Capital Requirements Directive

PILLAR 3 DISCLOSURES

For the year ended 31 December 2023

MANSFIELD
BUILDING SOCIETY

CONTENTS

The Pillar 3 disclosures in this document have been prepared solely for the purpose of compliance with the Disclosure Part of the PRA Rulebook. 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 Capital Requirements Regulations II (CRR2) were implemented on 1 January 2022. The CRR2 seeks 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 member's 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 for Credit Risk and the Basic Indicator Approach for Operational Risk, permitted by CRR2 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 Disclosure Part of the PRA Rulebook following the UK implementation of the CRR2. The Society has adopted the standardised approach and basic indicator approach for exposures and risk areas and uses the capital risk weighting percentages set by the CRR2. The Society also meets the requirements for small and non-complex institutions as disclosed in Article 433b of the disclosure part of the PRA Rulebook and so all disclosures are prepared in accordance with the small and non-complex institutions articles. Unless otherwise stated all figures are as at 31 December 2023. 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.

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

SUMMARY OF KEY DISCLOSURES

Template UK KM1 – Key metrics Template

		2023 £m	2022 £m
Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital	37.0	35.1
2	Tier 1 capital	37.0	35.1
3	Total capital	37.7	35.7
Risk-weighted exposure amounts			
4	Total risk-weighted exposure amount	205.2	192.1
Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	18.01%	18.27%
6	Tier 1 ratio (%)	18.01%	18.27%
7	Total capital ratio (%)	18.36%	18.58%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
UK 7a	Additional CET1 SREP requirements (%)	-	-
UK 7b	Additional AT1 SREP requirements (%)	-	-
UK 7c	Additional T2 SREP requirements (%)	-	-
UK 7d	Total SREP own funds requirements (%)	8.0%	8.0%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	2.50%	2.50%
9	Institution specific countercyclical capital buffer (%)	2.00%	1.00%
UK 9a	Systemic risk buffer (%)	0.00%	0.00%
11	Combined buffer requirement (%)	4.50%	3.50%
UK 11a	Overall capital requirements (%)	12.50%	11.50%
12	CET1 available after meeting the total SREP own funds requirements (%)	10.01%	10.27%
Leverage ratio			
13	Total exposure measure excluding claims on central banks	512,393	468,315
14	Leverage ratio excluding claims on central banks (%)	7.21%	7.49%
Liquidity Coverage Ratio			
15	Total high-quality liquid assets (HQLA) (Weighted value-average)	81,820	66,323
UK 16a	Cash outflows - Total weighted value	35,557	30,959
UK 16b	Cash inflows - Total weighted value	8,769	8,063
16	Total net cash outflows (adjusted value)	26,788	22,896
17	Liquidity coverage ratio (%)	307%	298%
Net Stable Funding Ratio			
18	Total available stable funding	479,524	447,448
19	Total required stable funding	314,455	306,888
20	NSFR ratio (%)	152.5%	145.8%

Note: Leverage ratio includes the most recent audited reserves figure. The increase in Risk weighted assets for 2023 is due to the Society having a strong year for mortgage growth, as well as an increase to the Society's liquidity position.

2 RISK MANAGEMENT OBJECTIVES AND POLICIES

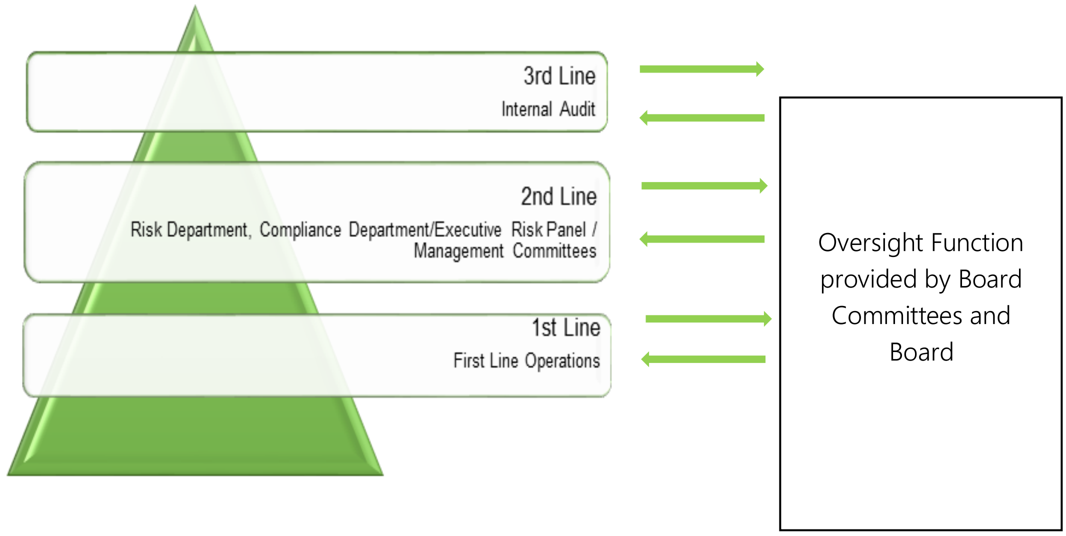
The Mansfield Building Society (referred to, for brevity, as MBS in parts of this document) is a mutual organisation with no equity shareholders. Its principal business is as a producer of financial products, predominantly in the form of first charge UK residential mortgages and savings deposits. As 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.



