# Report & Accounts

for the year ended 31 December 2014

the mansfield building society

# Contents


| | |
|---|---|
| Directors' Report | 1 |
| Corporate Governance Report | 7 |
| Directors' Remuneration Report | 12 |
| Statement of Directors' Responsibilities | 15 |
| Independent Auditor's Report | 16 |
| Income and Expenditure Account | 17 |
| Balance Sheet | 18 |
| Cash Flow Statement | 19 |
| Notes to the Accounts | 20 |
| Annual Business Statement | 40 |

# Directors' Report

The Directors are pleased to present their annual report together with the Society Accounts and Annual Business Statement for the year ended 31 December 2014.

## Business objectives

The principal business objective of the Society is to provide a safe and secure haven for members' savings whilst offering secured lending on residential property in order to promote home ownership. This mortgage activity is funded mainly by offering traditional savings products which are competitive, easy to understand and designed to attract savings from private individuals and businesses. Some additional funds are raised on the wholesale money markets to smooth out fluctuations between savings inflows and mortgage demand as the need arises.

## Business review

The year under review has seen continued economic recovery which has boosted consumer confidence and fuelled a rise in activity in the housing market. The Mansfield has had another strong year and the Board is pleased to report a very strong business performance. The two key highlights being an increase in post tax profits to £1.3 million for the year (2013: £0.8 million) and an increase in the mortgage book of £3.6 million. Your Society has therefore managed to accomplish the Board's two main strategic aims of increasing capital strength whilst continuing to grow the mortgage book.

Given the EU and UK regulatory focus on strengthening capital levels in the financial services industry, the Society has continued its focus on building reserves through improved profitability. Profit after tax rose to £1.3 million and this has further bolstered our capital reserves to £21.2 million resulting in a healthy gross capital ratio of 8.04% (2013: 7.98%). Members should place great assurance in the increased level of capital reserves which comfortably exceed the regulator's minimum requirement and allow a protective buffer for any future headwinds in the market.

In 2014 the Society continued the growth in the mortgage book by lending £52.1 million of gross advances, our second highest lending in the last seven years. Although the overall mortgage market expanded, 2014 also saw a significant step up in competition amongst lenders with mortgage pricing being driven down to all time lows. This increased the number of customers redeeming their mortgage as the Society chose not to damage margin by reducing prices as low as the banks. This therefore led to the overall net growth in the mortgage book being smaller than the previous year at 1.6% (2013: 5.9%).

The continuation of the Funding For Lending Scheme (FLS) has resulted in savings rates remaining at low levels as banks and building societies have not required new funds from savers. Our policy for savings in this unique environment was to maintain competitive rates for loyal and local members where possible. We have minimised rate reductions and have been able to avoid the further widespread cuts applied elsewhere in the market. This led to a small reduction in overall savings balances of 0.4%.

Our interest margin has improved during 2014 to 1.80% (2013: 1.41%) and this has driven the continuation of stronger profitability. This increase in margin has allowed us to continue to invest in our people and systems to ensure that we have the right capability for a future which will see increasing regulatory requirements and a sustained growth in the number of members that we can serve. This investment has seen the Management Expenses ratio increase to 1.19% (2013: 1.08%) – this remains in line with peer group comparisons and we expect this ratio to increase into 2015 as we make improvements to our distribution capability.

The Board is proud of our reputation for excellent customer service and is pleased to announce that we were 'Highly Commended' in the Best Local Building Society category by Mortgage Finance Gazette and continue to receive positive feedback about the Society's products and personal services from more than 95% of customer questionnaires returned in 2014.

Against the backdrop of these results and the improving economic conditions, we are pleased to report that the Board of Directors is fully committed to The Mansfield remaining an independent mutual building society for the benefit of its members.

# Directors' Report

## Key performance indicators

The following table provides an overview of the key performance indicators (KPIs) over the last four years. In 2013/14 the Society drew a total of £27 million from the Funding For Lending Scheme (FLS) which was accounted for off balance sheet. In 2013, £16 million of this funding had been drawn and remained off balance sheet; however, in 2014 £20 million of this funding was subject to a repurchase agreement with Royal Bank of Scotland which brings the funding onto the balance sheet.

| Significant Statistics | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| **Total Assets** £m | **286.3** | 270.4 | 281.2 | 261.3 |
| **New Mortgage Lending** £m | **52.1** | 58.1 | 48.8 | 39.4 |
| **Mortgage Assets** growth/ (reduction) % | **1.6%** | 5.9% | 5.1% | (3.6%) |
| **Retail Share Balances** net (decrease)/ increase £m | **(0.8)** | (24.0) | 15.7 | (8.8) |
| **Total Savings Balances** net increase/ (decrease) £m(1) | **0.1** | (11.1) | 22.6 | (8.4) |
| **Management Expenses** as a % of mean Total Assets | **1.19%** | 1.08% | 0.99% | 0.98% |
| **Profit after Tax** £k | **1,299** | 816 | 195 | 142 |
| **Liquid Assets** as a % of Shares and Borrowings | **21.68%** | 18.00% | 26.08% | 24.22% |
| **Gross Capital** as a % of Shares and Borrowings | **8.04%** | 7.98% | 7.30% | 7.86% |

(1) Total savings includes Retail Share Balances and deposits into non member accounts e.g. Business Deposit and SIPP Cash Deposit.

Various key performance indicators are used to measure and monitor periodic progress and these are shown in the table above. As well as showing the movement in business volumes they also include performance measures, which are explained more fully below.

- Management expenses as a percentage of mean total assets measures the Society's efficiency and the increase this year reflects the additional spend on staff, training and systems which represent an investment that the Society is making in the future sustainability of the business.
- Liquid assets as a percentage of shares and borrowings are monitored by the Board to ensure an adequate level of liquidity is maintained to meet payments when they become due. The liquidity has increased due to the FLS funding being reflected in the 2014 balance sheet when it was previously off balance sheet in 2013.
- Gross capital is the total of the general reserve and revaluation reserve and is expressed as a percentage of shares and borrowings. It is an indication of the Society's financial strength and has improved with the increase in post tax profits.

# Directors' Report

## Mortgages

We are delighted to report our second highest lending performance in the last seven years with completed advances of £52.1 million (2013: £58.1 million) the majority of which are secured on residential wholly owner-occupied property. The increased lending over the past two years has been funded, in the main, by funds drawn from the FLS and attracting new savings balances from postal savers. We continue to adopt a cautious approach to new lending to maintain a low risk loan book.

The FLS was launched in 2012 to boost lending in the housing market and the Society drew £11 million of funding during 2014. This has been used to strengthen the competitiveness of our mortgage product range and help to increase lending to individuals, including those with low deposits.

New MMR (Mortgage Market Review) regulatory requirements, that ensure mortgage customers are provided with appropriate advice and can afford repayments, were successfully implemented during the year. This was a relatively straightforward implementation for the Society as our existing procedures already provided appropriate protection and support for mortgage seeking customers.

Controlled steady expansion continues for residential mortgage lending with a competitive strength in analysing applications that are best served by manual underwriting techniques rather than automated credit scoring process adopted by high volume lenders.

Borrowers experiencing payment difficulties are encouraged to contact the Society as a number of forbearance measures are available to assist them with what, in most cases, are temporary problems. These measures could include: a temporary transfer to interest only payments; agreeing an arrears repayment plan; term extensions; or a temporary reduction in payments in order to reduce the financial pressure on the borrower. For all these cases, the intention is that the borrower will resume normal payments as soon as they are able. As at 31 December 2014 the Society was assisting 44 mortgage accounts (2013: 48), using a number of forbearance measures, with total balances of £2,529,453 (2013: £2,423,984). These cases had total arrears balances of £51,024 (2013: £60,775).

As at 31 December 2014 there were seven mortgage cases where repayments were 12 months or more in arrears (2013: three); the amount of those arrears being £28,875 (2013: £4,318) and the mortgage balances £190,271 (2013: £19,007). The Society always attempts to assist customers in arrears to reach a manageable repayment plan. This has caused the cases with arrears greater than 12 months to increase; however, this is the right outcome for our customers and the Society continues to work with these customers to find the best solution for both parties. Where the Society considers there to be a possibility of loss, a bad debt provision is made in accordance with Board approved policy. The Society again suffered no mortgage losses in the year.

The Board recognises the need to prudently provide for losses. A review of the provision for forbearance cases, interest only cases where the customer has no evidence of a repayment vehicle and those customers with a higher propensity to default, has resulted in an increase in bad debt provision to £538,000 (2013: £442,000).

## Savings

Member savings balances decreased by £0.8 million in 2014 (2013: decrease by £24 million). This change was driven by a strategy of maintaining attractive rates for local and loyal members and offering competitive products to the general market place when funding was required. Our deposit balances continued to grow with our local community deposit account a particular success.

Our expectation is that interest rates will remain low into the foreseeable future as the Bank of England do not want to slow economic growth. Whilst this is good news for our mortgage members we appreciate that this has led to leaner times for savers. We will therefore continue to provide enhanced rates to our local and loyal members to assist them in achieving a reasonable return. It is also important that we continue to secure future savers and we have therefore maintained a competitive range of products for younger savers. This was recognised by Savings Champion magazine awarding our Younger Savings range a 'Highly Commended' award.

# Directors' Report

## Capital and liquidity

The Board is very aware that members rightly expect the Society to prioritise its future financial security and continue as a safe and trusted provider. The Board has strategies and controls to ensure that both capital and liquidity are maintained at appropriate levels. The new rules being implemented under EU legislation (for example, Capital Requirements Directive 4) are putting a higher emphasis on improving our capital strength and it is therefore important for the Society to return strong levels of profitability in order to organically grow our capital base. Adopting this capital strengthening strategy ensures that we have protection against future risks and also exceed the required levels of capital under CRD4 so that we can continue to offer a wide range of mortgage products to our members.

At 31 December 2014 gross capital, which is represented by reserves, amounted to £21.2 million (2013: £19.9 million), being 8.04% of total shares and borrowings (2013: 7.98%). Free capital, which comprises gross capital, general provisions for bad and doubtful debts less tangible fixed assets, amounted to £20.1 million (2013: £18.8 million).

Liquid assets in the form of cash in hand, deposits with credit institutions and debt securities stood at £57.2 million representing 21.7% of shares and borrowings as at 31 December 2014. This compares with £44.9 million and 18.0% reported at 31 December 2013. The figure of £57.2 million does not include £7.0 million (2013: £16.0 million) of Treasury Bills we hold as part of the FLS as these are held off balance sheet for accounting purposes. The remaining £20.0 million of FLS Treasury Bills drawn to date have been the subject of a repurchase agreement and the resulting cash was utilised to purchase Treasury Bills on the open market. These are shown on the balance sheet under Treasury Bills. The Board was able to keep liquidity at reduced levels as the Society now has access to the Bank of England's Discount Window Facilities. This facility is designed to provide lenders with greater access and flexibility in managing balance sheet funding.

