the mansfield building society

Capital Requirements Directive

Pillar 3 Disclosures

For the year ended 31 December 2018

Contents

1. Background 1

2. Risk Management Objectives and Policies 2

3. Capital Resources 13

4. Capital Adequacy 15

5. Credit Risk and Provisions...19

6. Liquidity Risk..23

7. Operational Risk...24

8. Interest Rate Risk 25

9. Asset Encumbrance 26

10. Leverage Ratio...27

11. Country by Country Reporting 29

12. Remuneration Policies and Practices 30

13. Conclusion and Contacts 31

The Pillar 3 disclosures in this document have been prepared solely for the purpose of compliance with the Capital Requirements Directive. The information contained in and disclosed by this statement as to the capital requirements and the management of risk does not constitute a financial statement and shall not be used or relied upon by anyone for any purpose.

1. Background

The European Union Capital Requirements Directive (CRD) and Capital requirements Regulations (CRR) were implemented on 1 January 2014. The CRD and CRR (otherwise known as CRD IV) seek to ensure that, according to consistent standards, all banks and building societies hold adequate capital to protect their depositors and shareholders. In the UK this requirement is implemented by the financial regulator, the Prudential Regulation Authority (PRA).

The Mansfield Building Society seeks to provide safety and security for members' savings by holding sufficient capital at all times.

The CRD comprises three main elements or 'Pillars':

Pillar 1 Minimum capital requirements for credit, market and operational risk, assessed according to a formulaic risk based calculation.

Pillar 2 Assessment of additional capital requirements following review under the Internal Capital Adequacy Assessment Process, 'ICAAP', and the PRA's Supervisory Review and Evaluation Process, 'SREP'.

Pillar 3 Disclosure – a requirement to publish a document describing the risks the firm faces in its normal course of business, alongside a description of the capital held to support the business. Where disclosure has been withheld due to materiality, proprietary or confidentiality, as the rules permit, comment is provided as appropriate.

BASIS AND FREQUENCY OF DISCLOSURE

Pillar 1 - the Society has adopted the *standardised approach* permitted by CRD IV when calculating minimum capital requirements.

Pillar 2 - the Board has undertaken a thorough assessment of the risks the Society is exposed to and calculated an amount of capital that it considers necessary to cover these risks. The calculation of capital requirement also takes into account the capital requirement under stressed scenarios to ensure the Society is well placed to maintain sufficient capital even during a severe downturn in the markets in which it operates.

Pillar 3 - this document deals with the disclosure requirements as laid down for Pillar 3 and the information provided is in accordance with the rules and guidance contained in CRD IV as presented in Part Eight of Regulation (EU) No 575/2013. The Society has adopted the standardised approach for all exposures and risk areas and uses the capital risk weighting percentages set by the CRR. Unless otherwise stated all figures are as at 31 December 2018. Where this is not the case, such disclosures and other information have not been subject to external audit unless they are equivalent to those made under accounting rules. This document has been reviewed and approved by the Board of Directors.

Background (continued)

This report will be updated annually. Copies will be available on the Society's website (www.mansfieldbs.co.uk) alongside the publication of the Annual Report and Accounts.

SUMMARY OF KEY CAPITAL RATIOS

	2018	2017
Common Equity Tier 1 (CET 1) ratio	19.4%	20.0%
Total Tier 1 Capital Ratio	19.4%	20.0%
Total Capital Ratio	19.8%	20.4%
Risk Weighted Assets	£141.4m	£128.2m
Leverage Ratio	6.4%	6.4%

Note – Leverage ratio includes the most recent audited reserves figure

2. Risk Management Objectives and Policies

The Mansfield Building Society is a mutual organisation with no equity shareholders. Its principal business is as a producer of financial products, predominantly in the form of first charge UK residential mortgages and savings deposits. As part of its day to day management of business operations, it also raises funds in the wholesale markets and invests funds in other institutions to manage its overall liquidity position.

In conducting its operations, the Society is exposed to certain risks. The Society endeavours to conduct its business with a cautious approach to risk. Investor protection and member interests are paramount.

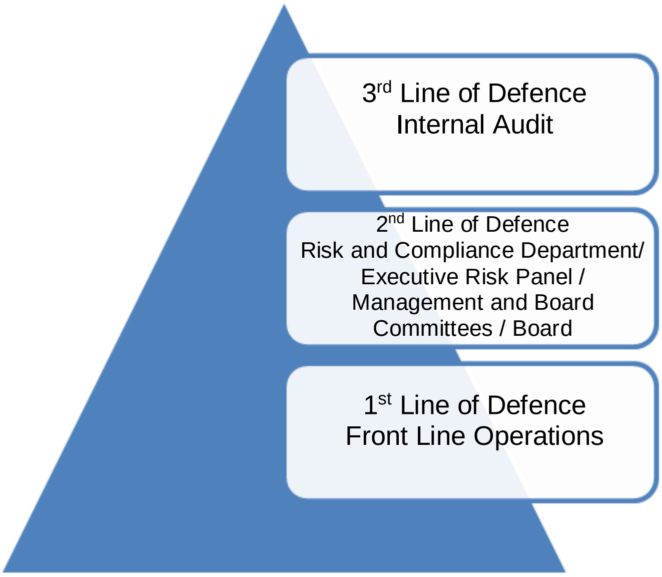
The Board has put in place a formal structure for managing risk, including a Board Risk Policy which sets out the overall appetite for risk, individual key risk policies, a risk framework which sets out the guidance for identification and measurement of risk and the limits and indicators which give clear reporting to the Board relating to risk performance. The Board overarching appetite for risk is as follows:

Mansfield Building Society will actively manage risk levels to minimise threats to its ongoing operation and reputation as a sustainable, mutual financial organisation.

The Risk Committee confirms to the Board through annual review, the adequacy and effectiveness of the Society's risk management and internal control arrangements in relation to the Society's strategy and risk profile for the financial year. On the basis of its own review, the Board considers that it has in place adequate systems and controls with regard to the Society's profile and strategy.

Risk Management Objectives and Policies (Continued)

The Society operates a three lines of defence model with the operational areas being the first line; Risk, Compliance and Senior Management being the second line; and the Internal Audit function (outsourced to Deloitte) being the third line.



