society continues to develop both its people and IT usage to ensure members continue to receive the level of service they have come to expect.

Management Expenses as a % of average total assets



## Members

Feedback from members is vital for the wellbeing of esbs and to assist us with developing our proposition. During the last twelve months we have asked more members more often their opinions on how we are performing. The number of customers with the Society increased by 12% during the last six months of 2018. Furthermore, 97% of new members, when asked during the last business year, stated they would recommend the Society to others.

These outcomes clearly demonstrate that members retain confidence in the Society and its product and service offering. I am passionate that we must continually seek ways to improve on the products and service we provide to members.

## Other Matters

On a personal level I would like to echo the Chairman's earlier comments on both the retirement of Jennie Shaw, who acted, in part, as Personal Assistant to me and our community involvement. It was a real pleasure to work with Jennie and I wish her all the best in retirement.

The work undertaken in the community and charitable activities play an important part in retaining our heritage and culture. The adage of "treating others as you would wish to be treated" remains relevant today as it did when the Society was established over 160 years ago. Everyone in the business plays their part and I would like to take this opportunity to thank the team for their continued diligence and service delivery. Additionally, I would like to thank our business partners for assisting in the delivery of these results.

## Forward Plans

Despite the "Brexit" uncertainty impacting economic activity, esbs is financially and structurally well positioned to continue to grow and develop.

Our capital ratios are very healthy and this provides opportunity to grow the Society at an accelerated, but prudent, rate. Importantly, this will not be at the expense of taking on unknown and greater lending risk. Expanding our distribution further both direct to market and via the intermediated area will help drive this growth aspiration.

Market conditions, particularly price competition, are expected to remain intense and we are planning for lower, but satisfactory, profitability moving forward whilst retaining our enviable financial stability.

Technological changes around process simplification and improvement, automation and integration will continue to be identified and deployed where these give member benefit.

The mechanism and speed for the clearance of cheques deposited by members is likely to change, leading to a simplified and improved service.

The path of future interest rates remains far from clear. A gradual increase is most likely but it is expected that interest rates will remain low by historic standards for many years.

# SUMMARY DIRECTORS' REPORT

## DONATIONS AND COMMUNITY SUPPORT

As a local Society the Directors believe that it is important to support worthwhile causes in a prudent manner. No donations were made for political purposes and listed below are organisations that the Society has helped during the year to 31st March 2019. In total the Society made contributions of support amounting to £3,552 (2018: £1,669), including charitable donations of £1,127 (2018: £1,019).

Action Homeless; Barwell Carnival; Barwell Cricket Club; Barwell St Mary's Church; Barwell & Earl Shilton Disability Group; Barwell & Earl Shilton Royal British Legion; Earl Shilton Town Cricket Club; Elmesthorpe St Mary's Parochial Church Council; Hallaton Recreation Ground; Leicester Hospitals Charity; Leicestershire & Rutland Blood Bikes; LOROS; St Simon & St Jude Parent Teacher Association; Royal National Lifeboat Institution; Stroke Association.

In addition, the Society and staff supported Angelman UK, which was the Society's nominated charity for the year. This was done through various events including: a sponsored walk, dress down days, a jewellery sale and donations instead of Christmas cards.

## CONDUCT RISK / TREATING CUSTOMERS FAIRLY

The Directors expect the Society to treat its customers fairly at all times. We would ask our members to let us know if they consider that we have not achieved this important commitment on any occasion. Do please contact our Chief Executive or the Senior Independent Director at the Society's Head Office in this regard. The Directors are determined to maintain the highest standards of honesty, integrity and fairness in the culture and conduct of the Society for the benefit of members.

The Society assesses and monitors culture via the Treating Customers Fairly & Conduct Risk Outcomes Management Information Report, emanating from the Retail Conduct of Business Risk Appetite Statement. Additionally, the Society has a Mission Statement and a Culture Statement. Cultural insights such as employee surveys, exit interviews, whistleblowing procedures and training data are used to review culture.

If a member has any significant matter they wish to bring to the attention of any Committee Chair they are invited to do so by contacting the Society's Secretary.