The Society's approach to risk management, the annual capital adequacy assessment and the country by country reporting are in line with the Capital Requirements Directive and can be found in the Society's Basel II Pillar 3 disclosures and additional disclosures section on our website, www.mansfieldbs.co.uk under "Corporate information".

## Financial risk management objectives and policies

The Society has a formal structure for managing risk, including procedures for identifying and measuring risks, establishing risk limits, reporting lines, mandates and other control procedures. The Board is responsible for managing and controlling the balance sheet exposures and the use of financial instruments for risk management purposes.

## Principal risks and uncertainties

The Society operates within a cautious Board approved risk appetite. We are members of the Financial Services Compensation Scheme and protecting investors and member interests is paramount. The principal business risks to which the Society is exposed are considered to be:

- credit risk, which arises primarily from mortgage loans but also as a result of the Society's investments as part of its treasury activities;
- interest rate risk, which incorporates the loss of income as a result of changes to interest rates;
- liquidity risk, which concerns the Society's ability to meet its financial obligations as they fall due as a result of imbalances in the cash flow of its activities;
- operational risk, which is associated with the Society's internal processes and systems and the potential for these not to function properly;
- regulatory risk, which is the risk that the complexity, volume and associated costs of regulatory issues impairs the Society's ability to compete and develop its business over a period of time;
- economic risk, which is the risk that changes in the economy for example, government interventions such as FLS and Help to Buy, impact market conditions and reduce the Society's ability to compete over a period of time; and
- Financial Services Compensation Scheme (FSCS) risk, being the risk of higher financial levies being imposed on the Society for further claims relating to the failure of other organisations. Costs associated with the FSCS continue to represent an ongoing burden on the Society. This also impacts the Society's members because costs associated with the Scheme are reflected in mortgage and savings interest rates. Membership of the scheme remains compulsory for all building societies and banks.

# Directors' Report

The identification, control and monitoring of risks remains a business priority. Through regular assessment of risk management procedures, steps are taken to mitigate such risks. The Society has business continuity plans in place which it regularly reviews and tests as part of this ongoing review process.

The Society has a Board Risk Policy which outlines the key policies and controls in place to ensure that the risks that exist in the business are well managed.

## Corporate social responsibility

The Society is committed to protecting the environment where possible and uses environmentally friendly stationery and equipment whenever this is appropriate. The Society's policy on disposal also has regard to the environment, using appropriate methods of disposal for equipment and consumables, recycling wherever possible.

## Staff

The Society is proud of our excellent customer service record and this is founded upon well qualified staff, motivated to do an excellent job and act in the best interests of our members. Our staff worked extremely hard throughout 2014 and coped admirably with the increasing demands of tighter regulation and the competitive environment. We have invested in additional resources to ensure that all staff have the time and tools to deliver our service commitment to provide individual personal service to members. The Board thanks everyone for their dedication and hard work.

The Society's executives regularly consult with the Staff Council and hold monthly briefings for all staff via our Cascade process to ensure that all employees are aware of the Society's performance and objectives, and understand the part they play in achieving them.

As an equal opportunities employer, the Society values the differences that a diverse workforce can bring and is committed to ensuring that its workplaces are free from unlawful or unfair discrimination because of race, nationality, ethnic or national origin, gender (including gender reassignment), sexual orientation, age, religious beliefs, marital status or disability.

## Community involvement

The communities in which our branches operate are very much at the heart of the Society. This year we have continued to give something back to the communities where our members live and work by supporting local charities with fund raising, helping local projects through our Work in the Communities Scheme and offering financial support to local organisations through our Community Support Scheme.

Our staff chose Jigsaw to be our local charity of the year and many events have been held to raise funds for the charity including cake sales and a sponsored weight loss. Community Support contributions totalled £20,000 in 2014 (2013: £13,461) as the Board were keen to invest further in our local community.

This included donations to Jigsaw from the incentivised return of qualifying voting forms in connection with the 2014 Annual General Meeting.

We actively encourage staff to participate in the Work in the Community Scheme where we grant two days paid leave each year for our staff to assist local deserving causes.

Beneficiaries from the Scheme in 2014 included various local schools and the local Samaritans.

The Society does not make political donations.

## Future developments

For many years our business model has concentrated on providing a competitive portfolio of mortgage and savings products with easy to understand terms and conditions backed by individual personal service. Our well developed strength in manual underwriting of residential mortgages coupled with this strong customer service will enable us to continue to deliver steady and controlled growth. The use of mortgage intermediaries/brokers to assess and recommend mortgage solutions continues to grow in popularity and the Society will be making further process and system improvements to ensure we provide an efficient and helpful service for these key business introducers.

the mansfield building society

# Directors' Report

Our careful and cautious approach to mortgage underwriting has protected the Society from serious financial losses. Our considered and prudent approach to conducting our business affairs means that we are well placed to take advantage of opportunities in sectors that are sometimes ignored by larger lenders. Buy to let, self-build and shared ownership are areas in which we are actively increasing our mortgage book in a controlled manner.

The Board is well aware, however, that the housing market is currently benefitting from significant government intervention. Each year the Board undertakes strategic planning for the next five years and we have modelled scenarios to anticipate market changes when the current level of government intervention is reduced.

On the savings front, in addition to providing the continued portfolio of loyalty products for personal investors, we will be increasing our activities in the corporate savings market to raise additional funds.

## Directors

The following were directors of the Society during the year:

### Non-executive directors

| | |
|---|---|
| Nigel Tamplin, FCA | Chairman |
| Richard Smith, ACIB | Deputy Chairman (retired from the board 24 April 2014) |
| Rob Clifford, CertPFS | Senior Independent Director |
| Robert Hartley, FRICS | |
| Alison Chmiel, FCMA | |
| Jeremy Cross, ACA | |
| Ian Rowling, MBA, FCIB | |

### Executive directors

| | |
|---|---|
| Gev Lynott, FCCA, FCIB | Chief Executive |
| Paul Wheeler, ACA | Finance Director and Secretary |

Richard Smith retired from the Board in April 2014. Rob Clifford and Gev Lynott stand for re-election in accordance with Rule 26 (retirement by rotation).

After almost 9 years valuable service, Nigel Tamplin will retire from the Board in April 2015. The directors would like to thank Nigel for his significant contribution to the Society in his time on the Board.

At 31 December 2014 no director held any interest in the shares or debentures of any connected undertaking.

## Other matters

### Creditor payment policy

The Society does not follow a formal code or standard on payment practice. Instead, the Society has continued with its policy of ensuring payments to trade creditors are made promptly within the agreed terms of credit, once the contractual obligations of the supplier have been discharged. Amounts due to creditors as at 31 December 2014 represented 3 days (2013: 3 days).

### Auditors

The Board has decided to continue to recommend KPMG LLP be appointed as auditors and a resolution for their appointment will be proposed to the Society's forthcoming Annual General Meeting.

### Events since the year end

The directors do not consider that any event since the year end has had a material effect on the position of the Society.

### Going concern

The directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason the accounts are prepared on a going concern basis.

On behalf of the Board of Directors

**Nigel Tamplin**
*Chairman*
26 February 2015

# Corporate Governance Report

## Corporate Governance

The Society has regard to the principles of the Financial Reporting Council's UK Corporate Governance Code October 2012 (the Code) as they apply to a Building Society. It is also mindful of updates to the Code in September 2014 which will apply to subsequent financial reporting periods.

### The Role of the Board

Code Principle:

*A.1 Every company should be headed by an effective Board, which is collectively responsible for the long-term success of the company.*

Board comment:

An effective Board has a diverse range of skills and experience which we believe is in evidence at The Mansfield.

At 31 December 2014 the Society's Board consisted of six non-executive directors (including the Chairman) and two executive directors who have the collective responsibility for ensuring that the affairs of the Society are managed competently and with integrity. Richard Smith retired from the Board in April 2014. The Board views all the non-executive directors as being independent in character. In 2014 the Board met 11 times to determine and closely monitor the Society's business strategy and performance. They also met to discuss a detailed review of the Society's strategy in November.

The Board has three Committees, as detailed below, which assess proposals in detail and make recommendations to the full Board. The terms of reference for committees are available on request from the Society's Secretary. Proceedings of all committees are formally minuted and minutes are subsequently considered by the full Board.

#### Nomination and Remuneration Committee

This Committee meets three times each year and reviews Board constitution, skills, performance, succession plans and election of directors. The Committee is responsible for the remuneration policy for all directors of the Society and makes recommendations to the Board regarding remuneration and contractual arrangements.

Committee members during the year were Robert Hartley (Chairman), Ian Rowling (appointed to the committee in October 2014) and Nigel Tamplin. Richard Smith was a member of the committee prior to his retirement.

Meetings of the Committee are also attended, as appropriate, by Gev Lynott (Chief Executive), Paul Wheeler (Finance Director) and Vickie Preston (HR Manager), who withdraw from the meeting when their own remuneration is being considered, or on request. At the beginning of the year Jim Dunn (Mortgage and Personnel Executive) was also an attendee prior to him leaving the Society.

Further information on the role of the Nomination and Remuneration Committee is included within the Directors' Remuneration Report which starts on page 12.

#### Audit and Compliance Committee

This Committee meets quarterly and considers regulatory compliance matters and the adequacy of internal controls. It has specific responsibility for the monitoring of the external auditor's independence, objectivity, competence and effectiveness. This Committee also reviews audit reports, monitors the relationship with both internal and external auditors, agrees the annual internal audit plan and ensures that the systems of accounting, business control and management of information are adequate for the needs of the Society.

The Committee has responsibility to ensure that auditor objectivity is maintained, should the external auditors provide additional non audit services. The only non audit services currently authorised by the Committee relate to taxation advice and the audit of FLS compliance.

Current Committee members are Jeremy Cross (Chairman), Nigel Tamplin and Robert Hartley. Nigel Tamplin and Jeremy Cross have recent, relevant financial experience. Richard Smith was Chairman prior to his retirement. The meetings are also attended by representatives from internal and external audit, together with the Chief Executive, Finance Director, the Risk and Compliance Executive and Money Laundering Reporting Officer and other senior managers by invitation.

#### Risk Committee

This Committee meets quarterly and is responsible for the oversight and challenge of the Society's risk management framework to identify, manage and mitigate the key risks that could impact the Society. The Committee reviews risk assessments, risk limits and risk mitigation policies in accordance with the overall risk appetite of the Society.

the mansfield building society

# Corporate Governance Report

The Committee also considers the Lending policy, Internal Capital Adequacy Assessment Process (ICAAP), Individual Liquidity Systems Assessment (ILSA) and other Financial Risk Management policies in detail.

