

Registered no: 2956027

## Market Harborough Mortgages Limited

Annual report and financial statements for the year ended 31 December 2015

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# Market Harborough Mortgages Limited

## Annual report and financial statements for the year ended 31 December 2015

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# Market Harborough Mortgages Limited

## Directors' report for the year ended 31 December 2015

The directors present their report and the audited financial statements for the year ended 31 December 2015.

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

As a small company, the Company is exempt from the requirement to prepare a Strategic Report.

### Principal activity

The principal activity of the Company is mortgage related finance. As a wholly owned subsidiary of Market Harborough Building Society the Company funds its mortgage assets by way of a loan from its parent undertaking.

### Registered number

2956027

### Review of business and future developments

The Company was formed in 1994 to acquire portfolios of commercial assets that legislation did not permit Market Harborough Building Society to acquire onto its own balance sheet. However, the enactment of the Building Societies Act 1997 enabled the Society to acquire such portfolios onto its own balance sheet. It is not, therefore, intended to seek further growth in the Company's asset base from this source.

All loan and related business activities were transferred to Market Harborough Building Society, the company's parent, during 2015. The company ceased business transactions in December 2015. The company changed its financial reporting framework from UKGAAP to International Financial Reporting Standards as adopted in the EU (IFRS). This change had no impact on the reported results or financial position of the Company.

### Results and dividends

The Company's profit for the financial year is £3,501 (2014: loss £3,255). The profit of £3,501 (2014: loss £3,255) has been transferred to reserves. The directors do not propose a payment of a dividend (2014: £nil).

### Principal risks

The Board has identified credit risk, interest rate risk and operational risk as the principal risks to which the Company is exposed. An analysis of these risks is contained in the accounts of the parent undertaking, by whom they are managed.

### Directors and their interests

The following were directors of the Company in 2015:

Nicholas Johnston (Chairman)  
Nicholas Fielden  
Mark Robinson

No director had any interest in the shares of the Company at 31 December 2015.

### Insurance of directors

Liability insurance cover is maintained for the directors and officers by the parent undertaking.

# Market Harborough Mortgages Limited

## Directors' report (continued)

### Statement of Directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

### Auditors

The Company's auditors, KPMG LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the annual general meeting.

Each director in office at the date of this Directors' Report confirms that so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### On behalf of the Board



**Nicholas Johnston**  
Chairman  
17 March 2016

# Market Harborough Mortgages Limited

## **Independent auditor's report to the members of Market Harborough Mortgages Limited**

We have audited the financial statements of Market Harborough Mortgages Limited for the year ended 31 December 2015 set out on pages 6 to 16. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate)

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

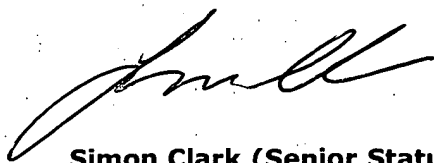
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns;
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

# Market Harborough Mortgages Limited



**Simon Clark (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants

One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH  
17 March 2016

# Market Harborough Mortgages Limited

## Statement of Comprehensive Income for the year ended 31 December 2015

	Notes	2015 £	2014 £
<b>Turnover - continuing operations</b>	1	<b>3,914</b>	7,013
<b>Gross profit</b>		<b>3,914</b>	7,013
Operating expenses - continuing operations	2	-	(13,000)
Other operating income		<b>827</b>	2,732
<b>Operating profit before provisions</b>		<b>4,741</b>	(3,255)
Provisions for bad and doubtful debts	3	<b>(365)</b>	-
<b>Profit on ordinary activities before taxation</b>	5	<b>4,376</b>	(3,255)
Tax on profit on ordinary activities	6	<b>(875)</b>	-
<b>Retained profit/(loss) for the financial year</b>	11	<b>3,501</b>	(3,255)

The notes on pages 6 to 16 form part of these accounts.

The Company has no recognised gains and losses other than those included in the results above.

There is no difference between the profit on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents.