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 biannual self-assessments regarding risks and controls, with consideration being given to KRIs, limits and EWS/ITP's. ▪ Recovery Plan EWS/ITP's monitored at Executive Committee. ▪ Reporting Incidents and risk events to the Risk Department, 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 the overarching Board Risk Policy.	The Risk 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 colleagues 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 Incidents, together with subsequent action monitoring. ▪ Reporting of Incidents and 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).	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 Departments. ▪ 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.

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 by the Executive Team within defined risk appetites.

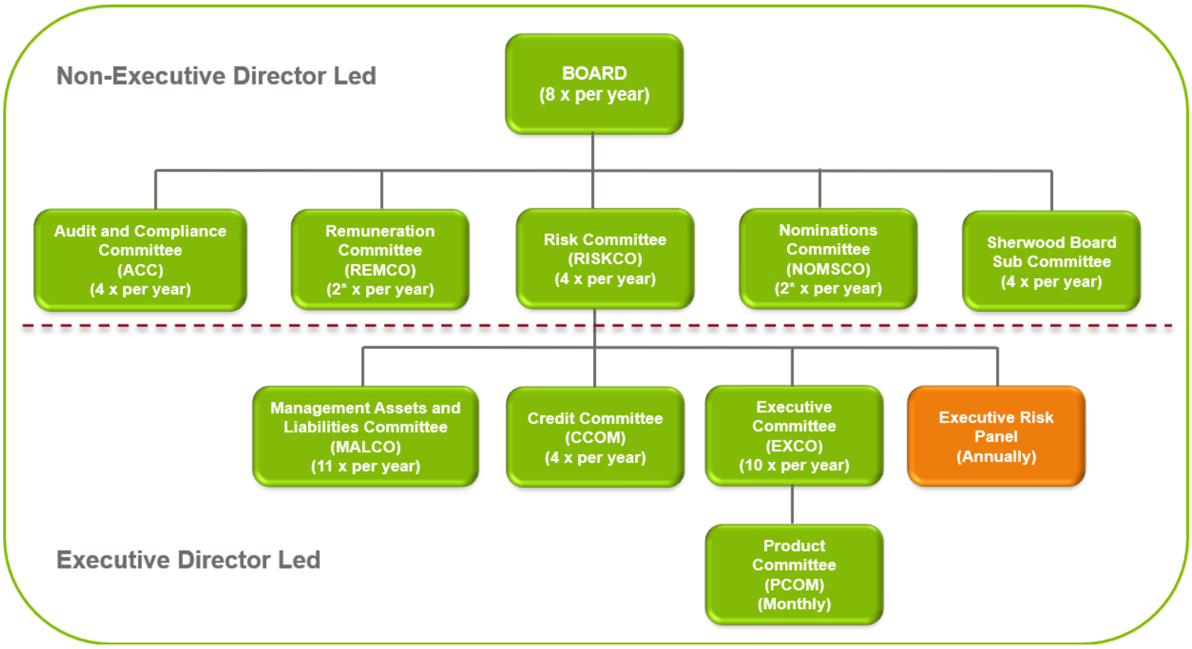
The **Board** is responsible for:

- Approval of the Board Risk Policy.
- Approval, review and oversight of risk appetites.
- Oversight of the Risk Committee's fulfilment of responsibilities.

RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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:



* Terms of reference for this committee stipulate at least 2 meetings to be held per year with a third one to be held only if required.

The Credit Committee oversees Credit Risk; the Assets & Liabilities Committee (MALCO) oversees Balance Sheet, Liquidity, Funding and Interest Rate Risk; and the Executive Committee oversees Strategic, Operational, Legal & Regulatory 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 or Risk Committees. This structure provides independent review and assurance of the Society's risk management and practices.

During 2023, the Society has set up the Project Sherwood Sub-Committee. This Committee has been created to provide oversight in regard to Project Sherwood, which is the Society's digital transformation project. The responsibilities of the Sub-Committee include oversight of delivery of the programme plan, cost control against the budget, quality of deliverables and the assessment of the future direction of the programme. It also provides oversight of vendor selection and the wider organisational and cultural change programme linked to the project. It has oversight of Project Sherwood risks, and receives assurance reports relating to the project.

The Society's Risk Committee meets four times per annum and comprises six Non-Executive Directors, Alison Chmiel (Board Chair), Keith McLeod (Chair of Risk Committee), Colin Bradley, Nick Baxter, Lucy McClements & Rachel Haworth and the two Executive Directors (Daniel Jones and Paul Wheeler). The Risk Executive and the Risk Managers also attend.

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

DECLARATION

In accordance with point (e) of article 435(1) requirement of the CRR disclosures, the Society's Board are satisfied that the risk arrangements in place at the Society are adequate with regards to the Society's profile and strategy.

PRINCIPAL RISKS

Mansfield Building Society actively manages risk levels to minimise threats to its ongoing operation and reputation as a sustainable, mutual financial organisation. In common with other financial institutions, the nature of the Society's business, results in a number of unavoidable risks. These principal risks, which are defined in the Board Risk Policy, are reviewed and assessed on a quarterly basis by the Board Risk Committee, along with any emerging risks. This quarterly assessment is then reported upwards to the Board.

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.

A Stress Testing Policy sets out the Society's stress testing framework, including the scope, nature and frequency of stress testing across the risk categories. The policy is reviewed by MALCO and approved by the Risk Committee to ensure they remain relevant and appropriate.

The current principal risks are defined in the table below.

BALANCE SHEET	Balance Sheet Risk is the risk that the Society does not have adequate financial resources, in terms of either amount or quality, to meet liabilities as they fall due or is unable to secure appropriate funding. This risk incorporates Capital Risk, Funding Risk and Liquidity Risk. This risk is controlled through adherence to the Board approved policies for Liquidity and Financial Risk Management, which ensures sufficient funds in liquid form are available at all times so the Society can meet its liabilities as they fall due. Stress tests are carried out regularly to confirm that the Society can withstand normal and abnormal cash outflows. The policies for Liquidity and Financial Risk Management are regularly reviewed by the Risk Committee and are approved by the Board.
CREDIT	Credit Risk is the risk that the parties with whom the Society has contracted fail to meet their obligations as they become due. Mortgage credit risk is controlled in accordance with the Board approved Lending Policy and by strict controls over lending mandates. Mortgage applications are approved by a central underwriting team in accordance with the Lending Policy. Quality control reports are regularly considered by the Management Credit Committee and the Board Risk Committee. Counterparty credit risk is controlled through adherence to the Board approved policies for Liquidity and Financial Risk Management, these include prudent limits on credit exposures to individual and groups of counterparties.
INTEREST RATE	Interest Rate Risk is the risk of reduction in earnings and/or capital value due to unplanned variations in interest rates. Interest rate risk is managed utilising financial instruments where appropriate (in accordance with the Board approved policies for Liquidity and Financial Risk Management). This is regularly reviewed by the Management Assets and Liabilities Committee and the Risk Committee. An analysis of the Society's interest rate sensitivity at 31 December 2023 can be found in section 8 of this document.
PENSION DEFICIT	Pension Deficit Risk is the risk to capital arising from the Society's obligation to make contributions to the defined benefit pension scheme, or due to the Society having insufficient funds to meet liabilities. To manage this risk the Society performs internal stress tests on the pension fund as well as reviewing the Pension Trustees' triennial valuation. The impact of this risk is considered in the Society's ICAAP and a proportionate amount of capital is set aside to cover potential impacts.