In practice, responsibilities within each Line of Defence within MBS are as follows:

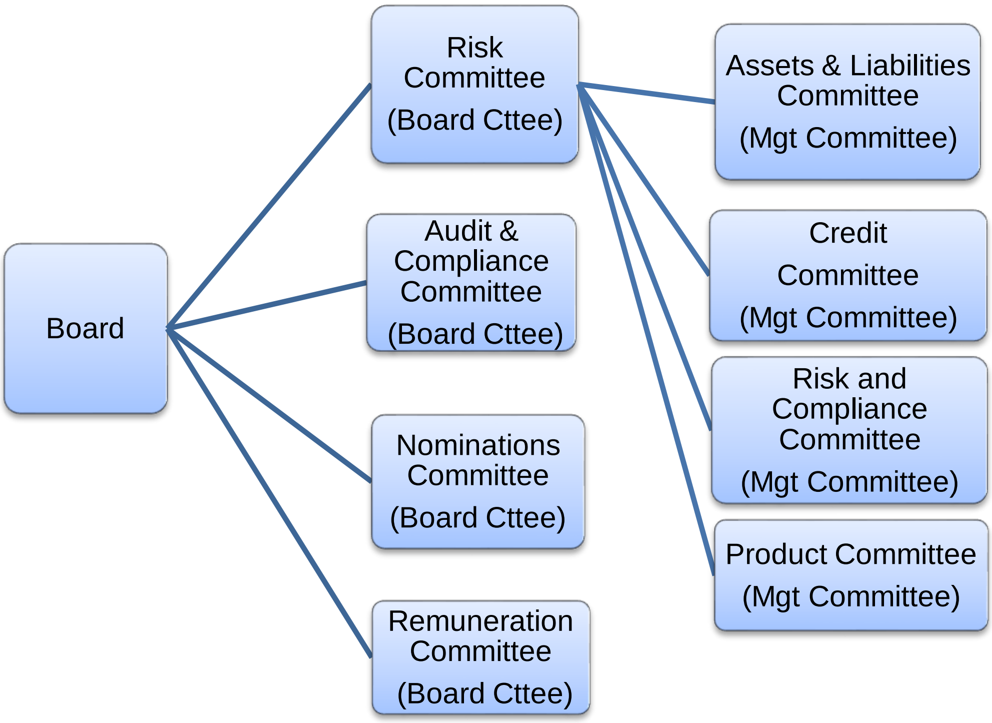
1st Line of Defence	2nd Line of Defence	3rd Line of Defence
Each business area (as the owner of risks and controls) is responsible for: • Identification, measurement and management of all risks within their respective business areas. • Implementation of risk management controls and procedures. • Production of MI for reporting to other lines of defence and senior management. • Completion of regular (3 x per year) self-assessments regarding risks and controls, with consideration being given to KRIs, limits and EWSs.	The Risk and Compliance Department is independent of all business areas and is responsible for: • Ownership of the risk management infrastructure. • Provision of risk management guidance and assistance to managers and staff by ensuring appropriate policies and procedures are in place. • Monitoring whether MBS operates within the risk appetites and risk limits approved by the Board. • Receiving and recording risk events and subsequent action monitoring.	Internal Audit is responsible for: • Independent review of the effectiveness of the risk management infrastructure and substantive testing of internal controls. • Provision of the Internal Audit work programme for approval by the Audit and Compliance Committee annually. • Establishing a work programme that is scheduled with due regard to the high Impact scores and high Inherent to Residual score adjustments in the Risk Register and the work carried out by the Risk and Compliance Department.

1st Line of Defence	2nd Line of Defence	3rd Line of Defence
• Reporting risk events to the Risk Manager, undertaking a root cause analysis and implementing appropriate corrective action. • Management of risks in accordance with the approved risk structure, risk appetite statements and the supporting policy documents which cascade from this overarching Board Risk Policy.	• Reporting of risk events, control failures and risk appetite/limit breaches. • Undertaking regular reviews of risk management activities. • Monitoring and challenge of assurances provided by business areas. • Prioritisation of review activities guided by factors including the Inherent and Residual scores recorded in the Risk Register and the outcome of previous review activity, and in conjunction with the activities of Internal Audit. • The Executive Risk Panel is responsible for: Providing review and challenge to risk owners in respect of their risks, controls and assessment of risk scores (annually). The Risk Committee is responsible for: • Review of the Board Risk Policy (at least annually) and the recommendation of this to the Board for Approval. • Review of the risk management infrastructure. • Provision of oversight to ensure risks are managed within defined risk appetite.	• Reporting to the Audit and Compliance Committee on a quarterly basis, including information on the results of all Internal Audit work undertaken. • Provision annually of an opinion on the Society's overall control environment. NB - Internal Audit at MBS is outsourced to ensure that adequate resources and skills are available to undertake a robust programme of internal audit work.

1st Line of Defence	2nd Line of Defence	3rd Line of Defence
	The Board is responsible for: • Approval of the Board Risk Policy. • Approval, review and oversight of risk appetites. • Oversight of the Risk Committee's fulfilment of responsibilities.	

The three lines of defence model is fully embedded in the MBS risk management processes.

As highlighted above, the primary responsibility for identifying, managing and mitigating risk is delegated to each respective operational area of the Society. The governance of risk management is performed via the committee structure outlined below:


Board
Risk Committee (Board Cttee)
Audit & Compliance Committee (Board Cttee)
Nominations Committee (Board Cttee)
Remuneration Committee (Board Cttee)
Assets & Liabilities Committee (Mgt Committee)
Credit Committee (Mgt Committee)
Risk and Compliance Committee (Mgt Committee)
Product Committee (Mgt Committee)

Risk Management Objectives and Policies (Continued)

The Credit Committee oversees Credit Risk, the Assets & Liabilities Committee oversees Balance Sheet, Liquidity and Interest Rate Risk and the Risk and Compliance Committee oversees Operational and Conduct Risk. These management committees all report to the Board Risk Committee which has the final oversight role. The monitoring and assurance role is performed by Risk, Compliance and Internal Audit and the results of their work are reported to the Board Audit & Compliance Committee. This structure provides independent review and assurance of the Society's risk management and practices.