## STAFF

We believe in the value of personal service and have avoided a call centre approach to dealings with our members. The Directors know that our staff are the "front line" in dealing with our members and wish to thank all the team for their continued dedication and hard work.

## FINANCIAL RESULTS AND KEY PERFORMANCE INDICATORS

Key performance indicators for the last three years are shown below:

	2019	2018	2017
Gross capital	£11.63m	£11.17m	£10.47m
Operating profit before impairment and provisions	£537,950	£825,584	£713,566
Profit for the year after taxation	£467,005	£688,458	£547,163
Total assets	£137.41m	£137.13m	£127.66m
Mortgage balances	£106.88m	£103.21m	£101.03m
Share balances	£117.44m	£116.07m	£108.64m
Liquidity ratio as a percentage of shares & borrowings	23.63%	26.31%	22.08%
Management expenses as a percentage of average total assets	1.59%	1.53%	1.46%

An explanation of the terms used above is as follows:

Gross capital represents the accumulation of profit for the Society over the years and provides protection for savers and a fund against future losses.

Operating profit before impairment and provisions shows the difference between interest charged to borrowers and paid to savers after allowing for the expenses of running the Society.

Profit for the year takes into consideration provisions (or recoveries) on loans, investments and other assets and liabilities as well as Corporation Tax. It is added to general reserves each year.

Total assets indicate the overall size of the Society and the resources available to generate future returns.

Mortgage balances equate to the total amount owed to the Society by borrowers less accumulated impairment loss.

Share balances represent the total sum invested by personal savers.

Liquidity refers to the Society's liquid assets as per the balance sheet and is used to meet commitments as they fall due.

Management expenses provide a cost ratio when compared to the Society's average size over the year.

## Capital and Profit

Whilst delivering asset growth the Society maintained a strong capital position throughout the year. The Society uses a number of measures of capital as shown in the following table.

	2019	2018
Gross capital as a % of total assets	8.46%	8.15%
Operating profit before impairment and provisions as a % of average total assets	0.39%	0.62%
Core tier 1 equity capital as a % of shares and borrowings	9.26%	8.87%
Risk-weighted core tier 1 ratio	24.82%	24.70%
Leverage ratio (note a)	8.12%	7.85%

Note a: The leverage ratio is a simplified measure of capital strength, calculated by dividing the core tier 1 capital by total assets plus mortgage commitments.

It is important that the Society maintains healthy profit levels to support its growth and to be able to continue its lending programme.

## Interest Margin

The net interest margin represents net interest receivable as a percentage of average total assets. This year, that has decreased to 1.99% (2018: 2.15%) as a result of increased competition.

## Total Assets

Total assets increased to £137.41m (2018: £137.13m), an increase of 0.20% (2018: 7.41%).

Liquid assets, as at 31st March 2019, in the form of cash and authorised securities were £29.64m (2018: £33.03m) which is 23.63% (2018: 26.31%) of shares and borrowings. These liquid assets, which are not lent to mortgage borrowers, have decreased during the year and are maintained at a level which balances operational efficiency whilst enabling the Society to meet all its commitments as they fall due. Liquid assets remain above the Board's internal assessment of its minimum requirements and the minimum regulatory requirement.

## Mortgage Lending

During the year £19.16m (2018: £20.28m) was advanced to borrowers to buy, refinance or improve their properties. Total mortgage balances at the end of the year amounted to £107.17m (2018: £103.54m) before provision for impairment. Mortgage balances increased in the year by £3.63m (2018: £2.17m), an increase of 3.51% (2018: 2.14%). In common with other building societies, we experienced a number of cases in which borrowers could not meet their mortgage commitments. It continues to be the Society's policy to look at each individual case and try to make suitable arrangements which may include extending the term for repayment or converting a capital and interest repayment mortgage to interest only. There were four (2018: three) mortgage accounts with forbearance measures at the end of the year. Provisions for impairment were £293,525 at the year-end (2018: £331,717). At 31st March 2019 there were no (2018: nil) mortgage accounts which were twelve or more months in arrears. There were no properties in possession (2018: nil) at the year end. The Society recognises a provision for the impairment of a mortgage asset where there is objective evidence that a loss event has occurred which may impact the future cash flows expected from the asset. This is explained further in note 1 of the accounts.