STRATEGIC	Strategic Risk The risk that the medium and long-term business plan and strategy of the Society fails to achieve its objectives. This risk arises from the impact on the Society's business model as a result of the changing interest rate environment, competition and legislation. These have the potential to reduce the Society's profit levels and contribution to capital, thereby threatening the financial strength of the Society. Strategic risk is regularly considered by the Board. The Management Product Committee regularly review data on the mortgage and savings markets, as well as using product profitability analysis when deciding on the pricing of new products. Summaries of this are provided to the Board. The Board runs an annual Board Planning Day, during which it considers strategic risks and opportunities, and this includes reviewing scenarios over a seven-year period. Within Strategic Risk, the Society includes the risks relating to its IT systems transformation. We are calling this Project Sherwood and over the next two years, we will be investing significant time and effort into delivering systems that are fit for the future and provide our Members and broker partners with the ease of digital access that they deserve. These transformation risks are monitored and overseen by a specific Project Sherwood Board sub-committee. This risk category also includes Climate Change Risk which is discussed separately below.
OPERATIONAL	Operational Risk (including Cyber Risk) The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Society has undertaken considerable work in 2023 to demonstrate its operational resilience and to ensure that it can maintain delivery of important business services through plausible stress scenarios. As part of this process the Society has also reviewed its third party relationships to ensure that they continue to deliver an appropriate level of service to our Members. The Society continues to invest in upgrading our IT systems and security to ensure we are protected from Cyber Risk. The Audit and Compliance Committee is responsible for assessing the effectiveness of the system of inspection and control including cyber protection.
LEGAL & REGULATORY	Legal and Regulatory Risk is the risk that the Society fails to comply fully with regulations, law, or codes applicable specifically to the Society. This is regularly reviewed by the Risk Committee. The Compliance Team support a process whereby new and emerging regulations are captured and assigned to an appropriate colleague to ensure any consequences for the Society are understood and acted upon.
CONDUCT	Conduct Risk is the risk of adverse customer outcomes arising from direct or indirect failures in the overall conduct of the business. The Society is committed to delivering fair outcomes to all customers and fully implemented the requirements of the FCA's 'Consumer Duty' regulations in 2023. This is underpinned by the Society's conduct risk framework and related Consumer Duty management information, which is regularly reviewed by the Risk Committee and the Board. The Executive Committee monitors consumer duty performance and conduct risk at an operational level.
CLIMATE CHANGE	Climate Change Risk is primarily the risk that the value of the residential houses that our mortgages are secured against reduces due to the environmental impact from the effects of climate change. There are two key types of risk associated with climate change: the risks that arise as the economy moves from a carbon-intensive one to net zero emissions, known as transition risks; and risks associated with the higher global temperatures likely to result from taking no further policy action, known as physical risks. For more detail see the Environment section on page 15 of the Report and Accounts. The Society regularly reviews its existing mortgage portfolio with regard to climate risk, and this assessment is used to inform the ICAAP process. The ICAAP process is used to ensure adequate capital is maintained by the Society. The mortgage and savings products offered, along with the effect that the Society's own carbon footprint has on the environment is also being assessed to identify opportunities for the Society to contribute towards the UK Government's target of a reduction in carbon emissions and the move to a net zero economy.

3 CAPITAL RESOURCES

The table below shows the composition of the Society's capital as at 31 December 2023.

Template UK CC1 – Composition of regulatory own funds

Note	Own Funds	2023 CRD IV Final £m	2022 CRD IV Final £m
Common Equity Tier 1 (CET 1) Capital: Instruments and Reserves			
2	Retained earnings	37.2	35.4
6	**CET1 Capital before regulatory adjustments**	**37.2**	**35.4**
Common Equity Tier 1 (CET1) Capital: Regulatory Adjustments			
8	Intangible assets	(0.2)	(0.3)
28	**Total regulatory adjustments to CET1**	**(0.2)**	**(0.3)**
29	**Common Equity Tier 1 Capital**	**37.0**	**35.1**
45	**Total Tier 1 Capital**	**37.0**	**35.1**
Tier 2 Capital			
50	Credit risk adjustment – Collective provision	0.7	0.6
51	**Tier 2 Capital before regulatory adjustments**	**0.7**	**0.6**
58	**Total Tier 2 Capital**	**0.7**	**0.6**
Total Capital			
59	**Total Capital**	**37.7**	**35.7**
60	**Total Risk Weighted Assets (RWA)**	**205.2**	**192.1**
Capital Ratios and Buffers			
61	**Common equity tier 1 ratio (as a % of RWA)**	**18.01%**	**18.27%**
62	**Tier 1 ratio (as a % of RWA)**	**18.01%**	**18.27%**
63	**Total capital (as a % of RWA)**	**18.36%**	**18.58%**
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.***	**9.00%**	**8.00%**
65	of which: capital conservation buffer requirement	2.50%	2.50%
66	of which: countercyclical buffer requirement	2.00%	1.00%
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)**	**18.01%**	**18.27%**

Note: These references refer to Annex VII of the CRR PRA Rulebook.