Committee members are Alison Chmiel (Chairman), Nigel Tamplin, Ian Rowling, Gev Lynott and Paul Wheeler. Rob Clifford was Chairman earlier in the year and Richard Smith was a member prior to his retirement. Jill Watson (Risk and Compliance Executive) and Ian Richardson (Mortgage Executive) attend as appropriate. Jim Dunn, the former Mortgage and Personnel Executive, also attended prior to his leaving the Society.

### Attendance at Board and Committee meetings

The table below shows the number of meetings of the Board and its Committees at which each director was present and the total number of Board and Committee meetings held during the year.

| | Board | Nomination and Remuneration Committee | Risk Committee | Audit and Compliance Committee |
|---|---|---|---|---|
| Number of Meetings | 11 | 3 | 4 | 4 |
| Non-executive directors | | | | |
| Nigel Tamplin | 11 | 3 | 4 | 4 |
| Alison Chmiel | 11 | * | 4 | * |
| Richard Smith (Retired April 2014) | 3 | 2 | 1 | 1 |
| Robert Hartley | 11 | 3 | * | 4 |
| Rob Clifford | 9 | * | 3 | * |
| Jeremy Cross | 9 | * | * | 3 |
| Ian Rowling (Appointed to N&R Committee Oct 2014) | 11 | 1 | 4 | * |
| Executive directors | | | | |
| Gev Lynott | 11 | * | 4 | * |
| Paul Wheeler | 11 | * | 4 | * |

* Denotes not a member of the Committee.

### Division of Responsibilities

Code Principle:

*A.2 There should be a clear division of responsibilities at the head of the company between the running of the Board and the Executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.*

Board comment:

The offices of Chairman and Chief Executive are distinct and held by different people. The Chairman is responsible for leading the Board. The day to day conduct of the Society's business is entrusted to the Chief Executive and his senior management colleagues within the policies established by the Board.

### The Chairman

Code Principle:

*A.3 The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role.*

Board comment:

The Chairman sets the direction and culture of the Board, facilitating effective contribution from directors, maintaining constructive relations between executive and non-executive directors and ensuring that directors receive accurate, timely and clear advice and information. The Chairman was appointed in May 2011 and has a total of almost nine years service with the Society.

### Non-executive directors

Code Principle:

*A.4 As part of their role as members of a unitary Board, non-executive directors should constructively challenge and help develop proposals on strategy.*

Board comment:

The Board provides an independent and constructive challenge to the executive team with regard to the strategy and business performance of the Society. They ensure that the interests of the members are

# Corporate Governance Report

maintained and that the Society is fully compliant with all regulations. This requires time commitment for both attendance at Society meetings and continued development of their knowledge and skills relating to the building society sector. Each year the Board carries out a specific, formal review of Society strategy.

### The Composition of the Board

Code Principle:

*B.1 The Board and its Committees should have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.*

Board comment:

The non-executive directors are independent in character and judgment and are not employees of the Society. The Chairman has served on the Board for almost nine years. All directors bring a wealth of experience and diversity of business perspective and objectivity which complements the ‘hands on’ expertise of their executive director colleagues.

In line with the UK Corporate Governance Code, the Society’s Board has appointed Rob Clifford as the Senior Independent Director. The appointed director is available to members if they have concerns, which contact through the normal channels of Chairman, Chief Executive or Secretary has failed to resolve, or for which such contact is inappropriate.

### Appointments to the Board

Code Principle:

*B.2 There should be a formal, rigorous and transparent procedure for the appointment of new directors to the Board.*

Board comment:

The composition of the Board is kept under review with the aim of ensuring that the Board collectively possesses the necessary skills and experience for the proper direction of the Society’s business activities. The Board believes that individual directors have a range of skills and experience which is appropriate for the management of the Society. The Board also has a well documented and approved succession plan which will ensure that the Board is refreshed with new members without jeopardising the stability of the Board.

The Society has a well developed process for recruiting non-executive directors which includes advertising on relevant websites and in appropriate publications. The search and selection process is supported with a clear definition of the experience and the required skill set for the role and involves the whole Board.

All new directors appointed are subject to election by the members at the next Annual General Meeting of the Society following their appointment.

All directors must meet the test of fitness and propriety as laid down by the appropriate regulator and each director must be approved by the PRA in order to fulfil their control function as a director.

### Commitment

Code Principle:

*B.3 All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.*

Board comment:

Directors are required to commit a minimum of three days per month to their Board responsibilities. Directors are informed of the time commitment in the letter of appointment. The Board evaluates the ability of directors to commit the time required for their role, prior to appointment. The formal appraisal process carried out by the Chairman each year also assesses whether directors have demonstrated this ability during the year. The attendance record during the year of Board and Committee members is set out on page 8.

### Development

Code Principle:

*B.4 All directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.*

Board comment:

All directors are given appropriate training following their appointment and are encouraged to attend industry events, seminars and training courses to maintain an up to date knowledge of the industry and the regulatory framework within which the Society operates.

The Society also operates a continuous training programme for the Board and Senior Management to ensure that skills are maintained and new regulatory requirements are clearly understood.

# Corporate Governance Report

## Information and Support

Code Principle:

*B.5 The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.*

Board comment:

All directors are provided with clear, timely and accurate information for the effective conduct of business, including an established list of items for review and regular financial updates.

All directors are entitled to seek independent professional advice at the Society's expense and have access to the services of the Secretary.

## Evaluation

Code Principle:

*B.6 The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and individual directors.*

Board comment:

All directors are subject to an individual annual performance review including an evaluation against a skills matrix to identify any future training and/or recruitment requirements. There is also an annual evaluation of the effectiveness of the Board and each sub committee as a whole.

The Society has a formal performance evaluation system for all members of staff including the executive directors. The Chief Executive holds a performance review with the senior managers including the Finance Director. The Chairman reviews the Chief Executive's performance and reports to the Board. A performance evaluation system for non-executive directors, including the Chairman, has been in operation for several years. In 2014 this took the format of questionnaires completed by each individual director. The Chairman reviewed the output of all questionnaires and used these as a basis for an appraisal interview with each non-executive director. The Chair of Nominations and Remuneration Committee supported by other Non Executive members of that committee, undertook the appraisal interview for the Chairman. This procedure identifies any individual and Board training requirements and provides the evidence for the Board as to whether to recommend to members that a director should be re-elected.

In 2014 an internal performance evaluation process of the Board and its Committees was carried out in order to review the effectiveness of how the Board and the Board Committees operate. This was undertaken through a Corporate Governance working party and included a review of the Terms of Reference and Standing Orders and appraisal of the information provided to the Board and Committees. The Board and each Committee reviewed the feedback received and identified and implemented appropriate improvements.

## Re-election

Code Principle:

*B.7 All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.*

Board comment:

The Society's Rules require all directors to submit themselves for election by the members at the first opportunity after their appointment and for re-election after a maximum of every three years. In addition, the Board has agreed that, having regard to the UK Corporate Governance Code as it relates to building societies, all directors (except the Chairman) who have served on the Board for almost nine years or more are proposed for re-election each year, unless the Board succession plan shows that a director is to leave the Board within the next twelve months following the vote.

## Financial and Business Reporting

Code Principle:

*C.1 The Board should present a fair, balanced and understandable assessment of the company's position and prospects.*

Board comment:

The Board believes that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the necessary information for members to assess performance, strategy and the business model of the Society.

The responsibilities of the Directors in relation to the preparation of the Society's accounts and the statement that the Society's business is a going concern are contained in the Directors' Responsibilities on page 15.

## Risk Management and Internal Control

Code Principle:

*C.2 The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain sound risk management and internal control systems.*

# Corporate Governance Report

Board comment:

The Board Risk Committee has been delegated responsibility for oversight of risk management for the Society.

The Risk Committee conducts a separate annual review of the risk appetite and the Board Risk Policy and also reviews on a quarterly basis the effectiveness of the controls in place for managing key risks.

The Board has delegated the responsibility for managing the system of internal controls, which includes those specifically relating to risk management, to senior management. The internal control system can provide only reasonable and not absolute assurance against material mis-statement or loss. The Society's internal audit function has been outsourced to Deloitte LLP. The internal auditors provide independent assurance to the Board regarding the effectiveness of internal controls reporting through the Audit and Compliance Committee.

## Audit Committee and Auditors

Code Principle:

*C.3 The Board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.*

Board comment:

The Board has an Audit and Compliance Committee comprising three non-executive directors. These directors have specialist expertise including current and relevant financial and risk management experience. The responsibilities of the Committee, including the evaluation of the external and internal auditors, are set out on page 7.

The Audit and Compliance Committee meets quarterly with the Society's external and internal auditors; executive directors attend by invitation.

Minutes of the Committee's meetings are distributed to all Board members and the Chairman of the Committee reports to the Board meeting following a Committee meeting.

## Dialogue with Shareholders

Code Principle:

*E.1 There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.*

Board comment:

As a mutual organisation the Society's membership consists of individuals who are also the Society's customers. The Society is committed to dialogue with members through regular newsletters, questionnaires and events attended by executive and non-executive directors. The purpose of this dialogue is to understand our members and better serve their needs.

## Constructive use of the Annual General Meeting (AGM)

Code Principle:

*E.2 The Board should use the AGM to communicate with investors and to encourage their participation.*

Board comment:

Each year the Society sends details of the AGM to all members who are entitled to vote. Members are encouraged to vote and can do so in a number of ways. Members can vote on-line by visiting www.mansfieldbs.co.uk and following the instructions, by completing a proxy form and returning it to the Society by an agreed deadline, or by attending the AGM itself, which is normally held in the early evening to aid attendance. For a number of years the Society has encouraged members to vote by linking the number of votes cast to a donation to local charities. This year the Society will donate 15 pence per vote to Jigsaw, a local charity that supports vulnerable people in their own homes.

All Board members are present at the AGM unless there are exceptional circumstances that prevent attendance. Board members meet with members both before and after the meeting and answer questions on both a formal and informal basis. This year the Society is again requesting questions by email, with the answers to the most popular questions being published on the Society's website.

## Remuneration

The Directors' Remuneration Report on page 12 explains how the Society pays regard to the Code Principles relating to remuneration.

**Nigel Tamplin**
*Chairman*

26 February 2015

# Directors' Remuneration Report for the year ended 31 December 2014

The purpose of this report is to inform members of The Mansfield Building Society about our policy on the remuneration of executive and non-executive directors. In providing such information to members, the Society has adopted a Remuneration Policy which describes how the Society also complies with the applicable principles within the FCA's Remuneration Code. A resolution will again be put to the AGM, inviting members to vote on the Directors' Remuneration Report. The vote is advisory and the Board will consider what action is required.

### The Nomination and Remuneration Committee

This report has been prepared by the Nomination and Remuneration Committee, which is made up entirely of non-executive directors and meets three times a year, with special meetings as needed. The current membership of the Committee is:

Robert Hartley (Chair)

Nigel Tamplin

Ian Rowling

Meetings of the Committee are also attended by Gev Lynott, Paul Wheeler and Vickie Preston, as appropriate, who withdraw from the meeting when their own remuneration is being considered or on request.