## Shares and Deposits

Savers' and depositors' balances, which excludes amounts owed to credit institutions, decreased by £2.09m (2018: increase of £9.73m) and amounted to £123.42m (2018: £125.51m), a decrease of 1.67% (2018: increase of 8.40%). The retail savings market continues to account for substantially all of the Society's funding, although at 31st March 2019 the Society also held £2.00m of short-term wholesale borrowing from other financial institutions (2018: nil).

## VOTING

We are going to donate 40p per valid vote received (up to a maximum of £1,000) to charity. As a mutual organisation, we do try to involve our members and we believe this is a tangible acknowledgement of membership participation.

Last year, as a result of your votes, we donated £245 to Stroke Association, and £205 to LOROS. Once again two charities are on the Representative Form, and you decide which of the two receives 40p for your valid AGM vote. The choices are:-

### ACTION HOMELESS - Charity Registration No. 702230 ([www.actionhomeless.org.uk](http://www.actionhomeless.org.uk))

Action Homeless is a Leicester-based charity dedicated to improving the lives of those affected by homelessness, and has offered its support to individuals and families in the city and across Leicestershire for the past 40 years. Visitors to any of the charity's centres are given access to a broad range of services that aim to tackle the causes and consequences of homelessness, while the expert team of staff and volunteers work to ensure that people leave with a place to call home and the skills and resources to maintain independence.

Please consider giving your vote to ACTION HOMELESS

### ANGELMAN UK – Charity Registration No. 1021882 ([www.angelmanuk.org](http://www.angelmanuk.org))

Angelman UK is a national charity supporting people living with Angelman Syndrome, and is comprised entirely of volunteers, many of whom are parents or relatives of children or adults living with the rare genetic disorder. First identified in 1965, Angelman Syndrome causes severe learning difficulties and is characterised by a range of symptoms, such as speech impairment, problems with movement and balance, and happy and excitable behaviour.

Please consider giving your vote to ANGELMAN UK

## DIRECTORS

The following persons were Directors of the Society during the year: Neil D Adams, Paul E Beardsmore, Ian M Dale, Laura J Mackie, Audrey J McNair, Martin J Rice, John Stables and Paul Tilley.

Ian M Dale is the Society's Senior Independent Director. Ian is an experienced former building society senior manager and will be pleased to look at any issues members might have that they would prefer not to raise in the usual way with the Society's Management Team or Chairman.

Neil D Adams, Paul E Beardsmore and Martin J Rice retire by rotation and, being eligible, offer themselves for re-election. In the Notice of Annual General Meeting you will find brief biographical notes on the Directors standing for re-election.

At 31st March 2019 no Director had any interest in shares of any associated body of the Society.

On behalf of the Board of Directors

**M J Rice**  
Chairman

20th May 2019

## SUMMARY STATEMENT

	2019 £	2018 £
<b>SOCIETY'S RESULTS FOR THE YEAR</b>		
Net interest receivable	2,725,194	2,851,212
Other income and charges	1,317	(459)
Administrative expenses	(2,174,678)	(1,964,743)
Branch refurbishment costs	(13,883)	(60,426)
<b>Operating profit before provisions</b>	<b>537,950</b>	<b>825,584</b>
Provisions for impairment of loans and advances	38,192	14,688
Provisions released for FSCS levy	3,691	21,593
<b>Profit for the year before taxation</b>	<b>579,833</b>	<b>861,865</b>
Taxation	(112,828)	(173,407)
<b>Profit for the year</b>	<b>467,005</b>	<b>688,458</b>
<b>FINANCIAL POSITION AT END OF YEAR</b>		
<b>Assets</b>		
Liquid assets	29,640,475	33,025,730
Mortgages	106,875,059	103,211,364
Fixed and other assets	893,657	893,017
<b>Total Assets</b>	<b>137,409,191</b>	<b>137,130,111</b>
<b>Liabilities</b>		
Shares	117,439,038	116,065,694
Borrowings	7,982,135	9,439,622
Other liabilities	358,730	462,512
Reserves	11,629,288	11,162,283
<b>Total Liabilities</b>	<b>137,409,191</b>	<b>137,130,111</b>