The Society's Risk Committee meets four times per annum and comprises four Non Executive Directors,(Alison Chmiel Chair, Colin Bradley, Rob Clifford & Nick Baxter) and the two Executive Directors (Gev Lynott & Paul Wheeler.) The Society Chairman, Risk & Compliance Executive, Mortgage Executive and Risk Manager also attend.

The full terms of reference of the Risk Committee can be found on the Society's website www.mansfieldbs.co.uk

Risk Management Objectives and Policies (Continued)

PRINCIPAL RISKS

The principal business and financial risks to which the Society is exposed are Credit, Interest Rate, Liquidity, and Operational risks. The ways in which these risks are managed include:

- The use of forecasting and stress-testing models. These help in the development of business strategy;
- The production of key risk information and indicators to measure and monitor performance; and
- The monitoring and control of risks by management, and by the Board and its committees.

CREDIT RISK

Credit risk is the potential risk that arises from customers (or counterparties) failing to meet their financial obligations to the Society as they fall due. Credit risk arises from residential and commercial mortgage lending (retail lending) as well as from liquid investments held as a result of the Society's treasury activities.

Credit risk: Lending

All applications for mortgage loans are assessed internally by staff of the Society against the criteria set out in the Board approved Lending Policy statement, adherence to which is monitored by the Credit Committee. The primary factors involved in making a lending decision are borrower affordability after taking into account known commitments; personal covenant including the payment performance on any previous mortgages or credit agreements; source of deposit; nature of income; and property type. In addition, the identity of the borrower(s) is obtained and validated, together with an independent assessment of the value of any security, which is used for the purposes of determining the amount of advance the Society is prepared to provide.

In mitigating and managing arrears, the Society's policies and processes ensure the fair treatment of borrowers in respect of arrears and possessions in accordance with the requirements of the Financial Conduct Authority's Mortgage Conduct of Business rules and the pre-action protocol published by the Civil Justice Council.

This policy and practice has led to low levels of arrears relative to the industry averages and very few property repossessions in the last ten years. Further details on loss provisioning are included elsewhere in this document.

Risk Management Objectives and Policies (Continued)

Credit risk: Treasury

The Society's Liquidity Management Policy sets out the counterparties the Society is prepared to lend to and also documents the appropriate limits and measures in place to monitor adherence to the policy. The Society has prescribed, Board approved, lending limits to ensure no investment concentration exists with individual counterparties as well as setting country limits and limits on amounts deposited with other building societies in total. The Management Assets & Liabilities Committee (MALCO) is responsible for reviewing these limits annually, after reviewing a counterparty's credit rating and, where not available, looking at such measures as their profitability, gross capital and asset growth. MALCO then recommends any material change to the Chair of Risk Committee for approval.

Investment decisions (and investment limits) are made by reference to credit ratings based on external credit rating agency analysis (where available) and a combination of asset size, capital strength, profitability and other relevant information available on that counterparty.

Other relevant information is also taken into account in making investment decisions and counterparty selection, including published financial information and information provided by the Society's appointed treasury consultants.

Almost all of the Society's treasury investments are short term in nature (periods less than 18 months), with the significant majority of deposits having maturities of six months or less. For an investment to be made with maturity extending beyond one year, the counterparty must have a credit rating of at least BBB+ (long term), as provided by FITCH ratings services.

No transactions will be entered into with a new counterparty until such time as the Management Assets & Liabilities Committee has approved the inclusion of the counterparty on the Society's approved counterparty list. The Risk Committee ratify any changes at its next meeting. See also section 5, below: Credit Risk and Provisions.

Concentration risk: lending

The Society is a regional building society whose principal business objective is the provision of secured lending on residential property. Accordingly, its activities are highly concentrated in residential lending, bringing with it exposure to the UK housing market. Although the Society lends throughout England and Wales, there remains a geographical concentration risk, as 29% of mortgages are secured on properties based in either the East Midlands or Yorkshire & Humberside.

This concentration has been reducing over time and will continue to reduce as new lending is more geographically spread.

Risk Management Objectives and Policies (Continued)

Product concentration arises through a focus on residential lending. Our products are 99% residential based (i.e. less than 1% of assets are commercial property) which gives rise to concentration risk within the UK mortgage market. Risk within this concentration is managed by the Product Committee to ensure that lending is distributed among product types (e.g. fixed, variable, buy to let, etc.) within Board and regulatory limits. The Society distributes the majority of its' lending via intermediaries however there is no reliance on any particular broker or network of brokers.

Geographic concentration is monitored when undertaking stress testing, where the results of house price falls are modelled using national indices with appropriate capital set aside for the outcome. Product concentration is monitored through adherence to the Lending Policy and limits.

Concentration risk – funding

The Society predominantly funds its lending activities using retail deposits, although access to the Funding for Lending Scheme (FLS) permitted us to draw down £31m from this scheme. The majority of this borrowing has now been repaid with only £4m remaining for repayment in 2019. The Society has also participated in the Term Funding Scheme (TFS) and has drawn on these funds during the period when FLS tranches were being repaid. In total £46m of TFS had been drawn down at 31 December 2018. Where non retail (wholesale) funding is utilised, this is arranged through the London money markets, mainly from other building societies and Local Authorities. Funding concentration risk is mitigated and monitored through adherence to parameters set out in the Society's Liquidity Policy statement and Financial Risk Management Policy (FRMP) statement – these include restricting the amount that can be borrowed from a single counterparty as well as prescribing limits for monthly maturities. Details of wholesale funding are reported to each Management Assets & Liabilities Committee.

INTEREST RATE RISK

Interest Rate Risk is the risk that income arising from the Society's assets and liabilities is negatively impacted as a result of movements in interest rates. The Society does not hold any assets denominated in a foreign currency, nor hold any direct equity investments and does not operate a trading book. The principal market risk exposure is to movements in interest rates.

Interest Rate Risk arises from mismatches in the timing of the re-pricing of the Society's assets (mortgages and treasury investments) and liabilities (retail savings and wholesale funding). The Society has Board approved limits for Interest Rate Risk and manages this exposure on a continuing basis using a combination of natural hedges on the balance sheet and off-balance sheet instruments (interest rate swaps) with external counterparties as prescribed in the FRMP.

The results from interest rate risk reporting, together with details of the Society's exposures are reported to each Board meeting and reviewed regularly as part of the ICAAP process.