The primary responsibility of the Committee is the determination of the terms and conditions of employment of the executive directors (and other members of senior management as appropriate) and the fees payable to non-executive directors.

The Committee is responsible for the remuneration policy for all directors of the Society and makes recommendations to the Board regarding remuneration and contractual arrangements. The Committee reviews supporting evidence, including external professional advice, if appropriate, on comparative remuneration packages. The Committee also reviews proposals by the Chief Executive for senior management remuneration and any bonuses.

### Policy for executive directors

The Board's policy is to set remuneration levels in order to attract and retain high calibre executive directors and to encourage excellent performance through rewards directly linked to the achievements of the Society's strategic objectives. The main components of executive directors' remuneration are:

**Basic salary** – this takes into account the job content and responsibilities, individual performance (assessed annually) and salary levels for similar positions in comparable organisations.

**Bonus** – the two executive directors are entitled to a medium term bonus which is a non-pensionable, performance related cash bonus payable on achievement of Board specified key performance indicators. Performance is based on a 3 year period, payment is not guaranteed and is a percentage of basic salary. During 2014 the two executive directors have earned 5% of basic salary as reward under this scheme.

A new scheme has been announced for 2015 which will reward the executives for performance against targets set for the year. 50% of the reward will be deferred over two years with a clawback if future profit targets are not met.

An annual bonus has been declared for all staff including the executive directors for the year ended 31 December 2014. This equates to £400 for each of the Chief Executive and the Finance Director.

**Pensions** – the executive directors are entitled to a Group Personal Pension Plan which is available for all staff.

**Other benefits** – notably the provision of a car allowance to each executive director and private medical insurance. Benefits are reviewed annually by the Nomination and Remuneration Committee.

### Service contracts

The Chief Executive has a service contract with the Society dated 15 September 2011. The Chief Executive's notice period to the Society is nine months. The Society's notice period to the Chief Executive is twelve months. In the event of amalgamation, transfer of engagements or transfer of business where the executive director's employment is to be terminated, the Society shall give not less than 12 months notice.

The Finance Director and Secretary has a service contract dated 7 July 2011. The Finance Director's notice period to the Society is six months. The Society's notice period to the Finance Director is twelve months. In the event of amalgamation, transfer of engagements or transfer of business where the executive director's employment is to be terminated, the Society shall give not less than 12 months notice.

# Directors' Remuneration Report for the year ended 31 December 2014

### Policy for non-executive directors

The remuneration of non-executive directors is reviewed annually by the Nomination and Remuneration Committee, using external data from other comparable building societies, and by a performance review process undertaken by the Society's Chairman of the Board. The remuneration of the Chairman is reviewed by the Nomination and Remuneration Committee and ratified by the Board. Non-executive directors are remunerated solely by fees which reflect time spent on Society affairs including membership of Board committees. They do not have service contracts and do not receive a salary, pension, bonus incentives or other taxable benefits. Non-executive directors serve under letters of appointment following election by the Society's membership.

### Directors' remuneration

Details of directors' emoluments for the financial year ended 31 December 2014 are shown below.

| Audited | 2014 Total £000 | 2013 Total £000 |
|---|---|---|
| Non-executive directors' fees | 137 | 131 |
| Executive directors' remuneration | 271 | 257 |
| **Total** | **408** | 388 |

| Non-executive directors' fees | 2014 Total £000 | 2013 Total £000 |
|---|---|---|
| Nigel Tamplin (Chairman) | 31 | 30 |
| Richard Smith (Deputy Chairman) (5) | 6 | 22 |
| Rob Clifford | 20 | 18 |
| Robert Hartley | 20 | 18 |
| Ian Rowling (1) | 20 | 8 |
| Jeremy Cross (2) | 20 | 15 |
| Alison Chmiel (3) | 20 | 15 |
| Simon Brister (4) | – | 5 |
| **Total** | **137** | 131 |

| Executive directors | Salary £000 | Bonus £000 | Benefit £000 | Pension contributions £000 | 2014 Total £000 |
|---|---|---|---|---|---|
| Gev Lynott (CEO) (6) | 128 | 7 | 16 | – | 151 |
| Paul Wheeler (FD) | 99 | 5 | 11 | 5 | 120 |
| **Total** | 227 | 12 | 27 | 5 | **271** |

| Executive directors | Salary £000 | Bonus £000 | Benefit £000 | Pension contributions £000 | 2013 Total £000 |
|---|---|---|---|---|---|
| Gev Lynott (CEO) (6) | 120 | 7 | 14 | – | 141 |
| Paul Wheeler (FD) | 91 | 5 | 11 | 9 | 116 |
| **Total** | 211 | 12 | 25 | 9 | 257 |

# Directors' Remuneration Report for the year ended 31 December 2014

(1) Ian Rowling was appointed to the Board 15 July 2013.

(2) Jeremy Cross was appointed to the Board 21 February 2013.

(3) Alison Chmiel was appointed to the Board 21 February 2013.

(4) Simon Brister resigned from the Board 18 April 2013.

(5) Richard Smith resigned from the Board 24 April 2014.

(6) Pension contributions for Mr Lynott have been made in full for 5 future years during the financial year ended 31 December 2012. A contract is in place which returns this money to the Society on a pro rata basis should Mr Lynott leave within the 5 years.

On behalf of the Board of Directors

**Robert Hartley**
*Chair of the Nomination and Remuneration Committee*
26 February 2015

# Statement of Directors' Responsibilities

### Directors' Responsibilities in Respect of the Report and Accounts, the Annual Business Statement, the Directors' Report and the Annual Accounts

The directors are responsible for preparing the Report and Accounts, Annual Business Statement, Directors' Report and the annual accounts in accordance with applicable laws and regulations.

The Building Societies Act 1986 (the Act) requires the Directors to prepare Society annual accounts for each financial year. Under that law they have elected to prepare the Society annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Society annual accounts are required by law to give a true and fair view of the state of the affairs of the Society as at the end of the financial year and of the income and expenditure of the Society for the financial year.

In preparing these annual accounts, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- prepare the annual accounts on the going concern basis, unless it is inappropriate to presume that the Society will continue in business.

In addition to the annual accounts, the Act requires the directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society.

### Directors' Responsibilities for Accounting Records and Internal Controls

The directors are responsible for ensuring that the Society:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society, in accordance with the Act; and
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business, in accordance with the rules made by the Financial Conduct Authority and the Prudential Regulation Authority under the Financial Services and Markets Act 2000.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on The Mansfield Building Society's website. Legislation in the UK governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

On behalf of the Board of Directors

**Nigel Tamplin**
*Chairman*
26 February 2015

# Independent Auditor's Report to the Members of The Mansfield Building Society

We have audited the annual accounts of The Mansfield Building Society for the year ended 31 December 2014 set out on pages 17 to 39. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society'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 Society and the Society'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 Directors' Responsibilities Statement set out on page 15, the directors are responsible for the preparation of annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the annual accounts 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 annual accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

### Opinion on annual accounts

In our opinion the annual accounts:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Society as at 31 December 2014 and of its income and expenditure of the Society for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

### Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations there under;
- the information given in the Directors' Report for the financial year for which the annual statement are prepared is consistent with the accounting records and the annual accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

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

- We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion:
- proper accounting records have not been kept by the Society; or
- the annual accounts are not in agreement with the accounting records or returns; or
- we have not received all the information and explanations we require for our audit.

**Andrew Walker (Senior Statutory Auditor)**
*for and on behalf of KPMG LLP, Statutory Auditor*
**Chartered Accountants**

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

26 February 2015

# Income and Expenditure Account for the year ended 31 December 2014

| | Note | 2014 £000 | 2013 £000 |
|---|---|---|---|
| Interest receivable and similar income | 2 | 8,975 | 8,738 |
| Interest payable and similar charges | 3 | (3,970) | (4,731) |
| **Net interest receivable** | | **5,005** | 4,007 |
| Fees and commissions receivable | | 665 | 829 |
| Fees and commissions payable | | (435) | (462) |
| Other operating income | | 8 | 16 |
| Pension finance charge | 24 | – | – |
| **Total operating income** | | **5,243** | 4,390 |
| Administrative expenses | 5 | (3,194) | (2,850) |
| Depreciation | 13 | (118) | (121) |
| Other operating charges | 4 | (4) | (7) |
| **Operating profit before provisions** | | **1,927** | 1,412 |
| Provisions for bad and doubtful debts | 11 | (96) | (133) |
| Provisions for contingent liabilities and commitments – FSCS levy | 19 | (172) | (204) |
| **Operating profit and profit on ordinary activities before tax** | | **1,659** | 1,075 |
| Tax on profit on ordinary activities | 8 | (360) | (259) |
| **Profit for the financial year** | | **1,299** | 816 |

## Statement of Total Recognised Gains and Losses for the year ended 31 December 2014

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Profit for the financial year | 1,299 | 816 |
| Society contribution to the pension scheme (note 24) | (3) | – |
| Property revaluation | 44 | – |
| **Total recognised gains in the year and since last annual report** | **1,340** | 816 |

*There is no material difference, in the current or previous year, between the results as reported above and the results which would have been reported on an unmodified historical cost basis. Accordingly no note of historical cost profits and losses has been included in these accounts.*

*The notes on pages 20 to 39 form part of these accounts.*

the mansfield building society

# Balance Sheet as at 31 December 2014

| | Note | 2014 £000 | 2013 £000 |
|---|---|---|---|
| **Assets** | | | |
| **Liquid assets** | | | |
| Cash in hand and balances with the Bank of England | | 5,038 | 4,010 |
| Treasury bills | 9 | 19,996 | – |
| Loans and advances to credit institutions | 9 | 30,150 | 40,856 |
| Debt securities | 9 | 2,009 | – |
| | | **57,193** | 44,866 |
| **Loans and advances to customers** | | | |
| Loans fully secured on residential property | | 225,482 | 221,810 |
| Loans fully secured on land | | 1,926 | 2,046 |
| | 10 | **227,408** | 223,856 |
| Tangible fixed assets | 13 | 1,442 | 1,358 |
| Other assets | 14 | 51 | 46 |
| Prepayments and accrued income | | 253 | 254 |
| **Total assets** | | **286,347** | 270,380 |
| **Liabilities** | | | |
| Shares | 15 | 213,890 | 214,670 |
| Amounts owed to credit institutions | 16 | 26,971 | 10,515 |
| Amounts owed to other customers | 17 | 22,957 | 24,047 |
| Accruals and Deferred Income | | 308 | 319 |
| Other liabilities | 18 | 715 | 644 |
| Provisions for liabilities | 19 | 289 | 308 |
| Net pension liability | 24 | – | – |
| | | **265,130** | 250,503 |
| **Revaluation reserve** | 21 | 638 | 594 |
| **Reserves** | | | |
| General reserves | 22 | 20,579 | 19,283 |
| **Total liabilities** | | **286,347** | 270,380 |