## SUMMARY OF KEY FINANCIAL RATIOS

Gross capital as a percentage of shares and borrowings

2019 %	2018 %
9.27	8.89

Liquid assets as a percentage of shares and borrowings

23.63	26.31
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### As a percentage of mean total assets:

Profit after taxation

0.34	0.52
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Management expenses

1.59	1.53
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### Gross capital as a percentage of shares and borrowings

Gross capital comprises general reserves. The gross capital ratio measures the proportion which the Society's capital bears to the Society's liabilities to holders of shares and deposits (investors). Gross 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 measures the proportion that the Society's total assets held in the form of cash, short-term deposits and debt securities bear to the Society's liabilities to investors. The Society operates within a defined range of liquidity ratios which is sufficient to meet requests by members for withdrawals from their accounts and to make new mortgage loans.

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

The profit/assets ratio measures the proportion that the Society's profit after taxation for the year bears to the average of the Society's total assets during the year. The Society aims to make a reasonable level of profit in order to maintain its capital strength. However, a building society does not have to pay dividends to equity shareholders as a company does. The Society is therefore able to operate safely with lower profits than a bank.

### Management expenses as a percentage of mean total assets

The management expenses ratio measures the proportion that the Society's administrative expenses bear to the average of the Society's total assets during the year.

## INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS AND DEPOSITORS OF EARL SHILTON BUILDING SOCIETY

We have examined the Summary Financial Statement of Earl Shilton Building Society ("the Society") for the year ended 31st March 2019 set out on pages 2 to 12.

On the basis of the work performed, as described below, in our opinion the Summary Financial Statement is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31st March 2019 and conforms with the applicable 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 and disclosures included in the Summary Financial Statement to the corresponding items within the full annual accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31st March 2019, including consideration of whether, in our opinion, the information in the Summary Financial Statement has been summarised in a manner which is not consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for that year;
- Checking that the format and content of the Summary Financial Statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31st March 2019.

We also read the other information contained in the Business Review and Summary Financial Statement and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement.

Our report on the Society's full annual accounts describes the basis of our opinions on those annual accounts, the Annual Business Statement and Directors' Report.

### Directors' responsibilities

The Directors are responsible for preparing the Summary Financial Statement within the Business Review and Summary Financial Statement, in accordance with applicable United Kingdom law.

### Auditor's responsibilities

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

### The purpose of our work and to whom we owe our responsibilities

This auditor's statement is made solely to the Society's members, as a body, and to the Society's depositors, as a body, in accordance with section 76 of the Building Societies Act 1986. Our work has been undertaken so that we might state to the Society's members and depositors those matters we are required to state to them in such a statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body and the Society's depositors as a body, for our work, for this statement, or for the opinions we have formed.

**Alain de Braekeleer (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants, 1, Sovereign Square, Sovereign St, Leeds LS1 4DA

20th May 2019

# DIRECTORS' REMUNERATION REPORT

## INTRODUCTION

The purpose of this Report is to inform members of the current policy for remuneration of the Society's Directors including the two Executive Directors. In particular, the Report provides details of the different elements of the Executive Directors' remuneration and explains the process for determining them.

An advisory resolution will be put to the Society's AGM inviting members to vote on the Directors' Remuneration Report. The Society complies with the relevant aspects of the FCA's Remuneration Code.

## REMUNERATION POLICY

The Society's Policy is to remunerate its Executive Directors through a combination of salary and benefits, which are regularly compared with other building societies and comparable financial institutions.

## THE REMUNERATION COMMITTEE

The Committee comprises three Non-Executive Directors. It is responsible for determining the remuneration levels of the Executive Directors, as well as the Board Chairman and senior staff within the Society.