* This row shows the CET1 ratio below which the Society becomes subject to constraints on distributions. However, the constraint is not relevant to the Society as it does not have equity shareholders to whom it distributes dividends.

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:

	2023 £m	2022 £m
General Reserves	37.2	35.4
Intangible Assets	(0.2)	(0.3)
Collective Impairment Allowance	0.7	0.6
Total Capital Resources	**37.7**	**35.7**

TIER 1 CAPITAL: the general reserves – cumulative, externally verified, accounting profits together with adjustments made for intangible assets and 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 £333k) are not allowable as Tier 2 capital.

The Society does not hold any alternative tier 1 instruments. Nor does it 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 five year period (the 3 year corporate plan is extended by 2 years for the purpose of assessing capital adequacy). 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 five 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 risk category, calculated under the 'standardised approach', as at 31 December 2023.

Template UK OV1 – Overview of risk weighted exposure amounts

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		2023 £m	2022 £m	2023 £m
1	**Credit risk (excluding CCR)**	**184.9**	**174.6**	**14.8**
2	Of which the standardised approach	184.9	174.6	14.8
3	Of which the foundation IRB (FIRB) approach	-	-	-
4	Of which slotting approach	-	-	-
UK 4a	Of which equities under the simple riskweighted approach	-	-	-
5	Of which the advanced IRB (AIRB) approach	-	-	-
6	**Counterparty credit risk – CCR**	**0.1**	**0.1**	**0.0**
7	Of which the standardised approach	-	-	-
8	Of which internal model method (IMM)	-	-	-
UK 8a	Of which exposures to a CCP	-	-	-
UK 8b	Of which credit valuation adjustment – CVA	0.1	0.1	0.0
9	Of which other CCR	-	-	-
15	Settlement risk	-	-	-
22a	Large exposures	-	-	-
23	**Operational risk**	**20.2**	**17.4**	**1.6**
UK 23a	Of which basic indicator approach	20.2	17.4	1.6
UK 23b	Of which standardised approach	-	-	-
UK 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	-	-	-
29	**Total**	**205.2**	**192.1**	**16.4**

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 2023	UK 2022
Central Bank	91,883	64,912
Institutions	10,182	18,859
Secured by mortgages on immovable property – Residential	404,335	388,251
Secured by mortgages on immovable property – Commercial	-	-
Retail	5,454	2,361
Exposures in default – Residential	9,493	6,786
Exposures in default – Commercial	-	421
Other items	4,446	3,899
TOTAL	**525,793**	**485,488**

Note: These figures are shown gross of collective impairment provision of £0.7m (2022: £0.6m)
Note : Included within the above figures for credit exposures secured on immovable residential property is £10,877k (2022: £8,823k) relating to development finance loans, where the property being built is residential. These loans are assigned a 150% risk weighting in the calculation of Pillar 1 capital requirements.

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. The Credit Committee also review the book to identify where there are idiosyncratic risks, which could lead to a customer not repaying their mortgage. This review aims to capture impairments that may not yet have led to the customer being in arrears. Such risks could exist, for example, if a customer has let us know that they are experiencing difficulties, or if we are aware that a Shared Ownership customer is in rent arrears. Having identified these risk factors, the committee recommends adjustments to the likelihood of non-payment and the property value were the Society to need to take it in to possession. These adjustments are reviewed by the Audit and Compliance Committee.

A further collective provision is made to cover losses which are likely to have been incurred, based on management's experience. 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 2023. For capital adequacy purposes, collective impairment allowances are regarded as Tier 2 capital.

Full details of the movements in impaired loans are provided in note 28 to the Report and Accounts 2023.

