

Summary Financial Statement

for the year ended 31 December 2014



the
mansfield
building society

The Directors are pleased to present their Summary Financial Statement for the year ended 31 December 2014.

This financial statement is a summary of information in the audited Annual Accounts, the Directors' Report and the Annual Business Statement, all of which will be available to members and depositors free of charge on demand at every office of The Mansfield Building Society from 25 March 2015 and on our website as soon as practicable after the 2015 AGM.

Summary Directors' Report

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.

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 number of 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.

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 Facility. 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".

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.

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.

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.

Other matters

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 summary statement is prepared on a going concern basis.

On behalf of the Board of Directors

Nigel Tamplin
Chairman

26 February 2015

Summary Statement for the year ended 31 December 2014

RESULTS FOR THE YEAR

	2014 £'000	2013 £'000
Net Interest Receivable	5,005	4,007
Other Income and Charges	234	383
Administrative Expenses	(3,312)	(2,978)
Provisions	(96)	(133)
Provision for FSCS levy	(172)	(204)
Profit for the year before taxation	1,659	1,075
Taxation	(360)	(259)
Profit for the year	1,299	816

FINANCIAL POSITION AT END OF YEAR

Assets

Liquid Assets	57,193	44,866
Mortgages	227,408	223,856
Fixed and Other Assets	1,746	1,658
Total Assets	286,347	270,380

Liabilities

Shares	213,890	214,670
Borrowings	49,928	34,562
Other Liabilities	1,023	963
Provision for FSCS levy	289	308
Reserves	20,579	19,283
Revaluation Reserves	638	594
Total Liabilities	286,347	270,380

SUMMARY OF KEY FINANCIAL RATIOS

	2014 %	2013 %
Gross Capital as a % of Shares and Borrowing	8.04	7.98
Liquid Assets as a % of Shares and Borrowing	21.68	18.00
Profit for the year as a % of mean Total Assets	0.46	0.30
Management Expenses as a % of mean Total Assets	1.19	1.08

Summary Financial Statement for the year ended 31 December 2014

Gross capital as a percentage of shares and borrowings

The gross capital ratio measures the proportion that the Society's capital bears to the Society's liabilities to holders of shares, depositors and other providers of funds (investors).

The Society's capital consists of the profits accumulated over many years in the form of general reserves and revaluation reserve relating to our properties. Capital provides a financial cushion against difficulties that might arise in the Society's business and therefore protects investors.

Liquid assets as a percentage of shares and borrowings

The liquid assets ratio measures how the proportion that the Society's assets held in the form of cash and short term deposits bear to the Society's liabilities to investors.

Most of the Society's assets are long term mortgages which cannot be converted quickly into cash, while many of its liabilities to investors are repayable on demand. Liquid assets are generally readily realisable, enabling the Society to meet requests by investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.

Profit for the year as a percentage of mean total assets

The profit to assets ratio measures the proportion that the Society's profit after taxation for the year bears to the average of the Society's total assets during the year.

The Society needs to make a level of profit each year which maintains its capital ratio at a suitable level to protect investors. However, a building society does not have to pay dividends to equity shareholders as a company does.

Management expenses as a percentage of mean total assets

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

Management (or administrative) expenses consist mainly of the costs of employing staff and running the branches, other office costs, advertising and depreciation, etc. Expenses need to be controlled to enable the Society to operate as efficiently as possible while providing the service that members require.

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

Independent Auditor's Statement to the Members and Depositors of The Mansfield Building Society

We have examined the summary financial statement of The Mansfield Building Society ('the Society') for the year ended 31 December 2014 set out on pages 1 to 6.

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

Respective responsibilities of directors and auditor

The directors are responsible for preparing the summary financial statement in accordance with applicable United Kingdom law.

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

Basis of opinion

Our examination of the summary financial statement consisted primarily of:

- Agreeing the amounts and disclosures included in the summary financial statement to the corresponding items within the full annual accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2014, including consideration of whether, in our opinion, the information in the summary financial statement has been summarised in a manner which is not consistent with the full annual accounts,

the Annual Business Statement and Directors' Report of the Society for that year;

- Checking that the format and content of the summary financial statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2014.

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

Opinion on summary financial statement

On the basis of the work performed, in our opinion the summary financial statement is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2014 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Andrew Walker
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants

One Snowhill
Snow Hill Queensway
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B4 6GH

26 February 2015

Summary Directors' Remuneration Report

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 (HR manager), 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.

Summary Directors' Remuneration Report

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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.

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.

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

Summary Directors' Remuneration Report

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	Salary £000	Bonus £000	Benefits £000	Pension contributions £000	2014 Total £000
Executive Directors					
Gev Lynott (CEO)	128	7	16	–	151
Paul Wheeler (FD)	99	5	11	5	120
Total	227	12	27	5	271
	Salary £000	Bonus £000	Benefits £000	Pension contributions £000	2013 Total £000
Executive Directors					
Gev Lynott (CEO) ⁽⁶⁾	120	7	14	–	141
Paul Wheeler (FD)	91	5	11	9	116
Total	211	12	25	9	257

- (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

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