Risk Management Objectives and Policies (Continued)

OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. Operational risk can be sub-divided into further categories of risk, including legal, loss of key personnel, fraud, regulatory, business disruption, third party and IT & Cyber.

Primary responsibility for the identification, control and monitoring of risks lies with the operational areas of the Society with data being captured centrally. The Society maintains a risk assessment process to capture, monitor and rank the various forms of operational risk, including any new initiatives. The highest scoring risks, together with newly identified risks, are reported to the Risk Committee four times per annum to ensure the mitigating controls are sufficient to manage the risks. All risks are reviewed at least half yearly by the Executive Management team and the Risk Committee receives a summary of the key movements in the risk evaluations. The Chair of Risk Committee then provides the Board with a summary of the Risk Committee's considerations, approvals and recommendations and the minutes of each Risk Committee are also received by the Board. The Society has a range of controls and external insurance cover to mitigate a number of these risks and also has a documented disaster recovery plan which includes arrangements for use of a third party site in the event of business disruption. The offsite 3rd party disaster recovery arrangements are tested each year.

LIQUIDITY RISK

Liquidity risk is the risk that the Society is not able to meet its financial obligations as they fall due (including any unforeseen obligations) as a result of imbalances in cash flows arising from its activities. This risk is managed through the maintenance of an appropriate level of liquid assets and through maintaining access to the wholesale funding market and funding tools available via the Bank of England Sterling Monetary Framework. Management of liquidity risk is achieved through adherence with the Society's Liquidity Policy on a daily basis. Compliance with the Liquidity Policy statement is reported at each Management Assets & Liabilities Committee meeting.

OTHER RISKS

Business/Strategic Risk

This is the risk that the Society may not be able to carry out its corporate objectives due to changes in its operating environment. The Society manages this risk through carefully thought through and detailed business plans and policies. This includes the approval each year of a detailed budget for the forthcoming year and a medium term Corporate Plan covering three years. The assumptions in the Corporate Plan are stress-tested to ensure that the Society's business model is robust enough to meet unexpected changes in its operating environment.

Risk Management Objectives and Policies (Continued)

Pension Obligation Risk

This is the risk that the Society will be required to fund a deficit in the defined benefit pension scheme as a result of a fall in the value of the scheme’s assets or an increase in the scheme’s liabilities due to a change in actuarial assumptions. A capital provision for this risk has been made under Pillar 2 as part of the ICAAP.

Claims on the Financial Services Compensation Scheme (FSCS)

Along with other deposit takers the Society is liable to any claims on the FSCS as a result of the failure of other deposit takers. Adequate provision has been made for this in the Annual Report and Accounts for year ended 31 December 2018.

Insurance Risk

This is the risk that there may be gaps in the risks covered by the Society’s insurances, potentially insufficient cover in place, or that the covenant of the insurer is defective. Processes are in place to provide the Board with ongoing assurance that the Society’s insurance arrangements are robust.

Conduct Risk

This risk concerns the way in which the Society conducts its business with its customers and how it ensures appropriate positive outcomes for them. This includes, for example, the way that it deals with borrowers in arrears, complaints handling and behaving in a way that treats all customers fairly. The Board has approved a Conduct Risk Appetite Statement which it reviews at least annually. It receives regular reports on the way that the Society conducts its business relative to its risk appetite. The Board is satisfied that the Society’s approach to conduct risk is both appropriate and robust.

Legal/Regulatory Risk

This is the risk that the Society exposes itself to claims by consumers or suppliers due to actions that have been taken in the past or will take place in the future. The Board has reviewed the possibility of claims in light of the industry-wide mis-selling of Mortgage Payment Protection Insurance (MPPI) and other potential mis-selling claims that may come to light in the future. The Board have concluded that the policies and procedures that exist at the Society have not exposed the Society to any significant risk of such claims.

Brexit Risk

This is the risk of adverse implications arising from the significant uncertainty regarding the future relationship between the United Kingdom and the European Union. As a solely UK focused organisation, the Society has no direct exposure to the EU. However, the wider UK economic implications and operational impacts of Brexit have been considered and are summarised below:

Risk Management Objectives and Policies (Continued)

The Board believe that the implications of a “No Deal” Brexit are difficult to quantify; however, there is a high likelihood of recession leading to unemployment and subsequent reduction in the capacity of customers to repay their mortgages. We would also expect significant house price reduction and therefore potential negative equity for customers and therefore losses for the Society should those customers be unable/unwilling to repay their mortgage. The Board has focused on this potential downside when performing stress tests on possible outcomes and is reassured that the Society has sufficient capital buffers to withstand this worst case Brexit scenario.

The Board also considered other implications of Brexit and can confirm that treasury assets are all invested in the UK and staff are all UK residents. Although the Society has some exposure to suppliers with EU parent companies the Board consider the risks to be controlled and that the operational resilience of the organisation to be sufficiently risk-mitigated against the adverse impacts arising from Brexit outcomes.

The Risk Committee monitors the Society’s capital position under ICAAP regularly and reports the Committee’s assessment of these results to the Board.

3. Capital Resources

The table below shows the composition of the Society's capital as at 31 December 2018.

Note	Own Funds	2018 CRD IV Final £m	2017 CRD IV Final £m
Common Equity Tier 1 (CET1) capital: instruments and reserves			
2	Retained earnings	27.8	26.1
6	**CET1 Capital before regulatory adjustments**	**27.8**	**26.1**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
8	Intangible assets	(0.4)	(0.4)
28	**Total regulatory adjustments to CET1**	**(0.4)**	**(0.4)**
29	**Common Equity Tier 1 Capital**	**27.4**	**25.7**
45	**Total Tier 1 Capital**	**27.4**	**25.7**
Tier 2 Capital			
50	Credit risk adjustment - Collective provision	0.6	0.5
51	**Tier 2 Capital before regulatory adjustments**	**0.6**	**0.5**
58	**Total Tier 2 Capital**	**0.6**	**0.5**
Total Capital			
59	**Total Capital**	**28.0**	**26.2**
60	**Total Risk Weighted Assets (RWA)**	**141.4**	**128.2**
Capital ratios and buffers			
61	**Common equity tier 1 ratio (as a % of RWA)**	**19.38%**	**20.01%**
62	**Tier 1 ratio (as a % of RWA)**	**19.38%**	**20.01%**
63	**Total capital (as a % of RWA)**	**19.81%**	**20.40%**
64	**Institution specific buffer (CET1) requirement in accordance with article 92(1) plus capital conservation and countercyclical buffer requirements plus systemic risk buffer plus systemically important institution buffer expressed as a percentage of RWA**	**7.38%**	**5.75%**
65	of which: capital conservation buffer requirement	1.88%	1.25%
66	of which: countercyclical buffer requirement	1.00%	0.00%
67	of which: systemic risk buffer requirement	0.00%	0.00%
67a	of which: Globally Systemic Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.00%	0.00%
68	**CET1 available to meet buffers (as a % of RWA)**	**19.38%**	**20.40%**