CREDIT RISK AND PROVISIONS (CONTINUED)

A residual maturity analysis of loans and advances to customers is provided in note 12 to the Report and Accounts 2023 (shown net of provisions but including FRS102 adjustments), 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 gross of impairment provision and excluding any FRS102 adjustments:

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	17.6	54.3	348.1	**420.0**

A loan to value analysis is shown in note 28 to the Report and Accounts 2023 which highlights the security level that the Society holds against the loans made.

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 2023. 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-	86.9	0.0	-	86.9	0.0
A+ to A-	6.1	0.0	-	6.1	1.6
Unrated Counterparties	1.0	1.0	-	2.0	0.7
Total	**94.0**	**1.0**	**0.0**	**95.0**	**2.3**

Exposures to unrated counterparties are restricted to unrated UK building societies and local authorities.

The Society has no exposure to equities and no assets subject to securitisation. At 31 December 2023, 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).

CREDIT RISK AND PROVISIONS (CONTINUED)

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 is a small and non-complex institution and 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	-	128.2	10.3

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.

MALCO is 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.

Template UK LIQ1 – Quantitative information of LCR

		Quarter Ending 31 March 2023 £m	Quarter Ending 30 June 2023 £m	Quarter Ending 30 Sept 2023 £m	Quarter Ending 31 Dec 2023 £m
Number of data points used in the calculation of averages		3	3	3	3
1	High Quality Liquid Assets	84.7	76.5	79.5	86.6
22	Total Net Cash Outflows	27.2	27.4	26.3	26.3
23	Liquidity Coverage Ratio %	311%	279%	303%	330%

The (non-averaged) LCR at 31 December 2023 was 336% (31 December 2022: 221%).

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 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 (the Risk Department), 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 is performed. Any resultant changes in processes, or training needed, will be recommended for consideration to the business.

A Business Continuity Plan (including disaster recovery processes) is in place to ensure that disruptions to the Society's business can be appropriately managed. The Society has also prepared an Operational Resilience Plan which identifies its Important Business Services and tolerance levels regarding disruption of these.

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	2023	2022
Three Years Prior	9,259	7,997
Two Years Prior	10,562	9,259
Prior Year	12,480	10,562
Basic Indicator (3 year Average)	10,767	9,273
Own funds requirement (15% Basic Indicator)	**1,615**	**1,390**

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 repricing 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 repricing 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 repricing 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 MALCO and Risk Committee. The risk appetite defined by the Risk Committee for interest rate risk was set at 4% of Capital (£1,420k) for 2023. 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-23	448	1,420

INTEREST RATE RISK (CONTINUED)

Basis risk is managed through the setting of a limit 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. In 2023, this limit was based on 10% of Net Interest Income (based on the forecast of the next 12 months net interest income from the Budget). Management review interest rate basis risk on a monthly basis.

9 COUNTRY BY COUNTRY REPORTING

The objective of country-by-country reporting 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 33 of the Report and Accounts 2023.

For the year ended 31 December 2023:

- The Society's principal activities are mortgage lending and the provision of savings accounts;
- The Society's turnover (defined as net interest receivable) was £13.2m (2022: £10.6m) and profit before tax was £2.41m (2022: £2.35m), all of which arose from UK based activity;
- The average number of Society full time equivalent employees was 112 (2022: 99), all of whom were employed in the UK;
- Corporation tax of £563k (2022: £630k) was paid in the year and is all within the UK tax jurisdiction; and
- No public subsidies were received in the year.

10 REMUNERATION POLICIES AND PRACTICES

The Board have established a Remuneration Committee, made up entirely of Non-Executive Directors that meets at least twice a year. 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; and
- aligned with effective risk management.

Where appropriate, specialist external search consultants are engaged (as was currently the case in the recruitment to replace Colin Bradley, a Non-Executive Director who plans to retire in 2024).

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 Society operates a performance management process, which involves the setting of objectives at the start of the year which are aligned to the strategic objectives. This process also sets expectations around competencies which align to the Society's values. All managers conduct an annual personal development review with their colleagues which involves an assessment of whether these objectives and expectations have been met. Payment of any variable remuneration is contingent on a satisfactory performance as measured by this process.

The Remuneration Committee ensures remuneration levels and bonus schemes align with and support the delivery of the Corporate plan, including its business objectives, and that they align with the values and long term interest of the Society.