These accounts were approved by the Board of Directors on 26 February 2015 and signed on its behalf by:

**Nigel Tamplin**
*Chairman*

**Paul Wheeler**
*Finance Director and Secretary*

**Gev Lynott**
*Chief Executive and Director*

*The notes on pages 20 to 39 form part of these accounts.*

# Cash Flow Statement
# for the year ended 31 December 2014

| | 2014 £000 | 2013 £000 |
|---|---|---|
| **Net cash inflow/(outflow) from operating activities** | 9,922 | (9,050) |
| **Taxation paid** | (281) | (23) |
| **Capital expenditure and financial investment** | | |
| (Purchase)/maturity of debt securities | (2,000) | 3,073 |
| Purchase of treasury bills | (19,993) | – |
| Purchase of tangible fixed assets | (158) | (60) |
| Proceeds from sale of investments | 1 | – |
| **Decrease in cash** | **(12,509)** | (6,060) |
| **Reconciliation of operating profit to net cash flow from operating activities** | | |
| Profit on ordinary activities before tax | 1,659 | 1,075 |
| Decrease in prepayments and accrued income | 113 | 43 |
| Decrease in accruals and deferred income | (600) | (610) |
| Increase in provision for bad and doubtful debts | 96 | 132 |
| Increase in provision for FSCS levy | 172 | 204 |
| Pension contributions | (3) | – |
| FSCS levy paid in period | (191) | (185) |
| Depreciation and amortisation | 118 | 121 |
| Profit on disposal of investments | (2) | – |
| **Net cash inflow from trading activities** | **1,362** | 780 |
| Net increase in loans and advances to customers | (3,648) | (12,604) |
| Net decrease in shares | (184) | (23,347) |
| Net increase in amounts owed to credit institutions and other customers | 15,360 | 11,964 |
| Net (decrease)/increase in loans and advances to credit institutions | (2,955) | 14,063 |
| Net decrease in other assets | – | 3 |
| Net (decrease)/increase in other liabilities | (13) | 91 |
| **Net cash inflow/(outflow) from operating activities** | **9,922** | (9,050) |

| **Analysis of decrease in cash** | At 31 December 2014 £000 | Cash flow £000 | At 1 January 2014 £000 |
|---|---|---|---|
| Cash in hand and balances with the Bank of England | 5,038 | 1,028 | 4,010 |
| Loans and advances to credit institutions repayable on demand | 12,560 | (13,537) | 26,097 |
| | **17,598** | (12,509) | 30,107 |

# Notes to the Accounts

## 1 Accounting Policies

**(a) Basis of preparation** – The accounts have been prepared in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and applicable UK accounting standards. The principal accounting policies have been applied consistently throughout the year.

The accounts have been prepared under the historical cost basis of accounting as modified by the revaluation of freehold property.

**(b) Income recognition** – Interest in respect of all loans is credited to the income and expenditure account as it becomes receivable.

All fees and commissions receivable or payable, including those relating to the arrangement of mortgage advances and higher loan to value insurance, are accounted for on an accruals basis and included within income or expenditure as the services are received or performed. It is the Society's policy to write off mortgage incentive payments in the year of advance, except for interest discounts, which are recognised over the period of the discount as part of interest receivable.

**(c) Tangible fixed assets and depreciation** – Depreciation is provided on all tangible fixed assets, with the exception of freehold land and assets in the course of construction, at rates calculated to write off each asset over its expected useful life.

The straight line basis has been used on the following bases:

| | |
|---|---|
| Freehold premises – | 2% per annum |
| Leasehold premises – | Over life of lease or useful life of the asset, whichever is shorter |
| Motor vehicles – | 25% per annum |
| Computer equipment – | 25% per annum |
| Office equipment – | 10% per annum or over the useful life of the asset if shorter |

Freehold land and buildings are valued at current market valuation for existing use with vacant possession.

Depreciation is not provided on freehold land.

**(d) Provisions for bad and doubtful debts** – Provisions are made to reduce the value of advances and loans to the amount to which the directors consider is likely ultimately to be received.

Throughout the year and at the year-end, individual assessments are made of all advances and loans on properties that are in possession or in arrears. Specific provision is made against those advances and loans that are considered to be impaired. In considering the specific provision for impaired loans, account is taken of any discount which may be needed against the value of the property at the balance sheet date to agree a sale within three months of that date and anticipated realisation costs. This can include loans where forbearance has been applied, for example, where an agreement has been made with the customer to switch their loan to interest only on a temporary basis.

A general provision is made to cover potential losses which, although not yet specifically identified, are known from experience to exist in the Society's mortgage balances.

Loans and advances to customers in the balance sheets are shown net of provisions. The amount charged in the income and expenditure account represents the net change in the ongoing provision. All write-offs utilise the specific provision in the balance sheet with any shortfall being charged to the income and expenditure account.

**(e) Pension costs** – The Society operates a Group Personal Pension Plan that is open to all staff. For people not wishing to join this plan there is a personal pension plan with a separate provider for auto enrolment purposes. Pension costs in respect of these plans are charged to the income and expenditure account in the year in which contributions are payable.

In addition, the Society operates a defined benefit pension scheme, the assets of which are held in a separate Trustee administered fund. The assets are measured at market value at each balance sheet date. For quoted securities, the current bid price is taken as market value. The liabilities are measured using projected unit method, discounted using a corporate bond rate. Any available pension scheme surplus or resulting deficit is recognised immediately

# Notes to the Accounts

on the balance sheet net of deferred tax and any resulting actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses. The Scheme has been closed to future accruals since 28 February 2007. Further details on pension schemes are provided in note 24 to the Accounts.

**(f) Taxation** – The charge for taxation is based upon the profit for the year and takes into account taxation which is deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is provided using the full provision method in accordance with Financial Reporting Standard 19, "Deferred tax".

Deferred tax is recognised in respect of all timing differences (with the exception of property revaluation surpluses) that have originated but not reversed at the balance sheet date, and is calculated at rates expected to be applicable when the liability or asset crystallises on a non-discounted basis.

**(g) Operating leases** – The costs associated with operating leases are charged on a straight-line basis over the period of the lease.

**(h) Liquid assets** – Treasury bills and debt securities are held for use on a continuing basis and so are accounted for as financial fixed assets and accordingly shown at cost, adjusted for premium or discount on purchase amortised over the period to maturity. Where the directors consider there to be a permanent diminution in the value of a financial fixed asset, a provision is made to write down the cost of the asset to its recoverable amount.

**(i) Hedging contracts and instruments** – All interest rate related contracts are classified at the balance sheet date as hedging contracts. For an instrument to be classified as a hedge, the transaction should be expected to reduce significantly the risks inherent in the financial assets or liabilities being hedged, arising at the outset of the transaction. Income or expenditure on hedging contracts is recognised on an equivalent basis to the assets or liabilities being hedged. If the hedge contract is terminated early the realised gain or loss is amortised over the remaining life of the item being hedged. If the underlying item is redeemed, the unamortised amounts are recognised immediately in the income and expenditure account. A hedge contract will only be redeemed if the underlying exposure has crystallised. Amounts accrued on hedging instruments are included within prepayments and accrued income or other liabilities.

**(j) Funding For Lending** – In order for the Society to access funding from the FLS, mortgage assets are required to be pledged as collateral. Where the risk and reward of ownership of the mortgage assets remain with the Society they are retained on balance sheet. The interest received on these assets remains with the Society and is accounted for as earned on an accruals basis. Treasury bills borrowed under the FLS are not recognised on the balance sheet when substantially all the risks and rewards of ownership remain with the lender. The interest cost of borrowing the Treasury bills is accounted for in the accounts as accrued on a straight line basis over the drawdown period. If Treasury Bills are lent or sold subject to a commitment to repurchase (for example, repo transactions), the net proceeds received are shown as assets on the balance sheet together with a corresponding liability. Interest is accrued over the life of the agreement on a straight line basis.

# Notes to the Accounts

## 2 Interest Receivable and Similar Income

| | 2014 £000 | 2013 £000 |
|---|---|---|
| On loans fully secured on residential property | 9,013 | 8,610 |
| On loans fully secured on land | 38 | 40 |
| Interest and other income on debt securities (all fixed income) | 12 | 3 |
| Interest and other income on other liquid assets | 277 | 503 |
| Net expense on financial instruments | (365) | (418) |
| | **8,975** | 8,738 |

No accounts existed with suspended interest at the date of the balance sheet or during the financial year (2013: Nil).

## 3 Interest Payable and Similar Charges

| | 2014 £000 | 2013 £000 |
|---|---|---|
| On shares held by individuals | 3,554 | 4,367 |
| On deposits and other borrowings | 416 | 364 |
| | **3,970** | 4,731 |

## 4 Other Operating Charges

Other operating charges comprise mortgage incentives provided to customers on residential mortgage loans.

## 5 Administrative Expenses

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Staff costs (see note 6) | 1,841 | 1,776 |
| Other administrative expenses | 1,353 | 1,074 |
| | **3,194** | 2,850 |

Included in other administrative expenses are the following:

| Auditor's remuneration (stated exclusive of VAT)<br>Payments to the Auditor for: | 2014 £000 | 2013 £000 |
|---|---|---|
| Audit of financial statements | 32 | 32 |
| Audit of pension fund accounts | 2 | 2 |
| Other services including taxation | 12 | 12 |
| | | |
| Amounts charged under other operating leases | **40** | 35 |

# Notes to the Accounts

## 6 Staff Numbers and Costs

The average number of persons employed during the year was as follows:

| | 2014 | 2013 |
|---|---|---|
| **Full time** | | |
| Principal office | 25 | 22 |
| Branch offices | 23 | 22 |
| | 48 | 44 |
| **Part time** | | |
| Principal office | 11 | 12 |
| Branch offices | 6 | 5 |
| | **17** | 17 |

| Aggregate costs of these persons were as follows: | 2014 £000 | 2013 £000 |
|---|---|---|
| Wages and salaries | 1,579 | 1,522 |
| Social security costs | 155 | 145 |
| Other pension costs | 107 | 109 |
| | **1,841** | 1,776 |

## 7 Directors' Emoluments and Transactions

### (a) Remuneration of Directors

| | 2014 £000 | 2013 £000 |
|---|---|---|
| For services as non-executive directors | 137 | 131 |
| For services as executives | 271 | 257 |
| | **408** | 388 |

Further details of the directors' remuneration are given in the Directors' Remuneration Report on page 12.

### (b) Directors' loans and transactions

At 31 December 2014, there were no outstanding mortgage loans granted in the ordinary course of business to any directors or their connected persons. (2013: one amounting to £275,681).