The Committee recommends to the Society's Board fee levels for Non-Executive Directors and salary and benefit levels for all other members of staff. The Committee meets at least twice a year. The members of the Committee during the year are detailed on page 18 of the Annual Report. Staff morale is subject to ongoing review by the Committee. Staff opinions are periodically sought via anonymised surveys.

The Committee takes account of the UK Corporate Governance Code 2018, as far as it is relevant and appropriate to an organisation of our size.

## EXECUTIVE DIRECTORS' REMUNERATION

This aspect of the Remuneration Policy is designed to attract and retain high calibre and well-qualified Executives, having the skills and experience necessary to lead a complex business operating in a highly regulated market. To achieve this, the Committee seeks to ensure that the overall level of remuneration awarded to the Executive Directors is fair, competitive, simple and reasonable by comparison to remuneration offered by similar building societies and comparable financial institutions, as well as the contribution made by the Executive Directors to the success of the Society during the year. Executive Director remuneration is considered alongside staff remuneration. Staff will be notified of the percentage increase in Executive Director pay.

The Remuneration Committee operates independently and its discussions and recommendations to the Society's Board are free from influence by the Executive Directors.

## BASIC SALARY

Basic salaries are reviewed annually by reference to jobs carrying similar responsibilities in comparable organisations.

## INCENTIVES

A non-contractual payment calculated as a percentage of basic salary has been paid to all staff, including Executive Directors, in December for a number of years. The percentage amount is variable year on year with all staff receiving the same. This year a non-contractual payment of 2.25% of basic salary was paid (2018: 3%). The Society does not currently operate any incentive schemes linked to performance.

## BENEFITS

The Society offers other taxable benefits to Executive Directors including concessionary mortgage facilities, a fully expensed car, health care provision and permanent health insurance. As an alternative, a cash allowance is available in substitution for a fully expensed car and will be included in basic salary.

## PENSION BENEFITS

The Society operates a contributory money purchase scheme and makes contributions for all qualifying staff, including Executive Directors. Pension contributions are calculated against basic salary only. The pension contribution rate for the Chief Executive is aligned to the staff contribution rate but the Finance Director's rate is not, due to an historical arrangement that will conclude in the immediate future.

## CONTRACTUAL TERMS

The service contract terms for Executive Directors include a notice period of not less than six months by the individual and the same period by the Society. These terms are not alterable in the event of a transfer of engagements to another Society where employment is to be terminated.

## NON-EXECUTIVE DIRECTORS' REMUNERATION

All Non-Executive Directors are remunerated by fees which are reviewed annually and compared with other building societies and relevant comparable institutions. The Board Chairman, Chairman of the Audit Committee, Chairman of the Risk & Compliance Committee, Chairman of the Remuneration Committee and the Senior Independent Director also receive additional payments reflecting the additional duties and responsibilities of their roles. The Chairman of the Assets & Liabilities Committee (ALCO) currently receives no additional payment given his concurrent role as Chief Executive.

Non-Executive Directors do not receive a salary or other taxable benefits and do not have service contracts, but are entitled to claim reimbursement of expenses incurred on behalf of the Society.

## FURTHER INFORMATION

Details of remuneration paid to all Directors are shown on the next page. No compensation arrangements are entered into which might reward poor performance.

The Remuneration Committee's complete Terms of Reference are available for download on the Society's website at the following address: [www.esbs.co.uk](http://www.esbs.co.uk).

During the period to which this report relates, the Chairman of the Remuneration Committee was Paul E Beardsmore.