Note - These references refer to Annex V of the EBA Commission Implementing Regulation (EU) No 1423/2013

Capital Resources (continued)

The table below shows the reconciliation between the Total Reserves in the balance sheet and the Total Capital Resources after deductions, ref 59 in the table above:

	2018 £m	2017 £m
General Reserves	27.8	26.1
Intangible Assets	(0.4)	(0.4)
Collective impairment allowance	0.6	0.5
Total Capital Resources	**28.0**	**26.2**

Tier 1 capital: the general reserves – cumulative, externally verified, accounting profits together with adjustments made for intangible assets, pension fund obligations, where appropriate;

Tier 2 capital: Collective impairment allowance, representing expected losses arising from the Society's portfolio of secured advances. Specific loss provisions (currently circa £96k) are not allowable as Tier 2 capital.

The Society does not hold any alternative tier 1 instruments nor have any tier 3 capital resources.

4. Capital Adequacy

OVERVIEW

The Society holds, at all times, sufficient capital resources to allow it to continue to fulfil its business objectives and maintain its position as a reputable mutual financial services organisation. The principal element of the capital base is the general reserve. In support of its capital position, the Society seeks to generate adequate profits each year to add to the reserve.

The Society measurement of its capital requirements, and hence adequacy, is linked with the internal reporting processes for monthly financial information, regular forecasting and the longer term corporate planning process, which is prepared covering a three year period. The output from these processes is used to determine capital adequacy and future needs. The Board monitors the overall capital position using an Internal Capital Adequacy Assessment Process, on which it receives updates at least half yearly.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS ('ICAAP')

The Society undertakes a regular assessment of its capital needs, which includes assessing likely capital requirements over a three year planning period under normal and stressed conditions.

The ICAAP process assesses the minimum capital requirement under Pillar 1 together with all material risks identified as part of the Society's risk management framework and procedures (Pillar 2).

When determining capital requirements, The Society uses the '*standardised approach'* for credit risk and the '*basic indicator'* approach for operational risk.

Under the '*standardised approach'* for credit risk, the Society applies a risk weighted value to each of its exposure classes and provides 8% of that value as the minimum capital requirement for credit risk.

Under the '*basic indicator*' approach for operational risk, the Society takes 15% of its average net income over the preceding three financial periods as the minimum capital requirement for operational risk purposes.

The ICAAP statement is reviewed at least annually by the Board.

Capital Adequacy (Continued)

The following table shows the Society's Pillar 1 and Pillar 2 capital requirements by asset class, calculated under the '*standardised approach'*, as at 31 December 2018.

Standardised exposure class	Exposure	Risk weighted assets value	Minimum capital required
	£m	£m	£m
Liquidity exposures			
Central government and Bank of England	62.9	-	-
Credit institutions	17.6	4.7	0.4
Off-balance sheet derivatives	0.6	0.3	-
Total liquidity exposures	**81.1**	**5.0**	**0.4**
Loans and advances to customers			
Non-residential use - performing loans	0.8	0.8	0.1
Residential use - performing loans	322.9	115.5	9.2
Residential use - past due loans	0.9	0.9	0.1
Residential use - pipeline commitments	19.2	3.4	0.2
Total loans and advances to customers	**343.8**	**120.6**	**9.6**
Other exposures			
Fixed and other assets	3.3	3.3	0.3
Total other exposures	**3.3**	**3.3**	**0.3**
Credit risk capital resources required	**428.2**	**128.9**	**10.3**
Operational risk capital resources required		12.3	1.0
Credit valuation adjustment		0.2	0
Total Pillar 1 capital requirement		**141.4**	**11.3**
Pillar 2a			
Pillar 2 Add on			1.9
Static Pension Add-on			1.4
Total Pillar 2a capital requirement			**3.3**
Total Capital Requirement			**14.6**
Capital Resources			28.0
Excess over Total Capital Requirement			**13.4**

Total Capital Requirement as % of RWA	**10.4%**

Capital Adequacy (Continued)

The difference between the total gross credit risk exposure shown above of £428.1 and total assets per the Society's statement of financial position of £407.8m in the Annual Report & Accounts for the year ended 31 December 2018 is as follows:

Reconciliation of Gross Risk Exposure & Society's Balance Sheet	31 Dec 18 £m
Total gross risk exposures (as shown in table above)	428.2
Less allowance for impairment	(0.6)
Off-balance sheet commitments	(19.2)
Off-balance sheet derivatives	(0.6)
Total assets per Society's statement of financial position	**407.8**

Capital Buffers

In 2016 the CRR introduced new regulatory capital buffers of which the following apply to the Society:

Capital Conservation Buffer ("CCoB")

The CCoB for all financial institutions that can be used to absorb losses while avoiding breaching minimum capital requirements. The buffer at 31 December 2018 was 1.875% of RWA.

Countercyclical Capital Buffer ("CCyB)

The CCyB is currently set at 1.0% for exposures in the United Kingdom, where the Society does all of its business. The table below comprises the geographical distribution of the relevant credit exposures for the Society as well as the amount of CCyB which it is required to keep.