REMUNERATION POLICIES AND PRACTICES (CONTINUED)

The Remuneration Committee have reviewed the Society's remuneration policy during 2023, to ensure that there are satisfactory risk mitigations in place such that the remuneration, variable pay and sales incentive schemes in operation within the Society are not seen to encourage inappropriate risk taking, whilst also improving the policy to consider how the Society's approach meets the principles and requirements of the Remuneration code that applies to dual-regulated firms.

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 Finance Director, are Board Directors), other members of the Senior Management Team and those involved in the direct selling of mortgages.

Employees within internal control functions are subject to the same remuneration and rewards as all other colleagues. Any rewards are based on a broad set of target measures and are not directly linked to the performance of a single area of responsibility. The level of variable pay is subject to maximum levels and are not seen as excessive. Nor are they likely to compromise the independent judgement exercised by these staff.

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.

The Society does not have anybody with a remuneration of more than EUR 1m.

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 2023.

During 2023, the Chief Executive and 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 Board specified key performance indicators and personal objectives which include risk management objectives. Performance is based on a one year period with 50% of the payment being deferred equally over the following two years. The deferred payment is subject to additional medium term performance objectives. Payment is not guaranteed and the maximum bonus is 20% of basic salary.

Benefits accrued under this scheme were 12% of salary for the year 2023.

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 2023 is detailed below (MB refers to the Management Body, which is the Society's Board):

Template UK REM1 – Remuneration awarded for the financial year

			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	6	2	4	8
2		Total fixed remuneration	193,184	387,812	473,396	390,816
3		Of which: cash-based	193,184	381,462	459,803	383,607
7		Of which: other forms		6,350	13,593	7,209
9	Variable remuneration	Number of identified staff	6	2	4	8
10		Total variable remuneration	-	37,684	47,028	27,092
11		Of which: cash-based	-	37,684	47,028	27,092
12		Of which: deferred	-	17,592	22,764	11,633
15		Of which: other forms	-	-	-	-
16		Of which: deferred	-	-	-	-
17	**Total remuneration (2 + 10)**		**193,184**	**425,496**	**520,424**	**417,908**

Template UK REM3 – Deferred Remuneration

	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1	MB Supervisory function	-	-	-	-	-
2	Cash-based	-	-	-	-	-
7	MB Management function	71,538	50,150	21,388	50,150	21,388
8	Cash-based	71,538	50,150	21,388	50,150	21,388
13	Other senior management	62,775	44,100	18,675	44,100	18,675
14	Cash-based	62,775	44,100	18,675	44,100	18,675
19	Other identified staff	26,983	18,301	8,682	18,301	8,682
20	Cash-based	26,983	18,301	8,682	18,301	8,682
25	Total amount	161,296	112,551	48,745	112,551	48,745

No adjustments have been made during 2023 relating to deferred remuneration that was due to vest in the financial year, deferred remuneration that was due to vest in future performance years or changes of value of deferred remuneration due to the changes of prices of instruments.

REMUNERATION POLICIES AND PRACTICES (CONTINUED)

Template UK REM5 –Information on remuneration of staff whose professional activites have a material impact on institutions' risk profile (identified staff)

		Management body remuneration			Business areas						Total
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	
1	Total number of identified staff										20
2	Of which: members of the MB	6	2	8							
3	Of which: other senior management				-	-	-	4	-	-	
4	Of which: other identified staff				-	-	-	3	-	5	
5	Total remuneration of identified staff	193,184	425,496	618,680	-	-	-	794,033	-	144,299	
6	Of which: variable remuneration	-	37,684	37,684	-	-	-	67,420	-	6,700	
7	Of which: fixed remuneration	193,184	387,812	580,996	-	-	-	726,613	-	137,599	

Staff shown within corporate functions comprise Executives and other managers who meet regularly as part of the Society's Executive committee meetings. Staff shown within All Other comprise all other roles that have a material impact on the institutions risk profile.

11 ATTESTATION

The Board confirms to the best of its knowledge that the disclosures provided according to the disclosure part of the PRA Rulebook (CRR) have been prepared in accordance with the internal control processes agreed upon at the management body level.

The Board declare that they are confident in the adequacy of the risk management arrangements of the Society.

Approved by The Mansfield Building Society Board and signed on its behalf by :

Daniel Jones
Finance Director
28th March 2024

12 CONCLUSIONS 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 Finance Director at:

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Regent Street
Mansfield
Nottinghamshire
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