# Market Harborough Mortgages Limited

## Statement of Financial Position as at 31 December 2015

	Notes	2015 £	2014 £
<b>Current assets</b>			
Cash at bank and in hand		-	90,773
Loans and advances to customers	7	-	128,872
Other assets: amounts falling due within one year	8	<b>1,185,711</b>	975,076
<b>Total Assets</b>		<b><u>1,185,711</u></b>	<b><u>1,194,721</u></b>
Other liabilities: amounts falling due within one year	9	<b>875</b>	13,386
<b>Total Liabilities</b>		<b><u>875</u></b>	<b><u>13,386</u></b>
<b>Capital and reserves</b>			
Called up share capital	10	<b>1</b>	1
Profit and loss account	11	<b>1,184,835</b>	1,181,334
<b>Total Equity</b>	12	<b><u>1,184,836</u></b>	<b><u>1,181,335</u></b>
<b>Total Equity &amp; Liabilities</b>	12	<b><u>1,185,711</u></b>	<b><u>1,194,721</u></b>

The financial statements on pages 6 to 16 were approved by the Board of Directors on 17 March 2016 and were signed on its behalf by:

  
**Nicholas Johnston**  
Chairman



# Market Harborough Mortgages Limited

## Cashflow Statement as at 31 December 2015

	2015	2014
	£	£
<b>Profit before tax</b>	<b>4,376</b>	<b>(3,255)</b>
(Increase) /decrease in other assets	<b>(210,635)</b>	<b>(374,016)</b>
Increase /(decrease) in other liabilities	<b>(13,386)</b>	<b>386</b>
(Increase) /decrease in loans and advances to customers	<b>128,872</b>	<b>71,873</b>
Taxation paid	<b>-</b>	<b>(2,067)</b>
<b>Net Cash Generated From Operating Activities</b>	<b>(90,773)</b>	<b>(307,078)</b>
<b>Net Cash Generated From Investing Activities</b>	<b>-</b>	<b>-</b>
<b>Net Cash Generated From Financing Activities</b>	<b>-</b>	<b>-</b>
<b>Net Change In Cash or Cash Equivalents</b>	<b>(90,773)</b>	<b>(307,078)</b>
Cash and cash equivalents at 1 January	<b>90,773</b>	<b>397,851</b>
<b>Cash and cash equivalents at 31 December</b>	<b>-</b>	<b>90,773</b>

# Market Harborough Mortgages Limited

## Notes to the financial statements for the year ended 31 December 2015

### 1 Principal accounting policies

The financial statements have been prepared in accordance with International Financial reporting Standards as adopted by the EU (IFRS) and the Companies Act 2006. A summary of accounting policies, which have been applied consistently is set out below.

#### Transition to adopted IFRS

These are the first financial statements prepared in accordance with IFRSs (as adopted and endorsed by the EU) and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. The date of transition to IFRSs is 1 January 2014. The transition had no impact on the results or financial position of the Company.

#### Basis of preparation

The financial statements are prepared in accordance with the historical cost convention.

Market Harborough Building Society has given an undertaking to discharge the liabilities of the Company in so far as the Company is unable to discharge them out of its own assets.

#### Future accounting developments

A number of International Accounting Standards Board (IASB) pronouncements have been issued but are not effective for this financial year. The standards considered most relevant to the Society are as follows:

- IFRS 9 'Financial Instruments' – effective from 1 January 2018 at the earliest but not yet endorsed by the EU. The standard will eventually replace all of IAS 39. The standard requires financial assets to be classified at amortised cost or at fair value (through either the income statement or through other comprehensive income). Consequently, the available-for-sale category currently used will become void. In addition the standard will address impairment of financial assets, which will be based on expected credit losses rather than incurred financial losses as at present, as well as general hedge accounting. Early adoption is permitted once endorsed by the EU. The impact of IFRS 9 is likely to be material to the Group once it becomes effective.
- IFRS 15 'Revenue from contracts with Customers' effective from 1 January 2017. The standard provides guidance on when revenue should be recognised. The standard is not expected to have a significant impact to the Group.

#### Interest income and expense

Interest income and interest expense for all interest bearing financial instruments are recognised in 'interest receivable and similar income' or 'interest payable and similar charges' using the effective interest rates of the financial assets or financial liabilities to which they relate. The effective interest rate is the rate that discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying amount of the financial asset or liability.

Interest on impaired financial assets is recognised at the original effective interest rate of the financial asset applied to the carrying amount as reduced by an allowance for impairment.

#### Fees and commissions

Fees receivable are generally recognised when all contractual obligations have been fulfilled.

Commission receivable from the sale of third party products is recognised upon fulfilment of contractual obligations, that is when policies go on risk or on completion of a mortgage.

If the fees are an integral part of the effective interest rate of a financial instrument, they are recognised as an adjustment to the effective interest rate and recorded in interest income/payable.

Fees payable are recognised on an accruals basis when the service has been provided or on the completion of an act to which the fee relates.

#### Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash, treasury bills and other eligible bills and loans and advances to credit institutions.

# Market Harborough Mortgages Limited

## Notes to the financial statements (continued)

### Financial assets

The Group classifies non-derivative financial assets as either loans and receivables or available-for-sale assets. Management determines the classification of financial assets at initial recognition. No assets have been classified as held to maturity.

#### *Loans and receivables*

The Company's loans and advances to customers are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The Company measures its loans and receivables at amortised cost less impairment provisions.

The initial value may, if applicable, include certain upfront costs and fees such as procurement fees, legal fees, mortgage indemnity guarantee premiums and application fees, which are recognised over the expected life of mortgage assets. Mortgage discounts are also recognised over the expected life of mortgage assets as part of the effective interest rate.

Throughout the year and at each year end, the mortgage life assumptions are reviewed for appropriateness. Any changes to the expected life assumptions of the assets are recognised through interest receivable and similar income and reflected in the carrying value of the mortgage assets.

### Impairment of financial assets not carried at fair value through profit and loss

#### *Assets carried at amortised cost*

Throughout the year and at each year-end, individual assessments are made of all loans and advances against properties which are in possession or in arrears by two months or more and/or are subject to forbearance activities. Individual impairment provision is made against those loans and advances where there is objective evidence of impairment.

Objective evidence of impairment may include:

- Significant financial difficulty of the borrower/issuer.
- Deterioration in payment status.
- Renegotiation of the terms of an asset due to financial difficulty of the borrower or issuer, including granting a concession/ forbearance to the borrower or issuer.
- Becoming probable that the borrower or issuer will enter bankruptcy or other financial reorganisation; and
- Any other information discovered during regular review suggesting that a loss is likely in the short to medium term.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. In considering expected future cash flows, account is taken of: any discount which may be needed against the value of the property at the statement of financial position date thought necessary to achieve a sale; amounts recoverable under mortgage indemnity policies; and anticipated realisation costs.

In addition, the Company assesses quarterly whether there is objective evidence to suggest a financial asset or group of financial assets is likely to be impaired. Where a collective assessment is made, each category or class of financial asset is split into groups of assets with similar credit risk characteristics. The Company measures the amount of impairment loss by applying expected loss factors based on the Company's experience of default, loss emergence periods, the effect of in house price movements and any adjustment for the expected forced sales value.

Where certain emerging impairment characteristics are considered significant but not assessed as part of the impairment calculation, management may elect to apply an overlay to the impairment provision.

# Market Harborough Mortgages Limited

## Notes to the financial statements (continued)

### Forbearance strategies and renegotiated loans

A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on their feet.

The main options offered by the Company include:

- Reduced monthly payment, for example, a temporary switch to interest only payments;
- An arrangement to clear outstanding arrears;
- Extension of mortgage term.

Customers requesting a forbearance option will need to provide information to support the request which is likely to include a budget planner, statement of assets and liabilities, bank / credit card statements, payslips etc. in order that the request can be properly assessed. If the forbearance request is granted, the account is monitored in accordance with our policy and procedures. At the appropriate time, the forbearance option that has been implemented is cancelled, with the exception of capitalisation of arrears, and the customer's normal contractual payment is restored.

The provisioning methodology for mortgages in forbearance is the same as that for all other mortgage accounts.

### Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive cash flows have expired or where substantially all the risks and rewards of ownership have been transferred. Financial liabilities are derecognised only when the obligation is discharged, cancelled or has expired.

### Financial liabilities

All non-derivative financial liabilities, that include shares and wholesale funds, held by the Company are measured at amortised cost with interest recognised using the effective interest rate method.

Discounts and other costs incurred in the raising of wholesale funds are amortised over the period to maturity using the effective interest method.

### Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income and gains arising in the accounting period.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amount of assets and liabilities for accounting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are recognised gross on the statement of financial position and deferred tax assets are only recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Both current and deferred taxes are determined using the rates enacted or substantively enacted at the statement of financial position date.

### Accounting estimates and judgements

The Company makes estimates and judgements that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are described below:

#### *Impairment losses on loans and advances to customers*

The Company reviews its mortgage advances portfolio at least on a quarterly basis to assess impairment. In determining whether an impairment loss should be recorded, the Company is required to exercise a degree of judgement. Impairment provisions are calculated using historical arrears experience, modelled credit risk characteristics and expected cash flows. Estimates are applied to determine prevailing market conditions (e.g. interest rates and house prices), customer behaviour (e.g. default rates) and the length of time expected to complete the sale of properties in possession. The accuracy of the provision would therefore be affected by unexpected changes to these assumptions.

# Market Harborough Mortgages Limited

## Notes to the financial statements (continued)

### 2 Operating expenses

2015	2014
£	£

#### Continuing operations

Administrative expenses	-	13,000
Provision for bad and doubtful debts		
	-	13,000

### 3 Provision for bad and doubtful debts

As at 1 January	-	-
Income Statement	365	-
Amounts written off during year	(365)	-
As at 31 December	-	-

### 4 Directors' emoluments

None of the directors received any remuneration in the year for duties carried out in respect of the Company (2014: nil).

The Company had no employees during 2015 (2014: None)

### 5 Profit on ordinary activities before taxation

The audit fees for the current and prior year were borne by the immediate parent underwriting Market Harborough Building Society, which made no recharge to the Company. The audit fees attributable to the Company were £1,000 (2014 : £1,000).

# Market Harborough Mortgages Limited

## Notes to the financial statements (continued)

### 6 Tax on profit on ordinary activities

	2015 £	2014 £
United Kingdom corporation tax:		
Current year	875	-
	<u>875</u>	<u>-</u>
Factors affecting the tax charge for the year:		
Profit on ordinary activities before tax	<u>4,376</u>	<u>(3,255)</u>
Current tax at 20%	875	(651)
Effects of:		
Amount transferred to Group liability	-	651
	<u>875</u>	<u>-</u>
Current tax charge for the year	<u>875</u>	<u>-</u>

No deferred tax asset has been created as recovery is deemed uncertain.

### 7 Loans and Advances to Customers

Commercial assets represent advances secured on residential property and other advances secured on land and are repayable from the balance sheet date as follows:

	2015 £	2014 £
Amounts falling due within one year	-	25,715
Amounts falling due after more than one year	-	103,157
	<u>-</u>	<u>128,872</u>

All loans held at 31 December 2014 were fully up to date and not impaired with an LTV of less than 50%. They were located in the UK. The fair value is not materially different to the book value. The balance was classified as loans and receivable at amortised cost under IAS 39.

# Market Harborough Mortgages Limited

## Notes to the financial statements (continued)

<b>8 Other assets</b>	<b>2015 £</b>	<b>2014 £</b>
Other debtors	-	76
Amounts due from parent undertaking	<b>1,185,711</b>	<b>975,000</b>
	<b><u>1,185,711</u></b>	<b><u>975,076</u></b>

The amount due is classified as loans and receivables and that Fair Value is not materially different to Book Value.

<b>9 Creditors: amounts falling due within one year</b>	<b>2015 £</b>	<b>2014 £</b>
Other creditors	-	1,386
Taxation	<b>875</b>	-
Amount owed to parent undertaking	-	<b>12,000</b>
	<b><u>875</u></b>	<b><u>13,386</u></b>

# Market Harborough Mortgages Limited

## Notes to the financial statements (continued)

### 10 Called up share capital

	2015 £	2014 £
<b>Authorised</b>		
Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
<b>Allotted, called up and fully paid</b>		
Ordinary shares of £1 each	<u>1</u>	<u>1</u>

### 11 Profit and loss account

	2015 £	2014 £
At 1 January	1,181,334	1,184,589
Retained profit / (loss) for the year	3,501	(3,255)
At 31 December	<u>1,184,835</u>	<u>1,181,334</u>

### 12 Reconciliation of movement in shareholders' funds

	2015 £	2014 £
As at 1 January	1,181,335	1,184,590
Profit / (Loss) for the year	3,501	(3,255)
As at 31 December	<u>1,184,836</u>	<u>1,181,335</u>



# Market Harborough Mortgages Limited

## Notes to the financial statements (continued)

### 13 Capital commitments

There is no capital expenditure that has been contracted for that has not been provided for in the financial statements (2014: nil).

### 14 Ultimate parent undertaking

The ultimate parent undertaking and controlling party is Market Harborough Building Society which is registered in England and Wales under the Building Societies Act 1986. The accounts of the parent undertaking may be obtained from:

The Secretary  
Market Harborough Building Society  
The Square  
Market Harborough  
Leicestershire  
LE16 7PD

### 15 Related party transactions

Details of transactions and balances with related parties is disclosed in other notes to these accounts as appropriate.