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

£ million	General credit exposures	Trading book exposures	Own funds requirements			
Breakdown by country			**Of which: General credit exposures**	**Of which: Trading book exposures**	**Total**	**CCyB rate**
United Kingdom	424.8	0	9.6	0	9.6	1.00%
Total	**424.8**	**0**	**9.6**	**0**	**9.6**	**1.00%**

Capital Adequacy (Continued)

The table below shows the amount of institution-specific CCyB as at 31 December 2018

	31-Dec-18
Total risk exposure amount (1)	£141.4m
Institution specific CCyB rate (%)	1.00%
Institution specific CCyB requirement	£1.4m

(1) "Total risk exposure amount" is equivalent to RWA

5. Credit Risk and Provisions

All of the Society's credit exposures are within the UK as shown in the following geographical analysis:

All figures £k	UK 2018	UK 2017
Central bank	62,855	53,510
Institutions	17,579	21,565
Secured by mortgages on immovable property - Residential	316,607	283,648
Secured by mortgages on immovable property - Commercial	775	896
Retail	6,320	5,360
Exposures in default	947	708
Other items	3,295	3,056
TOTAL	**408,378**	**368,743**

Note – these figures are shown gross of collective impairment provision (£0.6m)

RETAIL CREDIT LOSS PROVISIONS

Residential mortgages are the Society's principal asset class. Throughout the year and at each year end, assessment is made of all advances where the account is in arrears. An account is considered impaired where the expected future cash flows are lower than the current balance outstanding.

Allowance for impairment is reviewed annually, or when required if the Directors are aware of evidence to suggest there has been a material change in circumstances that could lead to increased losses in the mortgage portfolio e.g. changed national or local economic conditions, arrears trends etc. When determining the provisioning requirements, individual assessments are made of all advances and loans on properties that are past due or in possession. An individual provision is made against those advances and loans that are considered to be impaired. In considering the individual provision, 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.

The accounts included in the above fall into the following definitions:

Past Due	A loan is considered to be past due when the borrower has failed to make a payment under the terms of the loan contract
Impaired Assets	Includes cases in arrears and forbearance and interest only mortgages where there is potential for the repayment strategy of the loan to fail

Credit Risk and Provisions (Continued)

A further, collective provision is made to cover potential losses which, although not yet incurred, are known from experience to exist in the Society's mortgage balances. The amounts shown in the Income and Expenditure account represent the net change in the total provision levels.

The total amount held as provision is deducted from the mortgage assets as reported in the published Balance Sheet.

Full details of the movements on collective and individual provisions are provided in note 13 to the Report and Accounts 2018. For capital adequacy purposes, collective impairment allowances are regarded as Tier 2 capital.

A residual maturity analysis of loans and advances to customers is provided in note 12 to the Report and Accounts 2018 (gross of impairment provision), compiled on the assumption that all loans are held for their agreed maturity. In practice, the actual repayment profile of such loans is significantly shorter. The following table shows the same analysis net of impairment provision:

All figures £m	Within 1 Year	More than a year but not more than 5 years	More than 5 years	Total
Total loans and advances to customers	9.5	48.3	266.8	**324.6**

A loan to value analysis is shown in note 26 to the Report and Accounts 2018 which highlights the security level that the Society holds against the loans made.

A geographical analysis of loans and advances to customers is shown below.

Exposures at 31 December 2018	Non-residential			Residential			Total Loan Book
	Performing	Past Due	Total	Performing	Past Due	Total	
	£m	£m	£m	£m	£m	£m	£m
North East	-	-	-	7.9	0.0	7.9	7.9
North West	-	-	-	38.6	0.2	38.8	38.8
Yorkshire and Humberside	-	-	-	39.1	0.3	39.4	39.4
East Midlands	0.2	-	0.2	54.9	0.0	54.9	55.1
West Midlands	0.6	-	0.6	28.0	0.0	28.0	28.6
East Anglia	-	-	-	17.9	0.2	18.1	18.1
South West	-	-	-	36.6	0.0	36.6	36.6
London	-	-	-	29.9	0.0	29.9	29.9
South East	-	-	-	56.7	0.0	56.7	56.7
Wales	-	-	-	13.3	0.2	13.5	13.5
TOTAL	**0.8**	**-**	**0.8**	**322.9**	**0.9**	**323.8**	**324.6**

Credit Risk and Provisions (Continued)

TREASURY CREDIT RISK

The Society's other major asset class is liquid assets and debt securities. The Society uses external credit assessments provided by FITCH, which is recognised by the PRA as an eligible external credit assessment institution for the purposes of calculating credit risk requirements under the standardised approach.

The following table analyses the Society's portfolio of liquid assets by maturity and rating at 31 December 2018. The weightings given to the external ratings are shown in the table below:

Credit Quality Step	Credit Rating	Rated Inst - Residual Maturity <3 months	Rated Inst - Residual Maturity >3 months	Central Govt & Central Banks
1	AAA to AA-	20%	20%	0%
2	A+ to A-	20%	50%	20%
3	BBB+ to BBB-	20%	50%	50%
4	BB+ to BB-	50%	100%	100%
5	B+ to B-	50%	100%	100%
6	CCC+ and below	150%	150%	150%

Unrated institutions - < 3 months = 20%
Unrated institutions - > 3 months = 50%

Fitch Ratings Service	Less than 3 months £m	3 months to 1 year £m	1 to 5 years £m	Total £m	Risk weighted asset value £m
AAA to AA-	62.9	4.0	-	66.9	0.0
A+ to A-	11.0	4.0	-	15.0	4.2
Unrated counterparties	2.5	0.0	-	2.5	0.5
TOTAL	**76.4**	**8.0**	**0.0**	**84.4**	**4.7**

Exposures to unrated counterparties are restricted to unrated UK Building Societies.

Credit Risk and Provisions (Continued)

The Society has no exposure to equities and no assets subject to securitisation. At 31 December 2018, the Society did not hold any provisions relating to its portfolio of liquid investments.

In addition to the exposures above that relate to liquid assets, the Society has exposures relating to derivative instruments. The Society uses derivative instruments to hedge its exposure to interest rate risk (interest rate swaps). Counterparty credit risk includes the risk that the derivatives counterparty will default on the transaction. All of the Society's derivatives are bilateral and conducted over-the-counter (OTC).

Article 439 of the CRR sets out various disclosure requirements relating to credit risk. The Board has disclosed those that apply to the Society, however they have resolved that the remaining requirements do not apply because the Society does not operate a trading book.

Under the CRR, credit institutions and investment firms are required to hold additional own funds due to Credit Valuation Adjustment (CVA) risk arising from the OTC derivatives. The charge is applicable to derivatives not subject to centralised clearing. An overview of the CVA capital requirement is detailed below:

All figures £k	Asset £k	Risk Weighted Asset £k	Capital Required £k
CVA Risk	-	166.2	133.3

6. Liquidity Risk

Liquidity risk is the risk that the Society is unable to meet its financial obligations as they fall due under either normal or stressed business conditions.