**P E Beardsmore**

Chairman of the Remuneration Committee

20th May 2019



## DIRECTORS OF THE SOCIETY REMUNERATION DETAILS ARE SET OUT BELOW:

### 2019

	Fees	Salary	Benefits	Pension scheme contributions	Total
	£	£	£	£	£
<b>Non-Executive Directors</b>					
M J Rice (Chairman)	25,188	-	-	-	25,188
P E Beardsmore (Vice-Chairman)	17,918	-	-	-	17,918
I M Dale	17,640	-	-	-	17,640
L J Mackie*	18,725	-	-	-	18,725
A J McNair	21,271	-	-	-	21,271
J Stables	19,335	-	-	-	19,335
<b>Executive Directors</b>					
N D Adams (Deputy Chief Executive & Finance Director)**	-	67,545	6,447	9,897	83,889
P Tilley (Chief Executive & Secretary)	-	104,182	13,605	10,187	127,974
<b>Total 2019</b>	<b>120,077</b>	<b>171,727</b>	<b>20,052</b>	<b>20,084</b>	<b>331,940</b>

### 2018

	Fees	Salary	Benefits	Pension scheme contributions	Total
	£	£	£	£	£
<b>Non-Executive Directors</b>					
M J Rice (Chairman)	24,543	-	-	-	24,543
P E Beardsmore (Vice-Chairman)	17,458	-	-	-	17,458
S J Burnside (To 31st August 2017)	4,165	-	-	-	4,165
I M Dale	16,910	-	-	-	16,910
G Little (To 31st August 2017)	4,165	-	-	-	4,165
L J Mackie (From 1st November 2017)	7,150	-	-	-	7,150
A J McNair	20,726	-	-	-	20,726
J Stables (From 1st November 2017)	7,150	-	-	-	7,150
<b>Executive Directors</b>					
N D Adams (Deputy Chief Executive & Finance Director)	-	76,867	5,167	11,190	93,224
P Tilley (Chief Executive & Secretary)	-	102,287	12,606	9,926	124,819
<b>Total 2018</b>	<b>102,267</b>	<b>179,154</b>	<b>17,773</b>	<b>21,116</b>	<b>320,310</b>

\*Included in the fees total of Mrs L J Mackie for 2019 is the sum of £1,370 towards executive marketing services. It is not anticipated this consultancy will be ongoing.

\*\*N D Adams commenced a four-day week contract on 1 August 2018.

Included in the emoluments of Executive Directors in 2019 are incentive payments amounting to 2.25% of salary (2018: 3%).

## SUMMARY CORPORATE GOVERNANCE REPORT

### OVERVIEW

The Board is committed to best practice in Corporate Governance as it affects the Earl Shilton Building Society. The Board has voluntarily chosen to follow most of the principles of the UK Corporate Governance Code 2018 where they are considered relevant (and the Board deems them appropriate) to an organisation of this size.

The Board assumes full responsibility for the overall strategy, the operation of the Society and the monitoring of performance. The Directors continue to believe that members are best served by the Society retaining its mutual status.

The AGM provides members with an opportunity to engage with the Directors either formally or informally. To encourage voting, the Society will financially support two charities, each of which will receive a donation based on the number of votes received. We use member questionnaires to obtain views on the Society. In the event of a significant vote (20% or more) against any resolution at the AGM, the Society would seek feedback from the membership to identify if any remedial action was considered necessary by the Board.

### PRINCIPAL FUNCTIONS OF THE BOARD

The principal functions of the Board are to:-

- set the Society's strategy and risk appetite;
- measure its progress;
- ensure sufficient resources are available to meet the objectives;
- ensure the Society is prudently managed; and
- comply with all legal and regulatory requirements.

The Board meets at least nine times a year and separately undertakes a formal review of strategy at least annually. Additional Board meetings take place when required.

The Chairman of the Board is responsible for the leadership of the Board, setting the direction and culture of the Board and ensuring effective contributions from all Directors.

The Board reviews the composition of the Committees on an annual basis to ensure each Committee has the appropriate expertise. Likewise, the Board reviews the Committees' Terms of Reference to ensure they remain relevant and up to date. These are available on request from the Society's Secretary and on the Society's website at [www.esbs.co.uk](http://www.esbs.co.uk). As a result of this review the Audit, Risk Assessment and Compliance Committee ("ARACC") was disbanded during the year and replaced by an Audit Committee and a Risk & Compliance Committee.