A register is maintained at the Principal Office of the Society, under Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with directors and their connected persons.

A statement of the appropriate details contained in the register, for the financial year ended 31 December 2014, will be available for inspection at the Principal Office for a period of 15 days up to and including the Annual General Meeting.

### (c) Related party transactions

During the year there were no services provided to the Society by any connected business of a serving director.
At 31 December 2014, there were no amounts outstanding to any connected businesses (2013: £nil).
There were no significant contracts with the Society subsisting during or at the end of the financial year in which a director of the Society (or a person connected with a director of the Society) is, or was, interested.

# Notes to the Accounts

## 8 Tax on Profit on Ordinary Activities

| | 2014 £000 | 2013 £000 |
|---|---|---|
| **Analysis of charge in year** | | |
| **Current tax** | | |
| Corporation tax at 21.49% (2013: 23.25%) | 369 | 277 |
| Adjustments relating to prior year | (4) | (3) |
| **Total current tax charge** | **365** | 274 |
| | | |
| **Deferred tax** | | |
| Origination and reversal of timing differences | (1) | (15) |
| Adjustment to prior year estimates | (4) | – |
| **Tax on profit on ordinary activities** | **360** | 259 |

| | 2014 £000 | 2013 £000 |
|---|---|---|
| **Factors affecting the tax charge for the current period** | | |
| Profit on ordinary activities before tax | 1,659 | 1,075 |
| Current tax at 21.49% (2013: 23.25%) | 356 | 250 |
| Effects of: | | |
| Capital allowances below depreciation | (12) | 6 |
| Expenses not deductible for tax purposes | 1 | 4 |
| Other timing differences | 16 | 19 |
| Small company relief | – | (2) |
| Adjustments relating to prior year | 4 | (3) |
| **Total current tax charge** | **365** | 274 |

## 9 Liquid Assets

### (a) Loans and advances to credit institutions

Loans and advances to credit institutions have remaining maturities as follows:

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Accrued interest | 90 | 214 |
| Repayable on demand | 12,560 | 26,097 |
| In not more than three months | 8,000 | 7,045 |
| In more than three months but not more than one year | 5,500 | 7,500 |
| In more than one year | 4,000 | – |
| | **30,150** | 40,856 |

# Notes to the Accounts

## (b) Treasury Bills

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Treasury Bills have remaining maturities as follows: | | |
| Accrued interest | 3 | – |
| In not more than three months | 19,993 | – |
| | **19,996** | – |

| Movements during the year of Treasury Bills are analysed as follows: | Treasury Bills £000 |
|---|---|
| At 1 January 2014 | – |
| Additions | 19,996 |
| Disposals and maturities | – |
| At 31 December 2014 | **19,996** |

## (c) Debt securities

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Debt securities have remaining maturities as follows: | | |
| Accrued interest | 9 | – |
| In more than three months but not more than one year | 2,000 | – |
| | **2,009** | – |

| Movements during the year of Debt Securities are analysed as follows: | Debt Securities £000 |
|---|---|
| At 1 January 2014 | – |
| Additions | 2,009 |
| Disposals and maturities | – |
| At 31 December 2014 | **2,009** |

All debt securities held are transferable and unlisted securities. The directors of the Society consider that the primary purpose of holding debt securities is to meet regulatory requirements. When held, they are held as financial fixed assets with the intention of use on a continuing basis in the Society's activities and are therefore classified as financial fixed assets.

# Notes to the Accounts

## 10 Loans and Advances to Customers

The remaining maturity of loans and advances to customers from the date of the balance sheet is as follows:

| | 2014 £000 | 2013 £000 |
|---|---|---|
| **Maturity analysis** | | |
| On call and at short notice | 1,120 | 590 |
| Repayable with remaining maturity: | | |
| In not more than three months | 2,135 | 2,101 |
| In more than three months but not more than one year | 7,078 | 7,191 |
| In more than one year but not more than five years | 41,219 | 41,544 |
| In more than five years | 176,394 | 172,872 |
| | 227,946 | 224,298 |
| Less provision for bad and doubtful debts (note 11) | (538) | (442) |
| | **227,408** | 223,856 |

The maturity analysis is based on contractual maturity not actual redemption levels experienced by the Society.

At 31 December 2014 the Group had pledged £48.56 million (2013: £46.95 million) of mortgage assets to the Bank of England as collateral under the Funding for Lending Scheme.

## 11 Provision For Bad And Doubtful Debts

Provisions against loans and advances to customers have been made as follows:

| | Loans fully secured on residential property | | Loans fully secured on land | | |
|---|---|---|---|---|---|
| | General £000 | Specific £000 | General £000 | Specific £000 | Total £000 |
| At 1 January 2014 | 304 | 133 | 5 | – | **442** |
| Provisions charge for the year | 55 | 12 | 29 | – | **96** |
| **At 31 December 2014** | **359** | **145** | **34** | **–** | **538** |

# Notes to the Accounts

## 12 Investments and Related Party Transactions

### Subsidiary undertakings (unlisted)

The two subsidiary undertakings were struck off in accordance with Company Law during 2014. Neither subsidiary has made or received any transactions during the year and there was no debt outstanding. The value of the Society's investment in subsidiary undertakings amounts to £0 (2013: £0).

| | Principal activity | Place of incorporation | Class of shares held | Society's interest |
|---|---|---|---|---|
| MB Simply Mortgages Limited | Non-trading | England | Ordinary | 100% |
| Regent Financial Advisors Limited | Non-trading | England | Ordinary | 100% |

### Related party transactions

There were no related party transactions during the year.

# Notes to the Accounts

## 13 Tangible Fixed Assets

### Society

| | Land and buildings Freehold £000 | Short leasehold £000 | Equipment, fixtures, fittings and vehicles £000 | Total £000 |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| At 1 January 2014 | 1,212 | 154 | 1,321 | 2,687 |
| Additions | – | – | 158 | 158 |
| Disposals | – | (105) | – | (105) |
| **At 31 December 2014** | **1,212** | **49** | **1,479** | **2,740** |
| **Depreciation** | | | | |
| At 1 January 2014 | 30 | 154 | 1,145 | 1,329 |
| Charge for year | 14 | – | 104 | 118 |
| Adjustment on disposals | – | (105) | – | (105) |
| Eliminated on revaluation | (44) | – | – | (44) |
| **At 31 December 2014** | **–** | **49** | **1,249** | **1,298** |
| **Net book value** | | | | |
| **At 31 December 2014** | **1,212** | **–** | **230** | **1,442** |
| At 31 December 2014 | 1,182 | – | 176 | 1,358 |

Particulars relating to revalued tangible fixed assets are given below:

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Open market valuation as at 31 December (1) | 1,180 | 1,180 |
| Historical cost of revalued assets | 716 | 716 |
| Aggregate depreciation thereon | (174) | (160) |
| Historical cost net book value of revalued assets | **542** | 556 |

Note: (1) Freehold land and buildings were last revalued on 31 December 2014 on the basis of open market value. The valuations were carried out by external valuers WA Barnes, members of the Royal Institution of Chartered Surveyors, on an existing use with vacant possession value basis.

Included within Society freehold land and buildings above is £482,000 (2013: £482,000) of non-depreciable land.

The net book value of land and buildings occupied by the Society for its own activities is £1,116,000 (2013: £1,086,000).

# Notes to the Accounts

## 14 Other Assets

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Deferred taxation comprises: | | |
| Capital allowances | (30) | (16) |
| Related to general mortgage provisions | 78 | 62 |
| Other timing differences | 3 | – |
| | **51** | 46 |

| **Movement on deferred tax asset** | **2014 £000** |
|---|---|
| At 1 January 2014 | 46 |
| Deferred tax charge (see note 8) | 1 |
| Adjustment relating to prior year | 4 |
| **At 31 December 2014** | **51** |

The reduction in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) was substantively enacted on 3 July 2012. A further reduction to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. This will reduce the Society's future current tax charge accordingly. The deferred tax asset at 31 December 2014 has been calculated at the rate of 20% substantively enacted on the balance sheet date.

## 15 Shares

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Held by individuals | 213,864 | 214,641 |
| Other shares | 26 | 29 |
| | **213,890** | 214,670 |
| Shares are repayable from the balance sheet date in the ordinary course of business as follows: | | |
| Accrued interest | 952 | 1,548 |
| Repayable on demand | 173,893 | 165,186 |
| Other shares by residual maturity repayable: | | |
| In not more than three months | 11,997 | 9,005 |
| In more than three months but not more than one year | 5,661 | 23,357 |
| In more than one year but not more than five years | 21,387 | 15,574 |
| | **213,890** | 214,670 |

# Notes to the Accounts

## 16 Amounts Owed to Credit Institutions

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows: | | |
| Accrued interest | 25 | 15 |
| Repayable with agreed maturity dates or period of notice: | | |
| In not more than three months | 24,946 | 7,500 |
| In more than three months but not more than one year | 2,000 | 3,000 |
| | **26,971** | 10,515 |

Included in the amounts above is £19.9 million (2013: £nil) relating to a sale and repurchase agreement of Treasury Bills borrowed from the Bank of England under the Funding for Lending Scheme.

## 17 Amounts owed to other Customers

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows: | | |
| Accrued interest | – | 4 |
| On demand | 22,157 | 21,243 |
| With agreed maturity dates or period of notice: | | |
| In not more than three months | – | 1,000 |
| In more than three months but not more than one year | 800 | 1,800 |
| | **22,957** | 24,047 |

## 18 Other Liabilities

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Falling due within one year: | | |
| Income tax | 237 | 242 |
| Corporation tax | 360 | 277 |
| Other creditors | 118 | 125 |
| | **715** | 644 |

# Notes to the Accounts

## 19 Provisions for Liabilities

| Financial Services Compensation Scheme | £000 |
|---|---|
| At 1 January 2014 | 308 |
| Amounts paid during the year | (191) |
| Income and expenditure account | 172 |
| **At 31 December 2014** | **289** |

### Financial Services Compensation Scheme (FSCS)

In common with all regulated UK deposit takers, the Society pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. During 2008 and 2009 claims were triggered against the FSCS in relation to Bradford & Bingley plc, Kaupthing Singer and Friedlander, Heritable Bank plc, Landsbanki Islands hf, London Scottish Bank plc and Dunfermline Building Society.

The FSCS meets these current claims by way of loans received from HM Treasury. The terms of these loans were interest only for the first three years, and the FSCS seeks to recover the interest cost, together with ongoing management expenses, by way of annual management levies on members over this period.

The Society FSCS provision reflects market participation up to the reporting date. £202,000 of the provision relates to the estimated management expense levy for the scheme years 2014/15 and 2015/16. This amount was calculated on the basis of the Society's estimated share of protected deposits taking into account the FCA's estimate of total management expense levies for each scheme year.

In addition to the management levies, the FSCS is to levy the current estimated shortfall on capital loans outstanding. In common with the management expenses levy, the capital loan repayment was calculated on the basis of the Society's estimated share of UK protected deposits. The Society has therefore recognised a provision of £87,000 related to the compensation levy.

## 20 Guarantees and other Financial Commitments

### Financial commitments

### Staff pensions

Under the Trust Deed of the staff pension scheme, the trustees have a claim on the assets of the Society if there are insufficient assets available to meet all benefits payable by the scheme.

### Capital commitments

No material capital expenditure has been contracted for or authorised at 31 December 2014 (2013: £nil).

### Operating lease commitments

Annual commitments on non-cancellable operating leases are as follows:

| | Land and buildings £000 | Other £000 |
|---|---|---|
| Operating leases which expire within five years | 6 | 27 |
| | **6** | 27 |

# Notes to the Accounts

## 21 Revaluation Reserve

| | £000 |
|---|---|
| **At 1 January 2014** | 594 |
| Revaluation transfer | 44 |
| **At 31 December 2014** | **638** |

See also note 13, Tangible Fixed Assets, for additional information on the Society's freehold premises.

## 22 General Reserves

| | £000 |
|---|---|
| At 1 January 2014 | 19,283 |
| Profit for financial year | 1,299 |
| Payment to the pension scheme | (3) |
| **At 31 December 2014** | **20,579** |

# Notes to the Accounts

## 23 Financial Instruments

Instruments used for risk management purposes include derivative financial instruments (derivatives), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates.

The Society's principal derivatives used in balance sheet risk management are interest rate swaps which are used to hedge balance sheet exposures arising from fixed rate mortgage lending and savings products.

These derivatives are only used by the Society in accordance with the Building Societies Act 1986 (as amended by the Building Societies Act 1997) to limit the extent to which the Society will be affected by changes in interest rates or other factors specified in the legislation. Derivatives are not used in trading activity or for speculative purposes; consequently all such instruments are classified as hedging contracts.

The table below shows the notional principal amounts, credit risk weighted amounts and replacement costs of derivatives. Notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The credit risk weighted amount, which is calculated according to rules specified by the Prudential Regulation Authority, is based on the replacement cost, but also takes into account measures of the extent of potential future exposure and nature of the counterparty. The replacement costs represent the costs of replacing the Society's maximum exposure should all counterparties default.

### Unmatured interest rate contracts

At the year-end the contract or underlying principal amounts of off-balance sheet instruments together with their risk weighted amount and replacement cost were:

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Notional principal amount | 56,000 | 46,500 |
| Credit risk weighted amount | 100 | 135 |
| Replacement cost | – | 123 |

### Risk management

The main financial risks arising from the Society's activities are credit risk, liquidity risk and interest rate risk. The Board reviews and agrees policies for managing each of these risks as summarised below.

#### Credit risk

Credit risk is the risk of default by counterparties to transactions. Appropriate credit limits have been established for individual counterparties, sectors and countries and the Board ensures that the Society adheres to these limits.

#### Liquidity risk

The Society's policy is to maintain sufficient funds in a liquid form at all times to ensure that liabilities can be met as they fall due. The objective of liquidity is to help smooth mismatches between maturing assets and liabilities and to provide a degree of protection against any unexpected event that may arise.

#### Interest rate risk

The Society is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The Society manages this exposure continually by using both on and off-balance sheet instruments.

# Notes to the Accounts

After taking into account the derivatives entered into by the Society, the interest rate sensitivity exposure at 31 December 2014 was:

| | Next interest reset date | | | | | |
|---|---|---|---|---|---|---|
| | Not more than three months £000 | More than three months but not more than six months £000 | More than six months but not more than one year £000 | More than one year but not more than five years £000 | Non-interest bearing £000 | Total £000 |
| **Assets** | | | | | | |
| Liquid assets | 47,591 | 3,500 | 4,000 | 2,000 | 102 | 57,193 |
| Loans and advances to customers | 148,578 | 7,289 | 11,733 | 60,346 | (538) | 227,408 |
| Tangible fixed assets | – | – | – | – | 1,442 | 1,442 |
| Other assets | – | – | – | – | 304 | 304 |
| **Total assets on balance sheet** | **196,169** | **10,789** | **15,733** | **62,346** | **1,310** | **286,347** |
| Off-balance sheet assets | 56,000 | – | – | – | – | 56,000 |
| **Total assets on/off-balance sheet** | **252,169** | **10,789** | **15,733** | **62,346** | **1,310** | **342,347** |
| **Liabilities** | | | | | | |
| Shares | 185,890 | 1,131 | 4,530 | 21,387 | 952 | 213,890 |
| Amounts owed to credit institutions | 24,946 | – | 2,000 | – | 25 | 26,971 |
| And other customers | 22,157 | 800 | – | – | – | 22,957 |
| Other liabilities | – | – | – | – | 1,312 | 1,312 |
| Reserves | – | – | – | – | 21,217 | 21,217 |
| **Total liabilities on balance sheet** | **232,993** | **1,931** | **6,530** | **21,387** | **23,506** | **286,347** |
| Off-balance sheet liabilities | 3,000 | 6,000 | 7,000 | 40,000 | – | 56,000 |
| **Total liabilities on/off-balance sheet** | **235,993** | **7,931** | **13,530** | **61,387** | **23,506** | **342,347** |
| **Interest rate sensitivity gap** | **16,176** | **2,858** | **2,203** | **939** | **(22,196)** | **–** |

# Notes to the Accounts

At 31 December 2013:

| | Next interest reset date | | | | | |
|---|---|---|---|---|---|---|
| | Not more than three months £000 | More than three months but not more than six months £000 | More than six months but not more than one year £000 | More than one year but not more than five years £000 | Non-interest bearing £000 | Total £000 |
| Total assets | 183,434 | 13,554 | 21,413 | 50,548 | 1,431 | 270,380 |
| Total liabilities | 203,934 | 10,754 | 17,403 | 15,574 | 22,715 | 270,380 |
| Off-balance sheet items | 42,500 | (9,000) | (4,000) | (29,500) | – | – |
| **Interest rate sensitivity gap** | **22,000** | **(6,200)** | **10** | **5,474** | **(21,282)** | **–** |

### Fair value of financial instruments

The table below shows a comparison of the book and fair values of some of the Society's financial instruments as at 31 December 2014. The table excludes those items which are not listed or publicly traded, or where no liquid market exists. Market values have been used to determine fair values of interest rate swaps.

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Book value £000 | Fair value £000 | Book value £000 | Fair value £000 |
| Off-balance sheet: | | | | |
| Interest rate swaps | – | (406) | – | (181) |

Hedges

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised.

The following table sets out the movements in unrecognised and recognised gains and losses in the year to 31 December 2014.

| | Unrecognised gains £000 | Unrecognised (losses) £000 | Net gain/ (loss) £000 |
|---|---|---|---|
| Gains and losses unrecognised at the start of the year | 123 | (304) | (181) |
| Items unrecognised at the start of the year recognised in the year | (123) | 232 | 109 |
| Items unrecognised at the start of the year and unrecognised in the year | – | (72) | (72) |
| Gains and losses arising in the year unrecognised in the year | – | (334) | (334) |
| Unrecognised at the end of the financial year | – | (406) | (406) |
| Of which expected to be realised: | | | |
| In the year to 31 December 2015 | – | (254) | (254) |
| After 31 December 2015 | – | (152) | (152) |
| | – | (406) | (406) |

# Notes to the Accounts

## 24 Pensions

### Defined contribution scheme

The Society operates two personal pension plans, The Mansfield Building Society 2007 Group Personal Pension Plan and The Mansfield Building Society 2014 Auto Enrolment Plan. Both schemes are available to all staff. During the year ended 31 December 2014, the Society made contributions of £106,777 (2013: £109,315), which are included in the Income and Expenditure account and shown in Note 6 within staff costs. At 31 December 2014 there were no outstanding contributions. There was a prepaid contribution of £18,000 (2013: £24,000).

### Defined benefit scheme

Additionally, the Society operates a defined benefit pension scheme, The Mansfield Building Society 1978 Retirement & Death Benefit Scheme (the Scheme). The Scheme funds are administered by trustees and are independent of the Society's finances. Contributions are paid to the Scheme in accordance with the recommendations of an independent actuarial adviser. The Scheme was closed to future accruals for all staff with effect from 28 February 2007.

Details in respect of the scheme are provided below in accordance with Financial Reporting Standard 17 – Retirement Benefits (FRS17). A professional qualified actuary carries out an actuarial valuation every three years. The latest valuation of the Scheme was undertaken as at 1 March 2013 using the projected unit credit method and both the assets and liabilities include the value of those pensions in payment which are secured with insured annuities.
In accordance with FRS17, this latest actuarial valuation was updated to the accounting date by an independent qualified actuary.

The following tables set out the principal actuarial assumptions underlying the Scheme.

| | Year to 31 December | |
|---|---|---|
| | **2014** | **2013** |
| Price inflation | 2.95% | 3.30% |
| Discount rate | 3.55% | 4.55% |
| Pension increases (LPI) | 2.85% | 3.20% |

In valuing the liabilities of the Scheme at 31 December 2014, assumptions have been made as indicated above. If the discount rate were to decrease by 0.1%, the value of the reported liabilities would have increased by approximately £140,000 before adjustment for deferred taxation. Similarly, if the life expectancies shown below increased by one year a similar increase of £140,000 would be seen in liabilities.

The principal underlying assumption (shown below) relating to longevity is based on standard actuarial mortality tables and includes an allowance for future improvements in longevity.

| **Assumed life expectancies on retirement at age 65** | **2014** | **2013** |
|---|---|---|
| Male retiring immediately | 22.5 years | 22.3 years |
| Female retiring immediately | 24.2 years | 24.1 years |

Amounts recognised in the balance sheet:

| | As at 31 December | |
|---|---|---|
| | **2014 £000** | **2013 £000** |
| Liabilities | – | – |
| Assets | – | – |
| **Net Liability** | **–** | – |

# Notes to the Accounts

| | Year to 31 December 2014 £000 | 2013 £000 |
|---|---|---|
| Included within finance charges: | | |
| Expected return on pension scheme assets | 264 | 257 |
| Interest on post retirement liabilities | (264) | (257) |
| **Net return to charge being the pension finance charge** | – | – |
| **Total pensions expense for the Scheme** | **–** | – |

Over the year to 31 December 2014 contributions by the Society of £3,355 were made to the Scheme (Year to 31 December 2013: £nil). This fully pays the agreed payment plan in place during the year.

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses is a loss of £nil (2013: £nil). As at 31 December 2014 cumulative actuarial gains and losses reported in the statement of total recognised gains and losses amount to a loss of £1.1 million (31 December 2013: loss of £1.1 million).

The post retirement surplus under FRS17 moved as follows:

| | Year to 31 December 2014 | 2013 |
|---|---|---|
| Post retirement surplus at start of year | 680 | 462 |
| Contributions | 3 | – |
| Other net finance charge | – | – |
| Actuarial (losses)/gains | (591) | 218 |
| Post retirement surplus at end of year | 92 | 680 |
| Adjustment for asset limit (1) | (92) | (680) |
| | **–** | – |

Notes: (1) Under FRS17, where a scheme is in surplus according to FRS17 assumptions, the surplus may only be recognised if it is available to the Society. A surplus is only deemed available to the extent that the Society can take a contribution holiday or if the trustees have agreed to provide a refund to the Society. The Scheme is now closed and has no active members and no agreement has been made with the Scheme trustees to make any refunds. Accordingly, it has been assumed that none of the surplus is currently available to the Society and therefore no asset was recognised at the balance sheet date.

The table below provides a reconciliation of the present value of the defined benefit obligation.

| | 2014 £000 | 2013 £000 |
|---|---|---|
| **Defined benefit obligation** | | |
| At 1 January | 5,926 | 6,142 |
| Interest cost | 264 | 257 |
| Actuarial gains/(losses) | 965 | (145) |
| Benefits paid | (256) | (328) |
| **At 31 December** | **6,899** | 5,926 |

# Notes to the Accounts

The table below provides a reconciliation of changes in the fair value of the Scheme assets:

| | 2014 £000 | 2013 £000 |
|---|---|---|
| **Scheme assets** | | |
| At 1 January | 6,606 | 6,604 |
| Expected return on scheme assets | 264 | 257 |
| Actuarial gains | 374 | 73 |
| Contributions by employer | 3 | – |
| Benefits paid | (256) | (328) |
| **At 31 December** | **6,991** | 6,606 |

The following table sets out the fair value of assets together with a breakdown of the assets into the main asset classes as at the accounting dates.

| | 31 December 2014 | | 31 December 2013 | |
|---|---|---|---|---|
| **Components** | Expected return | Fair value £000 | Expected return | Fair value £000 |
| Equities | **6.4%** | **2,667** | 7.6% | 2,529 |
| Bonds | **3.4%** | **2,868** | 4.4% | 2,697 |
| Property | **5.2%** | **555** | 6.4% | 488 |
| Cash | **1.9%** | **284** | 2.9% | 307 |
| Other | **3.4%** | **617** | 4.4% | 585 |
| **Total** | | **6,991** | | 6,606 |

The overall expected long term rate of return on assets is the average of the rates disclosed above taking into account the underlying asset portfolio of the Scheme. The actual return on the Scheme assets over the year was a gain of £638,000 (2013: gain of £330,000).

# Notes to the Accounts

A five year history of the Scheme is shown below:

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2014 £000** | **2013 £000** | **2012 £000** | **2011 £000** | **2010 £000** |
| Present value of pension obligation | **(6,899)** | (5,926) | (6,142) | (5,856) | (4,979) |
| Fair value of Scheme assets | **6,991** | 6,606 | 6,604 | 6,075 | 5,593 |
| Surplus in the Scheme | **92** | 680 | 462 | 219 | 614 |
| Adjustment for asset limit (1) | **(92)** | (680) | (462) | (219) | (614) |
| **Net Pension Liability** | **–** | – | – | – | – |

Notes: (1) Under FRS17, where a scheme is in surplus according to FRS17 assumptions, the surplus may only be recognised if it is available to the Society. A surplus is only deemed available to the extent that the Society can take a contribution holiday or if the trustees have agreed to provide a refund to the Society. The Scheme is now closed and has no active members and no agreement has been made with the trustees to make any refunds. Accordingly, it has been assumed that none of the surplus is available to the Society and therefore no asset was recognised at the balance sheet date.

The history of experience gains and losses is:

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2014 £000** | **2013 £000** | **2012 £000** | **2011 £000** | **2010 £000** |
| Experience adjustments on the Scheme's liabilities (£000) | – | 45 | (249) | (663) | 541 |
| Percentage of the present value of the Scheme's liabilities | – | 0.8% | (4.1%) | (11.3%) | 10.9% |
| Experience adjustments on the Scheme's Assets (£000) | 374 | 73 | 349 | 142 | 220 |
| Percentage of the Scheme's assets | 5.4% | 1.1% | 5.3% | 2.3% | 3.9% |
| Total amount recognised in statements of total recognised gains and losses (£000) | (3) | – | (126) | (126) | 147 |

# Annual Business Statement for the year ended 31 December 2014

## 1 Statutory Percentages

| | As at 31 December 2014 % | Statutory limit % |
|---|---|---|
| Proportion of business assets other than in the form of loans fully secured on residential property – 'Lending limit' | **0.99** | 25.00 |
| Proportion of shares and borrowings other than in the form of shares held by individuals – 'Funding limit' | **18.92** | 50.00 |

### Explanation

The statutory limits are prescribed in building society legislation and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

The percentages are calculated in accordance with, and the statutory limits are those prescribed by, Sections 6 and 7 of the Building Societies Act 1986 (as amended by the Building Societies Act 1997).

Business assets are the total assets of the Society as shown in the balance sheet plus provisions for bad and doubtful debts, less fixed assets and liquid assets.

Loans fully secured on residential property are the amount of principal owing by borrowers and interest accrued not yet payable. This is the amount shown in the balance sheet plus provisions for bad and doubtful debts.

## 2 Other Percentages

| | As at 31 December 2014 % | As at 31 December 2013 % |
|---|---|---|
| As a percentage of shares and borrowings: | | |
| Gross capital | **8.04** | 7.98 |
| Free capital | **7.64** | 7.56 |
| Liquid assets | **21.68** | 18.00 |
| Profit after taxation as a percentage of mean total assets | **0.46** | 0.30 |
| Management expenses as a percentage of mean total assets | **1.19** | 1.08 |

### Explanation

The above percentages have been calculated from the Society balance sheet and income and expenditure account. 'Gross capital' represents the general reserves together with the revaluation reserve as shown in the balance sheet.

'Free capital' represents gross capital and general provisions for bad and doubtful debts less tangible fixed assets as shown in the balance sheet.

'Shares and borrowings' represent the total of shares, amounts owed to credit institutions and amounts owed to other customers.

'Mean total assets' are the average of the 2014 and 2013 total assets.

'Liquid assets' represent the total of cash in hand, treasury bills and debt securities and loans and advances to credit institutions shown in the balance sheet.

'Management expenses' represent the aggregate of administrative expenses and depreciation in the income and expenditure account.

# Annual Business Statement for the year ended 31 December 2014

## 3 Information Relating To The Directors At 31 December 2014

### Directors

| Name | Date of birth | Date of Appointment as Director | Business occupation | Other directorships |
|---|---|---|---|---|
| **Nigel Tamplin, FCA**<br>*Chairman of the Board* | 19.09.51 | 11.05.06 | Chartered Accountant | Shepherd Direct Ltd |
| **Alison Chmiel FCMA** | 23.01.64 | 21.02.13 | Building Society Director | The Alexander Workshop Ltd<br>Trent College Ltd |
| **Rob Clifford Cert PFS** | 09.03.68 | 19.01.12 | Commercial Director Financial & Property Services | If I Were You Ltd<br>Sesame Bankhall Valuation Services Ltd<br>Direct Lettings Ltd<br>Maurice Macneill Iona Limited<br>Direct Lettings GP Ltd<br>Zenith Freehold Ltd<br>Shepherd Direct Ltd<br>Pure Financial Advisory Ltd |
| **Jeremy Cross ACA** | 01.03.67 | 21.02.13 | Management Consultant | Cross Consulting Ltd<br>Airedale NHS Foundation Trust |
| **Robert Hartley FRICS** | 22.05.51 | 19.05.11 | Chairman Commercial Property Consultants | Innes England Ltd<br>Notts Golf Club Ltd |
| **Gev Lynott FCCA FCIB** | 31.05.63 | 15.09.11 | Building Society Chief Executive | Centro Place Investments Ltd<br>Derwent Community Housing Association Ltd |
| **Ian Rowling MBA FCIB** | 15.05.52 | 15.07.13 | Building Society Director | |
| **Paul Wheeler ACA** | 01.07.67 | 21.07.11 | Building Society Finance Director and Secretary | |

Documents may be served on the above named directors at the offices of Harrop White, Vallance & Dawson, 9/11 Albert Street, Mansfield, Notts NG18 1EA.

### Directors' Service Contracts

The executive directors, Gev Lynott and Paul Wheeler, have service contracts with the Society dated 15 September 2011 and 7 July 2011, respectively.

The Chief Executive Gev Lynott has a service contract which can be terminated by the individual giving nine months notice in writing or the Society giving twelve months notice. The Finance Director, Paul Wheeler, has a service contract which can be terminated by the individual giving six months notice in writing or the Society giving twelve months notice.

In the event of amalgamation, transfer of engagements or transfer of business where the executive director's employment is to be terminated, the Society shall give not less than 12 months notice.

# Annual Business Statement for the year ended 31 December 2014

## Directors

### Chairman
Nigel Tamplin, FCA

### Senior Independent Director
Rob Clifford CertPFS

### Non Executive Directors
Alison Chmiel, FCMA
Jeremy Cross, ACA
Robert Hartley, FRICS
Ian Rowling, MBA FCIB

### Chief Executive
Gev Lynott, FCCA, FCIB

### Finance Director and Secretary
Paul Wheeler, ACA

### Risk and Compliance Executive & Money Laundering Reporting Officer
Jill Watson, CPFA

### Commercial Development Executive
Audrey Green

### Mortgage Executive
Ian Richardson, ACIB

### Information Systems Manager
Brian Seddons

### Product and Marketing Manager
Mike Taylor, LLB, ACIB

### Auditors
KPMG LLP

### Bankers
Barclays Bank Plc

### Solicitors
Harrop White, Vallance & Dawson

Established 1870

Member of the Building Societies Association with Trustee status

Member of the Financial Ombudsman Service Scheme

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority – reference number 206049

## Branches

**Mansfield**
Regent House,
Regent Street,
Mansfield,
Nottinghamshire NG18 1SS
T: 01623 676300

**Sutton-in-Ashfield**
53 Portland Square,
Sutton-in-Ashfield,
Nottinghamshire NG17 1AZ
T: 01623 554265

**Kirkby-in-Ashfield**
48 Station Street,
Kirkby-in-Ashfield,
Nottinghamshire NG17 7AS
T: 01623 756601

**Chesterfield**
91 New Square,
Chesterfield,
Derbyshire S40 1AH
T: 01246 202055

## Principal Office

Regent House,
Regent Street,
Mansfield,
Nottinghamshire
NG18 1SS

T: 01623 676300
E: enquiries@mansfieldbs.co.uk
W: mansfieldbs.co.uk

the mansfield building society

**www.mansfieldbs.co.uk**