The MALCO is the Management committee responsible for monitoring this risk reporting to the Board Risk Committee. Responsibility for the daily management of the risk, including the monitoring of both retail and wholesale funding, lies with the Finance Director.

This risk is managed by maintaining a prudent level of liquid resources at all times in accordance with limits (of both the quantity and the type of liquid assets) as set out in the Liquidity Policy.

Liquidity stress testing is carried out on a monthly basis to confirm that the Society can withstand normal and extreme cash outflows.

The key regulatory metric to monitor short term liquidity risk is the liquidity coverage ratio (LCR) which measures the potential net cash outflow under a prescribed set of assumptions as a proportion of the high quality liquid assets that are held as a Liquidity Buffer. The regulatory requirement is that the LCR will exceed 100%.

The table below shows the major components of the Liquidity Coverage Ratio (LCR) on an average basis for each quarter, based on the previous twelve months of data.

It should be noted that the off balance sheet FLS T Bills are included in the Liquidity buffer.

	Quarter ending 31 March 2018 £m	Quarter ending 30 June 2018 £m	Quarter ending 30 Sept 2018 £m	Quarter ending 31 Dec 2018 £m
High Quality Liquid Assets	64.5	54.2	54.9	63.0
Total Net Cash Outflows	16.9	15.6	18.3	16.2
Liquidity Coverage Ratio %	382%	348%	300%	390%

3 data points are used in the calculation of the averages for each period of reporting.

The (non-averaged) LCR at 31 December 2018 was 471% (31 December 2017: 424%).

7. Operational Risk

This is the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. The Society operates a robust control environment to mitigate operational losses, including the maintenance of insurance policies.

All of the Society's teams and functions are required to identify and assess their operational risks via an agreed framework. The output of this process is the Risk Register which is reviewed by the Risk Committee and approved by the full Board. In addition, Line Management are held directly responsible for the assessment and management of the operational risks and associated controls that fall within their area of responsibility.

A Control Risk Self Assessment programme is in operation which is completed by managers and reviewed by the second line of defence prior to assessing the level of residual risk.

Risk events identified from the business are reported to the Risk Manager where they are assessed and a root cause analysis review is performed with any resultant changes in processes, or training needed will be recommended for consideration to the business.

A Business Continuity Plan and disaster recovery process is in place to ensure that disruptions to the Society's business can be appropriately managed.

OPERATIONAL RISK CAPITAL REQUIREMENT

The Society calculates its operational risk capital requirement using the Basic Indicator Approach. This is calculated as 15% of the Society's net income averaged over the previous 3 years.

All figures £k	2018	2017
Three Years Prior	5,920	5,868
Two Years Prior	6,265	5,920
Prior Year	7,420	6,265
Basic Indicator (3 year Average)	6,535	6,018
Own funds requirement (15% Basic Indicator)	**980**	**903**

8. Interest Rate Risk

Interest rate risk is the risk of a change in the length of time between which fixed and variable rate items reprice. For the Society, these risks can be summarised as follows:

1. Fixed rate liabilities and fixed rate assets are not matched according to re pricing date (either via natural hedging or by the use of interest rate swaps) thereby leading to a loss of profit if interest rates move –maturity re pricing risk.

2. Gaps exist across all interest rate types on the balance sheet thereby leading to losses should the interest rates move – basis risk.

The re pricing risk is measured by utilising an Economic Value calculation and applying a 2% parallel shift to the gaps that exist in each of the time buckets. This is performed every month and forms the basis of the reporting to Management Assets and Liabilities Committee (MALCO) and Risk Committee. The risk appetite was revised by the Risk Committee in 2017 and it was agreed that the appetite for Interest Rate risk should be set at 6% of Capital (£1.6m). The Society utilises approximately 50% of this limit at any one time due to the level of pipeline of fixed rate mortgages. The Society's exposure to this measurement (in terms of economic value) was:

All figures £k	2% shift	Risk Appetite
Dec-18	712	1,600

Basis risk is managed through the setting of limits upon the maximum negative impact that the movement between interest bases will have. This is modelled both under current interest expectations of the likely movement between interest bases and under an extreme set of circumstances. The limit is currently set to 50% of forecasted profit before tax (£0.9m). Management review interest rate basis risk on a monthly basis.

9. Asset Encumbrance

The Society has pledged part of its loan book as collateral with the Bank of England, in order to participate in the Bank's Funding for Lending Scheme (FLS), Term Funding Scheme (TFS) and Indexed Lon-Term Repo (ILTR). Participation in these schemes provides the Society with a source of funding that diversifies the funding portfolio and reduces the overall funding cost, allowing the Society to optimise mortgage rates for its members. Although the loans remain fully owned and operated by the Society, they are reported as encumbered.

Other encumbered assets consist of collateral posted for the derivative portfolio that supports the management of interest rate risk. Details of the encumbered assets, and sources of encumbrance can be found in the tables below. Note that this information is required to be disclosed as median values over quarterly positions during the 12 months preceding 31st December 2018, and as a result may differ from other information provided in this disclosure.

Template A: Encumbered and unencumbered assets

31 December 2018 £million	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	£m	£m	£m	£m
Assets of the reporting institution	**89.1**	**0.0**	**302.0**	**3.0**
Debt securities	0.0	0.0	3.0	3.0
Loans on demand	0.0	0.0	60.3	0.0
Loans and advances other than loans on demand	89.0	0.0	235.5	0.0
Other assets	0.1	0.0	3.2	0.0

Template B: Collateral received

The EBA Guidelines allow competent authorities to waive the requirement to disclose template B subject to a firm meeting certain criteria. The Society meets the criteria and therefore template B, Collateral received, is not disclosed.

Template C: Encumbered assets/collateral received and associated liabilities

31 December 2018	Matching liabilities, contingent liabilities or securities lent £m	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £m
Carrying amount of selected financial liabilities	55.5	89.0

The above tables show a median position for 2018 whereas the final position as at 31 December 2018 is a level of encumbered assets totalling £95.4m which are supporting £55m of drawings.