The Board delegates certain functions and in some situations decision making to various Committees. During the year the following Committees were in operation:

- Assets & Liabilities Committee
- Audit, Risk Assessment and Compliance Committee
- Audit Committee
- Risk & Compliance Committee
- Nominations Committee
- Remuneration Committee
- Lending Committee

## BALANCE AND INDEPENDENCE

The offices of Chairman and Chief Executive are distinct and are required to perform different duties. No one person may fulfil both roles. The Chairman is responsible for leading the Board, ensuring its effectiveness and communicating with the Society's members on behalf of the Board. The Chief Executive is responsible for implementing the strategy agreed by the Board and managing the Society's business and operations within the parameters set by the Board.

The Senior Independent Director is Ian M Dale who is available to members if they have concerns regarding their membership of the Society and do not wish to contact either the Chairman or Chief Executive.

The Non-Executive Directors periodically meet without the Executive Directors in attendance to provide further evidence of independent judgement.

## BOARD APPOINTMENT AND PROFESSIONAL DEVELOPMENT

The Board regularly assesses the range of skills and experience of the Directors to determine if they match the needs of the business currently conducted and that being developed.

Recruitment of Directors follows a rigorous, formal and transparent procedure and once a Director is appointed an induction process is undertaken.

All Directors must meet the tests of fitness and propriety laid down by the PRA and the FCA. All Directors who hold a Senior Management Function ("SMF"), as prescribed by the PRA and the FCA, must be registered with the regulators as an Approved Person. Directors who do not hold a SMF must be notified to the regulators.

The Chairman of the Board ensures that the Directors are provided with sufficient information and training to enable them to discharge their duties as Directors.

Directors must stand for re-election at least every three years in accordance with Rule 26 of the Society's rulebook. The Board expects that, in accordance with the UK Corporate Governance Code 2018, Non-Executive Directors will serve for a maximum period of nine years but in exceptional circumstances this may be extended and the Non-Executive Director concerned will be required to stand for annual re-election. The Board considers all Non-Executive Directors to be independent in character and opinion except the person holding the role of Chairman of the Board who can only be considered independent at the date of appointment.

In respect of Neil D Adams, Paul E Beardsmore and Martin J Rice who are standing for re-election this year, the Board considers that they continue to be effective, committed to the Society and provide the balance of skills and experience to enable the Board to discharge its duties.

All Directors are annually appraised individually with Directors taking responsibility for their development needs in conjunction with the Chairman. The Chairman evaluates the contribution made by all other Directors. The Chairman is similarly evaluated by the other Directors led by the Senior Independent Director. The Board, Assets & Liabilities Committee, Audit Committee and Risk & Compliance Committee are individually subject to an annual self-evaluation.

The Board is responsible for the appointment and scrutiny of the Executive Directors as well as holding them to account and ultimately for their removal.

The Board meets periodically without the Executive Directors present.

Prior to appointing a Director, and each year during their tenure, the Board assesses the capacity for each Director to undertake the role with the Society having due regard to time and external commitments. It is envisaged that an Executive Director would not hold more than one other significant appointment outside of the Society. Board approval is required prior to any Director taking on additional appointments after they become a Director of the Society.

Directors have access to the Society's Secretary who advises on governance matters. The appointment and removal of the Secretary is a matter for the whole Board.

**M J Rice**  
Chairman

20th May 2019

Note - Members with more than one investment account may receive a copy of this Summary Financial Statement in respect of each such account. The administrative cost of removing duplicate statements exceeds the cost of printing and postage of the extra copies.

Earl Shilton Building Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

A schedule of interest rates paid during the year ended 31st March 2019 is included in the AGM pack.