10. Leverage ratio

The leverage ratio is a measure that is not impacted by risk weightings and therefore allows a simple comparison between firms. It is calculated as Total Tier 1 capital divided by adjusted statement of financial exposure. The level of leverage ratio is actively monitored and regularly assessed alongside capital and capital ratios.

CRD IV requires a minimum ratio of 3.25% and at 31 December 2018 the Society had a leverage ratio of 6.35%.

The following tables show the derivation of the calculation as prescribed by the EU's Commission Implementing Regulation (EU) No 2016/200. (£NIL balance rows have been omitted.)

Table LR Sum: summary reconciliation of accounting assets and leverage ratio exposures

All figures £k	2018	2017
Total assets per published financial statements	407,776	368,095
Adjustments for derivative financial instruments	591	383
Adjustments for off-balance sheet items	23,201	31,649
Other adjustments	208	277
Leverage ratio exposure	**431,776**	**400,404**

Note – total assets are shown net of collective impairment provision (£0.6m)

Table LR Spl: Split-up on balance sheet exposures (excluding derivatives)

All figures £k	2018	2017
Exposures treated as sovereigns	62,855	53,510
Institutions	17,579	21,565
Secured by mortgages on immovable properties	316,607	283,648
Retail exposures	6,320	5,360
Corporate	775	896
Exposures in default	947	708
Other exposures (eg equity, securitisations and other non-credit obligation assets)	3,295	3,056
EU-3 Banking book exposures	**408,378**	**368,743**
EU-1 Total on-balance sheet exposures (excluding derivatives)	**408,378**	**368,743**

Note – these figures are shown gross of collective impairment provision (£0.6m)

Leverage ratio (continued)

Table LR Com: Leverage ratio common disclosure All figures £k	2018	2017
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	408,378	368,743
Asset amounts deducted in determining Tier 1 capital	(394)	(371)
Total on-balance sheet exposures (excluding derivatives and SFTs)	**407,984**	**368,372**
Replacement cost associated with derivatives transactions	353	245
Add-on amounts for PFE associated with derivatives	238	138
Total derivatives exposures	**591**	**383**
Off-balance sheet exposures at gross notional amount	23,201	31,649
Total off-balance sheet exposures	**23,201**	**31,649**
Tier 1 capital	27,399	25,669
Total Exposures	**431,776**	**400,404**
Leverage Ratio	**6.35%**	**6.41%**

Note – these figures are shown gross of collective impairment provision (£0.6m)

During the year the Leverage Ratio has been influenced by the level of profit which the Society has earned and the increase in liquid assets and mortgage lending.

11. Country by Country Reporting

CRD IV also introduced a requirement for country-by-country reporting. The objective of this is to provide increased transparency regarding the source of the financial institution's income and the location of its operations. This information can also be found in note 31 of the Report and Accounts 2018.

For the year ended 31 December 2018:

- The Society's principal activities are mortgage lending and a provider of savings accounts;
- The Society's turnover (defined as net interest receivable) was £7.4m (2017: £6.2m), profit before tax £2.18m (2017: £1.91m), all of which arose from UK based activity;
- The average number of Society full time equivalent employees was 81 (2017: 75) all of whom were employed in the UK;
- Corporation tax of £395k (2017:£329k) was paid in the year and is all within the UK tax jurisdiction; and
- No public subsidies were received in the year.

12. Remuneration Policies and Practices

A risk arises if the Society's remuneration policies and practices could result in staff being rewarded for decisions that are not aligned to the agreed strategy or are inconsistent with the Board's risk appetite. It is therefore the Society's policy on remuneration to seek to ensure that its remuneration decisions are:

- aligned to business strategy and long term objectives
- consistent with the Society's current financial condition and future prospects
- aligned with effective risk management.

The Society also seeks to establish an appropriate balance between the fixed and variable elements of remuneration, although the balance will vary depending on the seniority and nature of an individual's employment. Performance measurements used to calculate variable remuneration are therefore adjusted to take into account current or potential risks to the business and are consistent with the need to retain a strong capital base. Variable remuneration is not paid unless it is sustainable given the Society's overall financial position. Guaranteed incentive payments do not form part of any remuneration package and all incentive schemes are non-contractual.

The Board has identified that those staff whose professional activities have a material impact on the Society's risk profile are the members of the Executive team (two of whom, the Chief Executive and the Deputy Chief Executive & Finance Director, are Board Directors), other members of the Senior Management Team and those involved in Direct Selling of mortgages.

The organisation is a local building society and therefore does not have material business units. The figures provided are therefore for the Society as a whole.

EXECUTIVE DIRECTORS

Information concerning the mandate of the Remuneration Committee and the decision-making process it uses in determining the remuneration policy for the executive directors and the link between pay and performance, is contained in the Directors' Remuneration Report in the Society's Report and Accounts 2018.

During 2018 the Chief Executive and Deputy Chief Executive & Finance Director earned a performance related bonus in line with other executives. This is a non-pensionable performance related cash bonus payable on achievement of personal objectives and Board specified key performance indicators. Payments relating to the medium term bonus scheme are not guaranteed and are made in the form of a cash payment as a percentage of salary. The executives can earn a maximum of 20% of salary. 50% of the earnings are deferred over a two year period and only paid out if additional future performance targets are met.

Benefits accrued under this scheme were 20% of salary for the year 2018 of which 10% will be paid in 2019 and 10% deferred over 2 years.

Remuneration Policies and Practices (Continued)

OTHER STAFF

The Remuneration Committee is also responsible for determining the remuneration policy for other employees that are considered to have a material impact on the Society's risk profile. These include the other executives, senior management team and those involved with the direct selling of mortgages.

AGGREGATED REMUNERATION

The remuneration earned for all the staff that materially impact the risk profile of the Society in 2018 is detailed below:-

	Number of staff	Fixed	Variable	Total
		£	£	£
Executive Directors	2	331,935	57,445	389,380
Non Executive Directors	6	152,715	0	152,715
Other Staff	8	456,150	66,627	522,776

The above variable figures include £60,315 of bonus earned in 2018 and deferred for payment until 2020 and 2021

13. Conclusion and contacts

This document provides quantitative and qualitative information about the Society's risk management approach and the key items that impact on its capital requirements. It has been prepared in accordance with the requirements as appropriate for an organisation of the size and complexity of the Society.

Should you have any queries on this document, application should be made in writing to the Deputy Chief Executive & Finance Director at:

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