## CONTACT AND OTHER INFORMATION

Postal address:	22 The Hollow, Earl Shilton, Leicester LE9 7NB
Website address:	<a href="http://www.esbs.co.uk">www.esbs.co.uk</a>
Telephone number:	01455 844422
Fax number:	01455 845857
Email address:	<a href="mailto:enquire@esbs.co.uk">enquire@esbs.co.uk</a>

### DIRECTORS

Martin J RICE LLB LLM (Distinction)	Chairman
Paul E BEARDSMORE FCIB	Vice-Chairman
Neil D ADAMS FCA	
Ian M DALE ACA	
Laura J MACKIE BA BSC ACIB	
Audrey J McNAIR MA FCIBS	
John STABLES BA FCA	
Paul TILLEY JP ACIB CeRGI CeMAP	

### CHIEF EXECUTIVE & SECRETARY

Paul TILLEY JP ACIB CeRGI CeMAP

### DEPUTY CHIEF EXECUTIVE & FINANCE DIRECTOR

Neil D ADAMS FCA

### INTERNAL AUDITORS

RSM Risk Assurance Services LLP

### EXTERNAL AUDITORS

KPMG LLP

Chartered Accountants and Statutory Auditor

Member of the Building Societies Association

## NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the 162nd Annual General Meeting of the members of Earl Shilton Building Society will be held on Wednesday 10th July 2019 in The Hall, Age UK, Senior Citizens Centre, Kings Walk, Earl Shilton, LE9 7NL at 6.00 p.m. for the following purposes:-

- 1 To receive the Auditors' Report.
- 2 To approve the Directors' Report, Annual Accounts and Annual Business Statement for the year ended 31st March 2019.
- 3 To approve the Directors' Remuneration Report.
- 4 To appoint BDO LLP as auditors until the conclusion of the next Annual General Meeting.
- 5 Election of Directors.
  - (a) To re-elect MARTIN JOHN RICE
  - (b) To re-elect PAUL EDWARD BEARDSMORE
  - (c) To re-elect NEIL DAVID ADAMS
- 6 To transact any other business permitted by the Rules of the Society.

By Order of the Board

**P Tilley**  
Chief Executive and Secretary

20th May 2019

## BIOGRAPHICAL NOTES OF THE DIRECTORS STANDING FOR ELECTION – AGM 2019

### **Martin Rice** aged 62

Martin Rice joined the Society as a Non-Executive Director in August 2013 and became Chairman in August 2014. Although a qualified Solicitor, his whole career has focused on financial services, including working for the former Alliance & Leicester (now Santander), Barclays Bank (in their Barclaycard division) and as part of an international team monitoring a remediation programme undertaken by HSBC in connection with its financial crime controls. A keen gardener, Martin is also an avid reader - particularly of British history and politics – and music collector.

### **Paul Beardsmore** aged 67

Paul Beardsmore has worked in the building society industry since 1971, mostly with local and regional societies. He has been a Non-Executive Director at the Society since August 2013. Paul is the Society's Vice-Chairman as well as the Chair of the Remuneration Committee and is a strong supporter of the Society's traditional core values, which include its dedicated customer focus and financial prudence. Paul is also a charity trustee and directs a church choir.

### **Neil Adams** aged 61

Neil Adams joined the Society as Head of Finance in 2001 after an extensive career working as a Chartered Accountant. He joined the Board as Finance Director in 2003. Neil is a strong advocate of the Society and mutuality in general, which he believes enables us to focus on serving our members and maintaining strong ties to the local community. Neil also serves as the Deputy Chief Executive. Born in Leicestershire, Neil enjoys keeping fit, exploring the great outdoors, reading and spending time with his family.

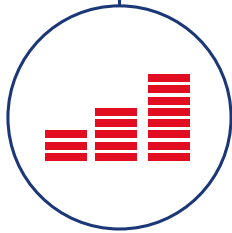
# 2019 Annual Results



Pre-tax Profit  
**£579,833**



Total Assets  
**£137.4m**



**97%**  
of new members said they would recommend esbs to others



Total mortgage balances increased to a record  
**£107m**

Savings and mortgages as individual as you.

**esbs**

22 THE HOLLOW, EARL SHILTON, LEICESTER LE9 7NB

 01455 844422  [www.esbs.co.uk](http://www.esbs.co.uk)  [enquire@esbs.co.uk](mailto:enquire@esbs.co.uk)

Branch office: Malt Mill Bank, Barwell, Leicester



Earl Shilton Building Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority