Report and Accounts
2009

the mansfield building society

REPORT AND ACCOUNTS 2009

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CHIEF EXECUTIVE'S REVIEW OF THE YEAR

Introduction

I have pleasure in presenting my review for 2009 and I am proud to confirm at the outset that your Society remains financially sound, well managed and strongly placed to meet the challenges that will undoubtedly continue to confront us over the next few years.

Economy

We continue to operate in a market severely affected by the economic downturn. The symptoms and remedies of this situation include a historically low Bank of England Bank Rate, severe difficulties in the retail banking sector, rising unemployment, increased levels of property repossession and inflationary pressures that are starting to build. No financial organisation is immune from the effects of these powerful forces and your Society is no exception, although many years of prudent lending have put us in an enviable position compared to many.

The efforts of the Government to stimulate the economy continue with £200bn having been injected into the system through the Quantitative Easing programme. It is hoped that this, coupled with the very low Bank of England Bank Rate, will shorten the time the country spends in recession and help many small and medium sized enterprises to survive. Clearly these interventions have costs attached to them and the low interest rate environment has been particularly damaging to financial organisations and investors alike. A substantial proportion of many institutions' income has been wiped away as market interest rates have sunk to current levels making earnings on liquidity a fraction of that previously received. We are all bearing this pain in the hope of better things in the future.

The green shoots that have been heralded for some time by various commentators still appear to be weak and fragile and it may be some time before we return to an economy that we can recognise as normal.

Housing market

The increasing threat of unemployment, economic concerns and the relative shortage of mortgage funding have depressed the housing market during 2009 and it is only in the last few months that any real signs of a recovery have become evident. The Nationwide Building Society House Price Index has now risen for several consecutive months although the recovery looks uncertain and may fall back as concerns over security of employment develop over early 2010.

The Society has faired relatively well in the mortgage market during the year with well-priced products attracting high quality residential business. We have not strayed away from our prudent habits developed over many years. As you will see in our Directors' Report we completed almost £36m of mortgage business during the year. This is a reduction on our normal volumes but we believe this still represents a good performance. We have been open for mortgage business throughout the year.

Strength of the sector

The financial sector has been in turmoil for a number of years and for the whole of 2009. The banking sector has needed major support from the Government with at least one bank becoming state controlled and others in which the state now has a large interest. All of the remaining converted banks that used to be building societies have lost their independence by subsequently being acquired by other clearing banks. A small number of building societies have merged with larger organisations to properly protect their investors whilst one was recapitalised.

All of this has been very disappointing and distracting for building societies like The Mansfield that have stuck to the traditional business model. Although profits are reduced this year, we have the capital strength and quality of mortgage book to be confident about the future. We remain strong and committed to the traditional values that have served us so well.

Financial Services Compensation Scheme

We remain members of the Financial Services Compensation Scheme which is compulsory for all banks and building societies.

We reported in the 2008 Report and Accounts that our liability in respect of our share of the interest on the Government loan to the FSCS was £470,000. As a result of clarification from the Financial Services Authority (FSA) the accounting treatment for charges arising from the FSCS has subsequently been changed, although the estimate of likely ultimate costs has remained relatively static. This change in accounting treatment has resulted in the part reversal of amounts previously charged. It remains likely that we will be required to pay additional charges resulting from our membership of the scheme as the capital losses from failed organisations materialise and we cannot exclude the possibility of further organisational failures. It is likely that costs or claims relating to the FSCS will be with us for a number of years. Further details can be found in note 19 to the Accounts.

Interest rates

When responding to three consecutive reductions in Bank of England Bank Rate in early 2009, we endeavoured to balance the hopes and expectations of borrowers with those of savers. This included managing our profitability down from its normal levels by not applying the full reductions to our investment rates in this low interest rate environment.

This approach has had a significant impact on our profitability. If we had reduced our investment rates by the full amount it would have had a major impact on our pre-tax profits. However, we believe it is inappropriate to maximise profits in times when everyone is feeling the strain of the economic conditions.

Regrettably, and despite out best efforts to balance expectations, we took the difficult decision to increase our standard variable mortgage rate from 5.24% to 5.59% with effect from January 2010. This decision was not taken lightly but events in the economy, over which we have no control, left us with no alternative. These events included having to compete for mortgage and savings business with those financial institutions subsidised by taxpayers. A recent additional cost that we have also had to factor into our calculations is the requirement to comply with the FSA's tighter regulatory requirements, introduced as a direct consequence of the financial crises.

If interest rates begin to rise is 2010, as some economists are predicting, we will take this increase into account when we discuss any future changes to the standard variable mortgage rate.

Financial performance

This has been a difficult year with heavy competition from the banking sector for retail investments. On occasions this competition pushed up rates beyond the point where it was economic for the Mansfield to compete. We have, however, competed sensibly for business when it has been needed. The long term impact on those organisations uneconomically competing for retail balances cannot be underestimated.

Additionally we have allowed our balance sheet to shrink slightly over the year as the ferocious demand by banks for high quality mortgage business has attracted borrowers away from us. The quality of our mortgage book has encouraged this. A benefit of this has been that we have been able to repay some wholesale funding and end the year with balances owed of only £21m. Our mortgage book is wholly funded from retail balances.

The Society has responded to the difficult trading circumstances by cutting its costs accordingly. We have reduced administrative expenses by approximately £300,000 during 2009 when compared to 2008. This has been done by managing down staff numbers and careful cost control.

I am pleased that your Society is reporting sensible levels of profit and is planning for a successful and long future from a strong base.

Arrears and possessions

The Society readily adopted the new protocols on arrears management as promoted by the Council for Mortgage Lenders. Our experienced staff closely and sympathetically monitor arrears cases and do all they can to help those borrowers that are struggling financially. The number of cases in arrears has remained reasonably static throughout the year, which in these difficult times is a great achievement and testament to the service we provide and the quality of our lending. I am pleased to say that during 2009 we only repossessed one property.

Business awards

During the year your Society received a prestigious award from highly respected industry magazine What Mortgage. We were awarded the prize of **Best Local Building Society** by a panel of judges made up of national intermediaries and data companies and some of the leading personal finance journalists in the country. To complement this we were also awarded second prize by Mortgage Finance Gazette in the same Best Local Building Society category. It goes without saying that we are delighted with these successes and will do all that we can to maintain the high standards that made the awards possible.

MB Simply Mortgages Ltd

We have continued to develop our whole of market mortgage broking subsidiary which has already established a number of important and substantial affinity relationships. Although this year has been difficult for the subsidiary we are confident that it will perform very well for the Mansfield Group in the future.

Business relations

Our relationship with R A Cowen and Partners (Financial Services) Limited has added whole of market independent financial advice to the list of services offered and provided to our members.

During the year the Society established a partnership with South Yorkshire Housing Association providing mortgages on a Shared Ownership basis. We did this to help local potential first-time buyers and key workers to achieve their home ownership ambitions which are central to the traditional mutual ethic. We are very pleased to have entered this market with a strong reputable provider and received acclaim from a number of influential groups, even appearing on national television and radio.

Communications with members

Two member forums were held during the year. These events provide excellent feedback for the management of the Society and a number of suggestions made by the forum members have been adopted.

Members are encouraged to take part in the forum and anyone wishing to participate in future meetings should let me know.

Making a difference in the community

As part of our commitment to local communities, provision has been made for any member of staff to spend two days per year working for charitable organisations. During the year a number of staff used this facility to good effect and for the benefit of local worthwhile causes. This initiative has reciprocal advantages because it also helps in the personal development of staff which ultimately benefits the Society and its members.

In addition, through our Community Support Scheme, we provided financial assistance to various organisations throughout our main operating area, supporting activities designed to improve the quality of life.

Conclusion

In 2009 we experienced a further deterioration in domestic and global economic activity. We have tried to manage our responses to this fairly and in the interests of the Society and its members. It is clear that more challenges are likely for some or all of 2010 and we will continue to respond to events in a fair and balanced way, taking into account the interests of all stakeholders.

Your Board and Management Team are committed to the Society retaining its independence and have plans and aspirations for the future of the Society that will ensure this happens. Thank you for your continued loyalty and support.

Nigel Quinton
Chief Executive

18 March 2010

SIGNIFICANT STATISTICS

The following statistics present the results of the past year in greater detail than is provided in the formal accounts.

	2009	2008	2007
Loans and Advances (Society only)			
Total loans and advances at 31 Dec	**£208.1m**	£221.5m	£222.9m
Mortgage applications accepted	**£60.3m**	£45.1m	£76.7m
Mortgage advances completed – value	**£35.9m**	£45.0m	£61.5m
Mortgage advances completed – number	**402**	586	686
Mortgage offers not completed at year end	**£3.7m**	£1.0m	£13.4m
Proportion of lending secured on residential owner-occupied property	**98%**	98%	98%
Shares (Society only)			
Total share balances at 31 Dec	**£231.3m**	£231.0m	£218.6m
Net retail inflow in the year	**£0.3m**	£12.4m	£20.9m
Other Deposits (Society only)			
Total deposit balances at 31 Dec	**£22.7m**	£45.1m	£48.0m
Ratio of deposit balances to total shares and deposit balances (funding limit)	**8.97%**	16.33%	18.01%
Liquid Assets (Group)			
Liquid funds at 31 Dec	**£63.9m**	£72.6m	£61.1m
Ratio of liquid funds to shares and deposits	**25.16%**	26.31%	22.93%
Assets (Group)			
Total assets at 31 Dec	**£273.7m**	£295.9m	£286.1m
(Reduction)/growth in total assets	**(£22.2m)**	£9.8m	£30.5m
(Decrease)/increase in year	**(7.5%)**	3.4%	11.9%
Profitability			
Profit before tax – Group (after FSCS levy)	**£0.35m**	£0.21m	£0.75m
Profit before tax – Society (after FSCS levy)	**£0.38m**	£0.27m	£0.75m
Profit before tax – Group (before FSCS levy)	**£0.23m**	£0.68m	£0.75m
Profit before tax – Society (before FSCS levy)	**£0.25m**	£0.74m	£0.75m
Expressed as a percentage of average total assets for the year:			
– Net interest margin – Group	**0.82%**	1.13%	1.17%
– Total administrative expenses – Group	**0.89%**	0.97%	0.99%
– Group profit before tax (after FSCS levy)	**0.12%**	0.07%	0.28%
– Group profit after tax (after FSCS levy)	**0.09%**	0.05%	0.20%
– Group profit before tax (before FSCS levy)	**0.08%**	0.23%	0.28%
– Group profit after tax (before FSCS levy)	**0.06%**	0.17%	0.20%
Capital (Group)			
Gross capital ratio	**7.25%**	6.70%	6.97%
Free capital ratio	**6.82%**	6.30%	6.49%

DIRECTORS' REPORT

The Directors are pleased to present their annual report together with the Group accounts and annual business statement for the year ended 31 December 2009.

Business objectives

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

The principal business objective of the Society's subsidiary company, MB Simply Mortgages Ltd, is to provide comprehensive mortgage advice to members and customers of the Society where the Society does not offer a suitable product, or the potential borrower does not meet the Society's underwriting criteria. In addition, MB Simply Mortgages Ltd offer advice on a range of insurance protection products.

Business review

The Chief Executive's Review of the Year on pages 1 to 3 should be read in conjunction with this business review.

Throughout 2009 we operated in a market severely affected by the economic downturn and the longest recession in recent history. We were presented with unique challenges in terms of retaining and attracting new mortgage and savings balances. Government support for failing financial institutions continued. The Government maintains that it had little choice other than to act in the manner it did, but it is already clear the financial burden for what has happened will be borne for years to come with uncertain consequences for taxpayers and the economy in general.

One particularly negative aspect, that arose from extensive media coverage about failing institutions, was the unwelcome blurring of the distinction between banks and building societies. In addition to the bank bail-outs, we acknowledge that 2009 saw the demise of a small number of building societies through mergers and consolidations. Nevertheless, it was misleading and unhelpful to hear banks in urgent need of Government assistance regularly referred to in the media as "building societies" when in fact they converted from building societies to banks many years ago. The net effect of this is that the media gives the false impression that there is little difference between banks and building societies. For our part we work hard to demonstrate the benefits of mutuality and all decisions are made in the overall best interests of our members.

Some of the financial institutions that required Government assistance introduced market leading mortgage and savings products despite assurances that this would not happen. This practice continues to create an uneven playing field and we question the fairness of this approach when we have to compete for the same business in an already depleted market on an unsubsidised basis.

It was inevitable that the demand for mortgages reduced as recessionary pressures continued to bite. Increasing uncertainty about work prospects, job security and future incomes curtailed house purchase activity. We responded to this lacklustre demand by changing our expectations in terms of attracting new borrowers but we continued to market a competitive portfolio of products, some of which attracted positive media comment at a national level.

On the savings front, low interest rates added to the financial pressures felt by savers, particularly those who previously relied on investment interest to supplement income and maintain living standards. It is understandable that some chose to reduce outgoings by using savings balances and accumulated interest to repay personal borrowings.

In this low interest rate environment savers can also be tempted to pursue alternative investment strategies in search of higher returns. Whilst we are sympathetic to the effect that lower interest rates are having, we maintain that safety and security of funds are just as important as ever in this uncertain economic climate and should remain a top priority. Throughout the year we worked hard to minimise the impact on savers by holding our rates as high as possible and maintaining minimum profit levels.

We consolidated branch activities by closing our Queen Street, Mansfield branch as part of a network review, and at the end of the lease agreement. The branch was situated close to our Principal Office in the centre of Mansfield and the limited office space and lack of private interview facilities compromised branch operations. The small number of staff affected by the closure relocated to other branches.

We continue to monitor and reduce costs wherever potential savings are identified but not at the expense of compromising our customer care programme. Individual personal service remains at the heart of what we do. The very positive feedback in customer questionnaires and at our member forums confirms that this aspect of our business is valued and appreciated by existing and new customers. With banks and building societies and new entrants to the financial markets all vying for the same business, we will continue to invest in this critical area to differentiate ourselves from much of the competition.

We were rewarded for our efforts by receiving national recognition. This included being voted "best local building society" for 2009 by respected industry publication What Mortgage magazine and in the same category we were runners-up in Mortgage Finance Gazette's 2009 awards. We were also nominated in the annual Moneyfacts awards in the "best no notice savings account" category and one of our fixed rate mortgage products featured in Moneyfacts as "mortgage product of the month".

At the beginning of September we entered the shared ownership market in partnership with South Yorkshire Housing Association who are also active in our main operating area and are a major player in providing sustainable and affordable housing. We did this to help potential first-time buyers and key workers to achieve their home ownership ambitions.

On the technology front, we introduced an enhanced on-line facility under the banner of "clickmansfield", enabling mortgage applicants to generate a key facts illustration and complete a mortgage application. This facility was extended to the professional mortgage intermediary market later in the year.

Assets

Total assets reduced by 7.5% compared with the year ended 31 December 2008. This arose largely from the reduction in residential mortgage balances as borrowers used investment balances to repay personal debt in the low interest rate environment.

Liquidity and Funding

Liquid assets in the form of cash in hand and deposits with credit institutions were £63.9m representing 25.16% of shares and borrowings as at 31 December 2009. This is lower than the £72.6m and 26.31% reported at 31 December 2008 and reflects the repayment of £22m of wholesale funding during the year. As a result of this repayment, the proportion of funding from wholesale sources reduced from 16.33% of shares and borrowings at 31 December 2008 to 8.97% at 31 December 2009.

Capital

At 31 December 2009 gross capital amounted to £18.4m, being 7.25% of total shares and borrowings. Free capital amounted to £17.3m being 6.82% of total shares and borrowings.

Gross capital represents the general reserve together with the revaluation reserve as shown in the balance sheet. Free capital represents gross capital and general provisions for bad and doubtful debts less tangible fixed assets as shown in the balance sheet.

The reduction in total assets contributed to an improvement in reported levels of gross and free capital. The increase in capital also reflects increased retained profits, stated after the effects of all required FSCS levy amounts and a reduction in respect of the Society's defined benefit pension scheme.

Profitability

Interest receivable was significantly reduced in 2009 following dramatic falls in inter-bank interest rates. As a result, the profitability of the Society, excluding the effects of entries made in respect of the Financial Services Compensation Scheme, is lower than that reported in previous years (post tax profit 2009: £178,000, 2008: £528,000, 2007: £533,000). This reflects the balanced way that the Society has approached margin management for borrowing and savings members, operating with minimal profit levels throughout the year. The high quality nature of the Society's liquid investments has also resulted in reduced returns from these assets, acting as a further drag on profitability.

The Group profit after taxation includes losses from MB Simply Mortgages which, in 2008, included the costs of establishing the subsidiary and its first year's trading performance. In 2009, whilst operating conditions continue to be challenging, MB Simply Mortgages has improved its financial performance and is well placed to deliver further improvements in its trading performance in 2010.

Cost efficiency

Board actions to contain costs in 2009 contributed to an improvement in the management expenses ratio (total management expenses, expressed as a percentage of the mean total assets) to 0.88% (2008: 0.95%). The equivalent ratio for the Group is 0.89%, compared with 0.97% for the year ended 31 December 2008, which incorporated the set up and first period of trading for MB Simply Mortgages Ltd. All cost savings have been made without compromising the quality of service to our members.

Business volumes

Loans and advances

Despite substantially lower demand for mortgages throughout 2009, the Society managed to complete on 402 new residential mortgages during the year. Total lending including further advances was £35.9m (2008: £45.0m). Advances secured on residential owner-occupied property represented 100% of the total lending (2008: 100%). At 31 December 2009 there were five mortgage cases where repayments were twelve months or more in arrears (2008: two), the amount of those arrears being £27,303 (2008: £8,178) and the mortgage balances £304,105 (2008: £93,043).

Savings and investments

Investing members' share balances increased by £0.3m. This represents a rate of growth lower than those previously reported as the Society, along with many others in the sector, was adversely impacted by the competitive landscape referred to above, with the Society unwilling to compete for deposit balances at unsustainable rates of interest. The Society has offered a range of competitive variable and fixed rate branch based and postal savings accounts throughout the year and, at times, appeared in national best buy tables, which has helped mitigate outflows.

Key performance indicators

Various key performance indicators are used to measure and monitor periodic progress. In previous years we have focused on growth, profitability and costs of running the Group and Society. However, in 2008, the Board approved a reduction in asset growth and an increase in the overall liquidity of the business and implemented a plan to reduce wholesale funding to more modest levels. Accordingly, in 2009 the KPIs were amended to include profitability, costs of running the Group and Society and the liquidity ratio.

Return against mean assets shows the relative profitability of the year's activity and facilitates a year on year comparison of our performance.

Management expenses ratio is a measure of the Group's efficiency and its ability to offer consistently good rates to its borrowing and savings members. It is reported as total management expenses, expressed as a percentage of the mean total assets.

Liquidity ratio shows the total cash in hand, loans and advances to credit institutions and liquid assets as a percentage of total shares and borrowings. This shows the relative amount of cash that the Group carries and its ability to meet payments when due.

Total assets – Group	**2009** **£273.7m**	2008 £295.9m	2007 £286.1m
Return against mean assets			
– Group (exc FSCS levy)	**0.06%**	0.17%	0.20%
– Society (exc FSCS levy)	**0.06%**	0.18%	0.20%
Return against mean assets			
– Group (inc FSCS levy)	**0.09%**	0.05%	0.20%
– Society (inc FSCS levy)	**0.10%**	0.07%	0.20%
Management expenses ratio			
– Group	**0.89%**	0.97%	0.99%
– Society	**0.88%**	0.95%	0.99%
Group liquidity			
– Total liquid funds at 31 December	**£63.9m**	£72.6m	£61.1m
– Ratio of liquid funds to shares and deposits	**25.16%**	26.31%	22.93%

Cost containment and improved efficiency have led to a satisfactory reduction in the management expenses ratio for 2009.

In response to the continuing funding pressures generated by the market conditions, the Board decided that the Society should continue to operate with increased relative liquidity holdings. This strategy had an impact on profitability during 2009 and will continue to do so in 2010, but the Board continues to believe this remains a prudent approach, providing a buffer against unforeseen cash requirements and demonstrating the stability and security of the Society to members and stakeholders. During 2009, the Society experienced a small increase in retail funding of £0.3m as it chose not to compete for retail funds at certain points in the year and continued with its programme of wholesale funding reduction, repaying an additional £22.3m. Deposit funding also reduced by £0.1m. At 31 December 2009, wholesale and deposit funding amounted to £22.7m (2008: £45.1m).

Further comments on asset growth and profitability are included earlier in the business review section.

Capital and Basel II

The Society has developed its processes and procedures to comply with the requirements of the FSA's Capital Requirements Directive (CRD). The CRD requires The Mansfield Building Society to conduct an assessment of the adequacy of its capital and resources, known as the Internal Capital Adequacy Assessment Process (ICAAP). The Board has had an approved ICAAP from 1 January 2008 and receives updates quarterly. Details of how to obtain a copy of The Mansfield Building Society's Pillar 3 disclosures under Basel II can be found on our website, www.mansfieldbs.co.uk under "Corporate information".

Post balance sheet events

The Directors consider there have been no events, since 31 December 2009, that have had a material effect on the financial position of the Society.

Creditor payment policy

The Society's continuing policy concerning the payment of its trade creditors is to pay within the agreed term of credit, once the contractual obligations of the supplier have been discharged. Amounts due to creditors as at 31

December 2009 represented 13 days (2008: 8 days). The Society does not follow a formal code or standard on payment practice.

Principal risks and uncertainties

The Mansfield Building Society endeavours to conduct its business in a risk-averse way. Investor protection and member interests are paramount. The principal business risks to which the Society is exposed are considered to be:

- Credit risk, which arises primarily from mortgage loans but also as a result of the Society's investments as part of its treasury activities;
- Market risk, which incorporates the loss of income as a result of changes to interest rates;
- Liquidity risk, which concerns the Society's ability to meet its financial obligations as they fall due as a result of imbalances in the cash flow of its activities;
- Operational risk, which is associated with the Society's internal processes and systems and the potential for these not to function properly; and
- Potential loss of consumer confidence in financial institutions generally in the wake of banking difficulties.

The identification, control and monitoring of business and environmental risks remains a management priority. Through continuous assessment of risk management procedures, steps are taken to mitigate such risks. In particular, with the increasing risks from external factors, management has reviewed and further developed the Society's business continuity plans. As part of this ongoing review process a number of detailed tests have been carried out during 2009 using third party contingency arrangements.

The most significant uncertainties faced by the Society are considered to be:

- Economic risks including employment levels, the housing market and competitor activity; and
- The availability of appropriate levels of funding.

The Society keeps a significant proportion of all liquid assets on terms which allow immediate access to funds.

Financial risk management objectives and policies

The Group has a formal structure for managing risk, including procedures for identifying and measuring risks, establishing risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Assets, Liabilities and Planning Committee, which is charged with the responsibility for managing and controlling the balance sheet exposures and the use of financial instruments for risk management purposes. Full details regarding the risks and the financial instruments used by the Group are given in note 23 to the Accounts.

Environment

During the year the Society continued to take steps which limited its impact on the environment. The Society is committed to using environmentally friendly stationery and equipment, when its use is appropriate. The Society's policy on disposal also has regard to the environment, using appropriate methods of disposal for equipment and recycling, wherever possible.

Community involvement

Through our Community Support Scheme we provided financial assistance to various local organisations involved in sport, the arts, helping the elderly and the disadvantaged. We remain convinced that the benefits to the local community represent a worthwhile return on our investment.

We continued our Work In The Community Scheme where we actively encourage staff members to participate in local initiatives supporting the disadvantaged, promoting and encouraging sport or activities in the arts, supporting education and development or benefiting the environment. Staff members participating in the scheme are allowed 2 days per calendar year paid leave to undertake this voluntary work for the benefit of the community.

We remain enthusiastic members of Mansfield 2020, a local, long established business support and networking group, which works hard to promote the town and support local businesses.

During 2009 the Society contributed £600 (2008:£1,000) in the form of charitable donations. This included a donation to Macmillan Cancer Support raised from qualifying voting forms received in respect of the 2009 Annual General Meeting. Macmillan Cancer Support improves the lives of people affected by cancer. They are a source of support: providing practical, medical, emotional and financial help. They are a force for change: listening to people affected by cancer and working with them to change cancer care for the better. Our Sports & Social Committee worked hard throughout the year to raise additional funds for Macmillan Cancer Support.

Staff

All our staff worked hard in 2009 to satisfy our commitment towards individual personal service and I thank everyone for their dedication, hard work and commitment.

Auditors

Our auditors, KPMG Audit Plc, have expressed their willingness to continue in office and, in accordance with Section 77 of the Building Societies Act 1986, a resolution for the reappointment of KPMG Audit Plc as auditors is to be proposed at the Annual General Meeting.

Directors

The following persons were Directors of the Society during the year:

Non-Executive Directors
Nigel Carnall, BSc (Est Man) FRICS, FAAV *Chairman*
Nigel Tamplin, FCA *Deputy Chairman (and Chairman, Assets, Liabilities and Planning Committee)*
Simon Brister
Christine Morris, BA(Hons)
James Pinder, FBCO *Chairman, Nomination and Remuneration Committee*
Richard Smith, ACIB *Chairman, Audit, Compliance and Risk Committee*

Executive Directors
Nigel Quinton, FCCA *Chief Executive*
Darren Garner, FCCA *Finance Director and Secretary*

Simon Brister, Nigel Carnall and Nigel Tamplin retire by rotation in accordance with Rule 26 (retirement by rotation). Directors retiring under these Rules are eligible for re-election at the Annual General Meeting. James Pinder has served more than 9 years on the Board and would normally seek re-election but is to retire from the Board in 2010. The Society does not require any director to seek re-election when they are planning to retire in the same year.

At 31 December 2009, no Director held any interest in the shares or debentures of any connected undertaking.

Going concern

The directors have prepared forecasts of the Group's capital position, financial position and liquidity for the period ending twelve months from the date of approval of these financial statements. The directors have also prepared forecasts to consider the effect on the Group's business, financial position, capital and liquidity of operating under stressed, but plausible, operating conditions.

The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the annual accounts.

Future developments

No-one could have predicted the recent events in the financial markets, leading to interest rates at historic lows, uncertain economic outlook and low demand for residential mortgages. Only in time will we be in a position to truly judge or measure the lasting effects of this turbulent period. Throughout this period, whilst continuing to concentrate on providing an excellent service for the benefit of its members and the local community, the Society has also made progress with plans to develop its future products and service offerings, including for example, offset mortgages.

A number of regulatory changes also come into effect in 2010, including a new regime for the management of liquidity and a set of new regulations specific to the operations of building societies, both of which will result in additional costs to the Society. The Society will need to respond and adapt to satisfy these new requirements whilst at the same time continuing to invest in and develop the Society and its subsidiary undertaking, MB Simply Mortgages.

Conclusion

The year to 31 December 2009 has proved to be very challenging. Your Society has responded to this in a cautious and careful way, preparing for the future and maintaining service standards. We are confident that we are well placed to continue developing the Society for many years, delivering excellent service and products.

I thank you for your continued loyal support.

On behalf of the Board of Directors

Nigel Carnall
Chairman

18 March 2010

STATEMENT OF CORPORATE GOVERNANCE

Corporate Governance

The Board of Directors is committed to adopting best practice in corporate governance matters. This report explains how the Society applies the principles in the June 2008 revision of the Combined Code on Corporate Governance, as issued by the Financial Reporting Council. The Board considers that the Society complies with all relevant provisions of the Code unless the contrary is stated.

Board structure

At 31 December 2009 the Society's Board consisted of 6 non-executive directors (including the Chairman) and 2 executive directors who have the collective responsibility for ensuring that the affairs of the Society are managed competently and with integrity. The Board meets 11 times per year to determine and closely monitor the Society's business strategy. It also meets at least once a year for a detailed review of the Society's strategy.

Chairman and Chief Executive

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

Board balance and independence

The non-executive directors are independent in character and judgement and are not employees of the Society. Apart from the Chairman one non-executive director has served a term of office in excess of 9 years, however he will not be seeking re-election to the Board as he plans to retire in 2010. All directors bring a wealth of experience and diversity of business perspective and objectivity which complements the 'hands on' expertise of their executive director colleagues.

In line with the Combined Code on Corporate Governance, the Society's Board has appointed Nigel Tamplin as the Senior Independent Director. He is available to members if they have concerns, which contact through the normal channels of Chairman, Chief Executive or Secretary has failed to resolve, or for which such contact is inappropriate.

Performance evaluation

All directors are subject to individual annual performance and evaluation review. There is also an annual evaluation of the Board as a whole.

The Society has a formal performance evaluation system for all members of staff including the executive directors. The Chief Executive holds a performance review with the senior managers. The Chairman and Deputy Chairman review the Chief Executive's performance and report to the Board. A performance evaluation system for non-executive directors, including the Chairman, has been in place since 2004. In 2009 this took the format of questionnaires completed by each individual director. The Chairman and Deputy Chairman reviewed the output of all questionnaires and used these as a basis for an evaluation interview with each non-executive director. The Deputy Chairman, supported by the Chief Executive, undertook the evaluation interview for the Chairman. This procedure identifies any individual and Board training requirements and provides the evidence for the Board as to whether to recommend to members that a director should be re-elected.

In 2009 an internal performance evaluation process of the Board and its Committees was carried out in order to review the effectiveness of how the Board and the Board Committees operate. This was undertaken through a full review of the Terms of Reference and Standing Orders and by way of a further questionnaire which asked all directors and senior managers to appraise a range of factors relating to the make-up and operation of the Board. A similar process was undertaken by the members of each Board Committee. The results were reviewed by the Board and each Committee and any appropriate improvement was identified for action.

Appointments to the Board and re-election

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

The Society has a well developed process for recruiting non-executive directors. The Society takes expert external advice where necessary and advertises in appropriate regional publications. The search and selection process is supported with a clear experience and skill set definitions for each recruitment activity and involves the whole Board.

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

All directors must meet the test of fitness and propriety as laid down by the Financial Services Authority as 'Approved Persons' to fulfil their controlled functions as directors. The Society's Rules require all directors to submit themselves for election by the members at the first opportunity after their appointment and for re-election every 3 years. In addition, the Board has agreed that, to ensure full compliance with the Combined Code on Corporate Governance, as it relates to building societies, all directors except the Chairman, who have served on the Board for 9 years or more, are proposed for re-election each year, unless the Board succession plan shows that a director is to leave the Board within the next twelve months following the vote.

Committee terms of reference

The Board has 3 Committees, as detailed below, which assess proposals in detail and make recommendations to the full Board. The terms of reference for committees are available on request from the Society's Secretary. Proceedings of all committees are formally minuted and minutes are subsequently considered by the full Board.

Nomination and Remuneration Committee

This Committee meets 3 times each year and reviews Board constitution, skills, performance, succession plans and election of directors. The Committee is responsible for the remuneration policy for all directors of the Society and makes recommendations to the Board regarding remuneration and contractual arrangements.

Current Committee members are James Pinder (Chairman), Nigel Carnall and Nigel Tamplin. Meetings of the Committee are also attended by Nigel Quinton, Darren Garner and Maggie Smith (Mortgage and Personnel Executive), as appropriate, who withdraw from the meeting when their own remuneration is being considered, or on request.

Further information on the role of the Nomination and Remuneration Committee is included within the Director's Remuneration Report which starts on page 16.

Audit, Compliance and Risk Committee

This Committee meets quarterly and considers regulatory compliance matters, the adequacy of internal controls and evaluation of risks. It also reviews audit reports, monitors the relationship with both internal and external auditors and agrees the annual internal audit plan. The Committee also ensures that the systems of accounting, business control and management of information are adequate for the needs of the Group.

Current Committee members are Richard Smith (Chairman), Nigel Tamplin and Simon Brister. The meetings are also attended by representatives from Internal and External Audit, together with Nigel Quinton, Darren Garner, Julia Bushby (Compliance and Employee Development Executive and Money Laundering Reporting Officer) and other senior managers by invitation.

Assets, Liabilities and Planning Committee

This Committee meets quarterly and reviews all aspects of credit risk, lending, budgetary control, statutory and regulatory reporting. It reviews the Group's balance sheet, structural and counterparty risks and ensures that policies and business plans are agreed and monitored. It is responsible for the provision of a competitive range of products to our members and monitors business levels and any variances against objectives.

Committee members are Nigel Tamplin (Chairman), Nigel Carnall and Christine Morris. The meetings are also attended by Nigel Quinton, Darren Garner, Maggie Smith and Mike Taylor (Sales and Marketing Manager).

Information and professional development

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

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

All directors are entitled to seek independent professional advice at the Society's expense.

Internal control

The Board has delegated the responsibility for managing the system of internal control to senior management. The internal control system can provide only reasonable and not absolute assurance against material misstatement or loss. After considering applications from a number of suitably qualified firms, the Society's internal audit function was outsourced to PricewaterhouseCoopers, with effect from 1 January 2010, having previously been outsourced to Mutual One Ltd. The internal auditors provide independent assurance to the Board regarding the effectiveness of internal controls reporting through the Audit, Compliance and Risk Committee.

Relations with members

As a mutual organisation the Society has members rather than shareholders. The Society seeks the views of members in a variety of ways including questionnaires, member forums and newsletters.

Constructive use of the Annual General Meeting

Each year the Society sends details of the Annual General Meeting (AGM) to all members who are entitled to vote. Members are encouraged to vote by completing a proxy form and returning it to the Society by an agreed deadline or by attending the AGM itself, which is normally held in the early evening to encourage attendance. For the first time, for the convenience of members, we are introducing an on-line voting facility ahead of the 2010 AGM. For a number of years the Society has encouraged members to vote by linking the number of votes cast to a donation to a local charity. This year the Society will donate 15 pence per vote to the Staff Sports & Social Committee's nominated charity for 2010, Macmillan Cancer Support.

Board members are present at the AGM unless there are exceptional circumstances that prevent attendance. Board members are encouraged to meet with members both before and after the meeting and to answer questions on both a formal and informal basis.

Pension funds

The Society's 1978 Retirement & Death Benefit Scheme pension funds are held separately from the Society and are subject to professional management and administration under the control of the trustees. In particular, no scheme assets are invested in, or loaned to, the Society. There is strong employee trustee representation. The Scheme was closed to future accruals for all staff with effect from 28 February 2007.

A Group Personal Pension Plan is available for all staff. Details are documented in note 24 to the Accounts.

Attendance at board and committee meetings

The table below shows the number of meetings of the Board and its Committees at which each director was present and, in brackets, the number of meetings that director was eligible, as a member of the Board or Committee, to attend during the year.

	Board	Audit, Compliance and Risk Committee	Assets, Liabilities and Planning Committee	Nomination and Remuneration Committee
Non-executive directors				
Nigel Carnall (Chairman)	11 [11]	4 [4]	4 [4]	3 [3]
Nigel Tamplin (Deputy Chairman)	11 [11]	4 [4]	4 [4]	3 [3]
Simon Brister	11 [11]	4 [4]	*	*
Christine Morris	11 [11]	*	4 [4]	*
James Pinder	11 [11]	4 [4]	2 [2]	3 [3]
Richard Smith	11 [11]	4 [4]	*	*
Executive directors				
Nigel Quinton	11 [11]	*	4 [4]	*
Darren Garner	11 [11]	*	4 [4]	*

Chairman and Deputy Chairman are ex officio at those committees where they are not direct members.

* Denotes not a member of the Committee.

On behalf of the Board of Directors

Nigel Carnall
Chairman

18 March 2010

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

The purpose of this report is to inform members of The Mansfield Building Society about our policy on the remuneration of executive and non-executive directors. It also voluntarily addresses the statutory disclosure requirements for listed companies in providing such information to members.

A resolution will again be put to the Annual General Meeting, inviting members to vote on the Directors' Remuneration Report. The vote is advisory, and the Board will consider what action is required.

The Nomination and Remuneration Committee

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

James Pinder (*Chairman of Nomination and Remuneration Committee*)
Nigel Carnall (*Chairman of the Board of the Society*)
Nigel Tamplin (*Deputy Chairman and Chairman of the Assets, Liabilities and Planning Committee*)

Meetings of the Committee are also attended by Nigel Quinton, Darren Garner and Maggie Smith, as appropriate, who withdraw from the meeting when their own remuneration is being considered or on request.

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

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

Policy for executive directors:

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

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

Bonus – which is non-pensionable, performance related cash bonus payable on achievement of Board specified key performance indicators. Performance bonuses are reviewed annually, are not guaranteed and are generally a small percentage of basic salary.

No bonus will be declared or paid in respect of the results for the year ended 31 December 2009.

Pensions – a Group Personal Pension Plan which is available for all group staff.

Other benefits – notably the provision of a Society car to each executive director (or an equivalent allowance) and private medical insurance. Benefits are reviewed annually by the Nomination and Remuneration Committee.

Service contracts

The Chief Executive has a service contract with the Society dated 24 June 2008. The Chief Executive's notice period to the Society is nine months. The Society's notice period to the Chief Executive is twelve months.

The Finance Director and Secretary has a service contract dated 25 June 2008 which can be terminated by either party giving to the other six month's notice in writing.

Contracts are reviewed annually at the end of each completed year.

Policy for non-executive directors

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

Non-executive directors serve under letters of appointment following election by the Society's membership.

Directors' remuneration

Details of directors' emoluments for the financial year ended 31 December 2009 are shown below and further details are given in note 7 to the Accounts.

	2009 TOTAL £'000	2008 TOTAL £'000
Non-executive directors' fees	**107**	111
Executive directors' remuneration	**232**	230
Total	**339**	341

Non-executive directors' fees

	2009 TOTAL £'000	2008 TOTAL £'000
Nigel Carnall (Chairman)	**26**	25
Nigel Tamplin (Deputy Chairman from 18/05/09)	**19**	15
Simon Brister	**15**	15
Charles Dawson (retired 08/05/08)	**–**	6
Christine Morris	**15**	15
James Pinder (Deputy Chairman to 18/05/09)	**17**	20
Richard Smith	**15**	15
Total	**107**	111

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)

Executive directors	Fees	Salary	Bonus[4]	Benefits	Pension contributions	**2009 TOTAL**
Nigel Quinton	8	102	4	12	7	**133**
Darren Garner	8	77	1	9	4	**99**
Total	16	179	5	21	11	**232**

Executive directors	Fees	Salary	Bonus	Benefits	Pension contributions	2008 TOTAL
David Fisher [1]	5	64	–	5	5	79
Nigel Quinton[2]	7	87	1	9	6	110
Darren Garner[3]	3	29	–	9	–	41
Total	15	180	1	23	11	230

Notes:

(1) Retired 14/08/08

(2) Appointed Chief Executive from 14/08/08. Previously Director of Finance and IS & Society Secretary

(3) Joined the Society 14/07/08. Appointed to the Board 14/08/08.

(4) Bonus payments made in 2009 relating to the financial year ended 31 December 2008.

On behalf of the Board of Directors

James Pinder
Chairman of the Nomination and Remuneration Committee

18 March 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE REPORT AND ACCOUNTS, THE ANNUAL BUSINESS STATEMENT, THE DIRECTORS' REPORT AND THE ANNUAL ACCOUNTS

The following statement, which should be read in conjunction with the statement of the auditors' responsibilities on page 20, is made by the directors to explain their responsibilities in relation to the preparation of the report and accounts, annual business statement, directors' report and annual accounts.

The directors are responsible for preparing the Report and Accounts, Annual Business Statement, Directors' Report and the annual accounts in accordance with applicable law and regulations. The Building Societies Act 1986 (The Act) requires the Directors to prepare Group and Society annual accounts for each financial year. Under that law they have elected to prepare the Group and Society annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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

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

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

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

DIRECTORS' RESPONSIBILITIES FOR ACCOUNTING RECORDS AND INTERNAL CONTROL

The directors are responsible for ensuring that the Group:

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

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

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

On behalf of the Board of Directors

Nigel Carnall
Chairman

18 March 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE MANSFIELD BUILDING SOCIETY

We have audited the group and society annual accounts of The Mansfield Building Society for the year ended 31 December 2009 which comprise the Group and Society Income and Expenditure Accounts, the Group and Society Statements of Total Recognised Gains and Losses, the Group and Society Balance Sheets, the Group Cash Flow Statement and the related notes. These annual accounts have been prepared under the accounting policies set out therein.

We have examined the Annual Business Statement (other than the details of directors and officers upon which we are not required to report) and the Directors' Report.

This report is made solely to the society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the society's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Report and Accounts including the Directors' Report, the Annual Business Statement and the annual accounts in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 19.

Our responsibility is to audit the annual accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We are also responsible for examining the Annual Business Statement (other than the details of directors and officers) and for reading the information in the Directors' Report and assessing whether it is consistent with the accounting records and the annual accounts.

We report to you our opinion as to whether the annual accounts give a true and fair view and are properly prepared in accordance with the Building Societies Act 1986 and regulations made under it. In addition, we report to you our opinion as to whether certain information in the Annual Business Statement gives a true representation of the matters in respect of which it is given, whether the information in the Directors' Report is consistent with the accounting records and the annual accounts and whether the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it. The information given in the Directors' Report includes that specific information given in the Chief Executive's Review that is cross-referenced from the Business Review section of the Directors' Report.

We also report to you if, in our opinion, the annual accounts are not in agreement with the accounting records or if we have not received all the information and explanations that we require for our audit.

We read the other information contained in the Report and Accounts and consider whether it is consistent with the audited annual accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the annual accounts, Annual Business Statement and Directors' Report. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the annual accounts and the Annual Business Statement. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the annual accounts, and of whether the accounting policies are appropriate to the group's and society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the annual accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the annual accounts.

Opinion

In our opinion:

a) the annual accounts give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the affairs of the group and of the society as at 31 December 2009 and of the income and expenditure of the group and of the society for the year then ended;

b) the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given;

c) the information given in the Directors' Report is consistent with the accounting records and the annual accounts; and

d) the annual accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

Ian S Smith (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Leicester

18 March 2010

INCOME AND EXPENDITURE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2009

		Group		Society	
		2009	2008	**2009**	2008
	NOTE	**£'000**	£'000	**£'000**	£'000
Interest receivable and similar income	2	**8,935**	16,597	**8,935**	16,597
Interest payable and similar charges	3	**(6,593)**	(13,305)	**(6,593)**	(13,305)
Net interest receivable		**2,342**	3,292	**2,342**	3,292
Pension finance charge	24	**(27)**	(13)	**(27)**	(13)
Fees and commissions receivable		**637**	529	**619**	517
Fees and commissions payable		**(239)**	(258)	**(238)**	(258)
Other operating income		**48**	–	**48**	–
Total operating income		**2,761**	3,550	**2,744**	3,538
Administrative expenses	5	**(2,437)**	(2,739)	**(2,399)**	(2,671)
Depreciation	13	**(96)**	(94)	**(96)**	(94)
Other operating charges	4	**(1)**	(2)	**(1)**	(2)
Operating profit before provisions		**227**	715	**248**	771
Provisions for bad and doubtful debts	11	**–**	(35)	**–**	(35)
Provisions for contingent liabilities and commitments – FSCS levy	19	**127**	(470)	**127**	(470)
Profit on ordinary activities before tax		**354**	210	**375**	266
Tax on profit on ordinary activities	8	**(93)**	(62)	**(97)**	(74)
Profit for the financial year		**261**	148	**278**	192

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

STATEMENTS OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2009

	Group		Society	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Profit for the financial year	**261**	148	**278**	192
Actuarial loss recognised in the pension scheme (note 24)	**(474)**	(116)	**(474)**	(116)
Movement in deferred taxation relating to the pension scheme	**133**	32	**133**	32
Revaluation of freehold properties	**–**	(135)	**–**	(135)
Total recognised gains and losses recognised in the year and since last annual report	**(80)**	(71)	**(63)**	(27)

The notes on pages 25 to 42 form part of these accounts.

BALANCE SHEETS AS AT 31 DECEMBER 2009

		Group		Society	
		2009	2008	**2009**	2008
Assets	**NOTE**	**£'000**	£'000	**£'000**	£'000
Liquid assets					
Cash in hand		**141**	159	**141**	159
Loans and advances to credit institutions	9	**57,737**	64,205	**57,714**	64,191
Debt securities	9	**6,011**	8,276	**6,011**	8,276
		63,889	72,640	**63,866**	72,626
Loans and advances to customers					
Loans fully secured on residential property		**203,970**	217,177	**203,970**	217,177
Loans fully secured on land		**4,122**	4,361	**4,122**	4,361
	10	**208,092**	221,538	**208,092**	221,538
Tangible fixed assets	13	**1,423**	1,461	**1,422**	1,460
Other assets	14	**79**	107	**171**	173
Prepayments and accrued income		**167**	202	**161**	202
Total assets		**273,650**	295,948	**273,712**	295,999
Liabilities					
Shares	15	**231,300**	231,045	**231,300**	231,045
Amounts owed to credit institutions	16	**19,203**	40,641	**19,203**	40,641
Amounts owed to other customers	17	**3,469**	4,417	**3,469**	4,417
		253,972	276,103	**253,972**	276,103
Other liabilities	18	**774**	870	**775**	877
Provisions for liabilities	19	**248**	470	**248**	470
Net pension liability	24	**231**	–	**231**	–
Revaluation reserve	21	**555**	555	**555**	555
Reserves					
General reserves	22	**17,870**	17,950	**17,931**	17,994
Total liabilities		**273,650**	295,948	**273,712**	295,999

The notes on pages 25 to 42 form part of these accounts.

These accounts were approved by the Board of Directors on 18 March 2010 and signed on its behalf by:

Nigel Carnall
Chairman

Nigel Tamplin
Deputy Chairman

Nigel Quinton
Chief Executive and Director

GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 £'000	2008 £'000
Net cash (outflow)/inflow from operating activities	**(3,149)**	6,182
Taxation	**–**	(76)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(68)**	(84)
Proceeds from sale of tangible fixed assets	**10**	5
Purchase of debt securities	**(12,000)**	(6,000)
Sales and maturities of debt securities	**14,000**	8,000
(Decrease)/Increase in cash	**(1,207)**	8,027
Reconciliation of operating profit to net cash inflow from operating activities		
Profit on ordinary activities before tax	**354**	210
Decrease in prepayments and accrued income	**579**	136
Decrease in accruals and deferred income	**(2,539)**	(112)
Increase in provisions for bad and doubtful debts	**–**	35
(Decrease)/increase in provisions for FSCS levy	**(127)**	470
Pension charge	**27**	29
Pension contributions	**(180)**	(180)
FSCS levy	**(95)**	–
Depreciation and amortisation	**96**	94
Net cash (outflow)/inflow from trading activities	**(1,885)**	682
Net decrease in loans and advances to customers	**13,446**	1,293
Net increase in shares	**2,463**	12,497
Net decrease in amounts owed to credit institutions and other customers	**(22,055)**	(2,867)
Net decrease/(increase) in loans and advances to credit institutions	**5,000**	(5,500)
Net decrease in other assets	**–**	36
Net (decrease)/increase in other liabilities	**(118)**	41
Net cash (outflow)/inflow from operating activities	**(3,149)**	6,182

Analysis of decrease in cash

	At 31 December 2009 £'000	**Cash flow £'000**	**At 1 January 2009 £'000**
Cash in hand	141	(18)	159
Loans and advances to credit institutions repayable on demand	21,152	(1,189)	22,341
	21,293	(1,207)	22,500

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

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

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

(b) **Basis of consolidation –** The Group accounts consolidate the accounts of the Society and its subsidiary undertakings, which also have an accounting period ending 31 December. Unless otherwise stated, the acquisition method of accounting has been adopted. In the Society's accounts, investments in subsidiary undertakings are stated at cost less provision for any impairment in value.

(c) **Income recognition –** Interest in respect of all loans is credited to the income and expenditure account as it becomes receivable, except in respect of advances where the property has been taken into possession or where the collectability of the interest is subject to significant doubt. Such interest is credited to the suspended interest account.

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

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

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

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

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

Depreciation is not provided on freehold land in accordance with Financial Reporting Standard 15, "Tangible Fixed Assets".

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

Throughout the year and at the year-end, individual assessments are made of all advances and loans on properties that are in possession or in arrears. Specific provision is made against those advances and loans that are considered to be impaired. In considering the specific provision for impaired loans, account is taken of any discount which may be needed against the value of the property at the balance sheet date to agree a sale within three months of that date, the amounts recoverable under high loan to value insurance and anticipated realisation costs.

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

Loans and advances to customers in the balance sheets are shown net of provisions and suspended interest. The amount charged in the income and expenditure account represents losses written off in the year together with the net change in the ongoing provision.

(f) **Pension costs –** The Group operates a Group Personal Pension Plan that is open to all staff. Pension costs in respect of the Group Personal Pension Plan are charged to the income and expenditure account in the year in which contributions are payable.

In addition, the Society operates a defined benefit pension scheme, the assets of which are held in a separate Trustee administered fund. The assets are measured at market value at each balance sheet date. For quoted securities, the current bid price is taken as market value. The liabilities are measured using projected unit method, discounted using a corporate bond rate. Any available pension scheme surplus or resulting deficit is recognised immediately on the balance sheet net of deferred tax and any resulting actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses. The Scheme has been closed to future accruals since 28 February 2007. Further details on pension schemes are provided in note 24 to the Accounts.

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

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

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

(i) **Liquid assets and debt securities –** Liquid assets and debt securities are held for use on a continuing basis and so are accounted for as financial fixed assets and accordingly shown at cost.

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

2 INTEREST RECEIVABLE AND SIMILAR INCOME

	Group		**Society**	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
On loans fully secured on residential property	**9,504**	12,612	**9,504**	12,612
On loans fully secured on land	**100**	365	**100**	365
On debt securities (all fixed income)				
Interest and other income	**269**	531	**269**	531
On other liquid assets				
Interest and other income	**1,008**	2,954	**1,008**	2,954
Net income on financial instruments	**(1,946)**	135	**(1,946)**	135
	8,935	16,597	**8,935**	16,597

No accounts existed with suspended interest at the date of the balance sheet or during the financial year (2008: Nil).

3 INTEREST PAYABLE AND SIMILAR CHARGES

	Group		Society	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
On shares held by individuals	**5,852**	10,599	**5,852**	10,599
On deposits and other borrowings	**767**	2,704	**767**	2,704
Net expense on financial instruments	**(26)**	2	**(26)**	2
	6,593	13,305	**6,593**	13,305

4 OTHER OPERATING CHARGES

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

5 ADMINISTRATIVE EXPENSES

	Group		Society	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Staff costs (see note 6)	**1,421**	1,569	**1,393**	1,515
Other administrative expenses	**1,016**	1,170	**1,006**	1,156
	2,437	2,739	**2,399**	2,671

Included in other administrative expenses are the following:

	Group		Society	
Auditors' remuneration (stated exclusive of V.A.T.)	**2009**	2008	**2009**	2008
Payments to the Group auditors for:	**£'000**	£'000	**£'000**	£'000
Audit of financial statements	**31**	28	**31**	28
Audit of financial statements of subsidiaries	**5**	–	**–**	–
Amounts charged under other operating leases	**14**	19	**14**	19

6 STAFF NUMBERS AND COSTS

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

	2009		2008	
Full time	**Group**	**Society**	Group	Society
Principal office	**26**	**25**	22	20
Branch offices	**16**	**16**	23	23
	42	**41**	45	43

	2009		2008	
Part time	**Group**	**Society**	Group	Society
Principal office	**7**	**7**	6	6
Branch offices	**7**	**7**	6	6
	14	**14**	12	12

Aggregate costs of these persons were as follows:

	Group		Society	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Wages and salaries	**1,188**	1,326	**1,162**	1,278
Social security costs	**144**	146	**142**	141
Other pension costs	**89**	97	**89**	96
	1,421	1,569	**1,393**	1,515

7 DIRECTORS' EMOLUMENTS AND TRANSACTIONS

(a) Remuneration of directors

	2009	2008
	£'000	£'000
For services as directors	**123**	126
For services as executives emoluments (including benefits in kind)	**216**	215
	339	341

Further details of the directors' remuneration are given in the Directors' Remuneration Report on page 16.

(b) Directors' loans and transactions

At 31 December 2009, there were outstanding mortgage loans granted in the ordinary course of business to 4 (2008: 3) directors and their connected persons, amounting in aggregate to £725,159 (2008: £564,703).

A register is maintained at the Principal Office of the Society, under Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with directors and their connected persons. A statement of the appropriate details contained in the register, for the financial year ended 31 December 2009, will be available for inspection at the Principal Office for a period of 15 days up to and including the Annual General Meeting.

(c) Related party transactions

During the year, W A Barnes, of which Nigel Carnall is a director, provided valuation services to the Society. This was done on normal commercial terms with a total value of £1,803 (2008: £1,500). At 31 December 2009, there were no amounts outstanding (2008: £nil).

There were no significant contracts with the Society subsisting during or at the end of the financial year in which a director of the Society (or a person connected with a director of the Society) is, or was, interested.

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

	Group		Society	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Analysis of charge in year				
Current tax				
Corporation tax at 28% (2008: 28.5%)	**25**	–	**30**	11
Adjustments relating to prior year	**–**	(11)	**(1)**	(11)
Total current tax charge/(credit)	**25**	(11)	**29**	–
Deferred tax				
Origination and reversal of timing differences	**68**	73	**68**	74
Tax on profit on ordinary activities	**93**	62	**97**	74
Factors affecting the tax charge for the current period				
Profit on ordinary activities before tax	**354**	210	**375**	266
Current tax at 28% (2008: 28.5%)	**99**	60	**105**	76
Effects of:				
Capital allowances below depreciation	**–**	(5)	**–**	(5)
Expenses not deductible for tax purposes	**(1)**	1	**(1)**	1
Other timing differences	**(21)**	(14)	**(21)**	(14)
Small company relief	**(9)**	–	**(10)**	(5)
Timing difference relating to pension scheme	**(43)**	(42)	**(43)**	(42)
Adjustments relating to prior year	**–**	(11)	**(1)**	(11)
Total current tax charge/(credit)	**25**	(11)	**29**	–

9 LIQUID ASSETS

a) Loans and advances to credit institutions

	Group		Society	
Loans and advances to credit institutions having remaining maturities as follows:	**2009 £'000**	2008 £'000	**2009 £'000**	2008 £'000
Accrued interest	**85**	364	**85**	364
Repayable on demand	**21,152**	22,341	**21,129**	22,327
In not more than three months	**34,500**	37,500	**34,500**	37,500
In more than three months but not more than one year	**2,000**	4,000	**2,000**	4,000
	57,737	64,205	**57,714**	64,191

b) Debt securities

	Group		Society	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Held as financial fixed assets				
At maturity value	**6,000**	8,000	**6,000**	8,000
Accrued interest	**11**	276	**11**	276
	6,011	8,276	**6,011**	8,276
Repayable from the date of the balance sheet in the ordinary course of business as follows:				
Accrued interest	**11**	276	**11**	276
In not more than one year	**6,000**	8,000	**6,000**	8,000
	6,011	8,276	**6,011**	8,276

Changes in debt securities held as financial assets during the year (excluding accrued interest)

	Group	Society
	£'000	**£'000**
At 1 January 2009	**8,000**	**8,000**
Additions and renewals	**12,000**	**12,000**
Disposals and maturities	**(14,000)**	**(14,000)**
At 31 December 2009	**6,000**	**6,000**

All debt securities are unlisted, issued by borrowers other than public bodies and had a market value at 31 December 2009 of £6,021,000 (2008: £8,367,000).

The directors of the Society consider that the primary purpose of holding debt securities is prudential. The securities are held as financial fixed assets with the intention of use on a continuing basis in the Society's activities and are therefore classified as financial fixed assets.

10 LOANS AND ADVANCES TO CUSTOMERS

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

Maturity analysis

	Group		Society	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Repayable on demand	**51**	210	**51**	210
Repayable with remaining maturity:				
In not more than three months	**1,997**	1,653	**1,997**	1,653
In more than three months but not more than one year	**6,455**	5,590	**6,455**	5,590
In more than one year but not more than five years	**43,357**	40,066	**43,357**	40,066
In more than five years	**156,603**	174,390	**156,603**	174,390
	208,463	221,909	**208,463**	221,909
Less provision for bad and doubtful debts (note 11)	**(371)**	(371)	**(371)**	(371)
	208,092	221,538	**208,092**	221,538

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

11 PROVISION FOR BAD AND DOUBTFUL DEBTS

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

Group and Society

	Loans fully secured on residential property		Loans fully secured on land		
	General £'000	Specific £'000	General £'000	Specific £'000	Total £'000
At 1 January 2009	320	26	25	–	371
Provisions (credit)/charge for the year	(89)	36	53	–	–
At 31 December 2009	231	62	78	–	371

12 INVESTMENTS AND RELATED PARTY TRANSACTIONS

Investments

Mutual One Limited is a joint arrangement providing services to other building societies. It was set up in 1998 by eight building societies, of which The Mansfield was one and retains a 2.5% holding in the company.

Subsidiary undertakings (unlisted)

The Society holds the following direct interests in principal subsidiary undertakings, none of which are credit institutions and all of which have been included in the consolidated accounts.

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

MB Simply Mortgages Limited commenced trading with effect from 1 January 2008.

The value of the Society's investment in subsidiary undertakings amounts to £3 (2008:£3).

Related party transactions

During the year the Society paid for goods and services for its subsidiary undertaking amounting to £33,449 (2008:£68,408) with amounts owed to the Society as at 31 December 2009 of £91,558 (2008: £68,308).

During the year fees were paid by the Society to Mutual One Limited for internal audit and other services of £61,052 (2008: £61,441). At 31 December 2009 the Society owed Mutual One Limited £11,495 (2008: £nil) for internal and other audit services.

13 TANGIBLE FIXED ASSETS

Group

	Land and Buildings		Equipment, fixtures, fittings and vehicles	
	Freehold	Short leasehold		Total
Cost or valuation	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2009	1,217	154	1,374	2,745
Additions	–	–	68	68
Disposals	–	–	(21)	(21)
At 31 December 2009	1,217	154	1,421	2,792
Depreciation				
At 1 January 2009	–	154	1,130	1,284
Charge for year	15	–	85	100
Adjustment on disposals	–	–	(15)	(15)
At 31 December 2009	15	154	1,200	1,369
Net book value				
At 31 December 2009	1,202	–	221	1,423
At 31 December 2008	1,217	–	244	1,461

Society

	Land and Buildings		Equipment, fixtures, fittings and vehicles	
	Freehold	Short leasehold		Total
Cost or valuation	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2009	1,217	154	1,373	2,744
Additions	–	–	68	68
Disposals	–	–	(21)	(21)
At 31 December 2009	1,217	154	1,420	2,791
Depreciation				
At 1 January 2009	–	154	1,130	1,284
Charge for year	15	–	85	100
Adjustment on disposals	–	–	(15)	(15)
At 31 December 2009	15	154	1,200	1,369
Net book value				
At 31 December 2009	1,202	–	220	1,422
At 31 December 2008	1,217	–	243	1,460

Note. The depreciation charge for the year (2009: £96,000, 2008: £94,000) includes an amount relating to the profit on the sale of a Society vehicle of £3,656 (2008: loss of £1,000).

Particulars relating to revalued tangible fixed assets are given below:

	2009 £'000	2008 £'000
Open market valuation as at 31 December[1]	**1,185**	1,185
Historical cost of revalued assets	**716**	716
Aggregate depreciation thereon	**(101)**	(86)
Historical cost net book value of revalued assets	**615**	630

Note:

(1) Freehold land and buildings were last revalued on 31 December 2008 on the basis of open market value. The valuations were carried out by external valuers King Sturge and Copelands, both members of the Royal Institution of Chartered Surveyors, on an existing use value basis.

Included within Group and Society freehold land and buildings above is £482,000 (2008: £482,000) of non-depreciable land.

The net book value of land and buildings occupied by the Group and Society for its own activities is £1,202,000 (2008: £1,217,000).

14 OTHER ASSETS

	Group		Society	
	2009 £'000	2008 £'000	**2009 £'000**	2008 £'000
Deferred taxation				
Deferred taxation comprises:				
Capital allowances	**(9)**	(5)	**(9)**	(5)
Related to general mortgage loss provisions	**87**	108	**87**	108
Related to tax losses	**1**	1	**–**	–
Amounts owed by group company	**–**	–	**93**	70
Corporation tax	**–**	3	**–**	–
	79	107	**171**	173

In accordance with Financial Reporting Standard 19, "Deferred tax", the deferred tax liability arising on the revaluation of freehold premises has not been recognised as there is no present intention to dispose of the property.

Movement on deferred tax asset

	Group 2009 £'000	Society 2009 £'000
At 1 January 2009	**104**	**103**
Movements in relation to pension scheme	**43**	**43**
Deferred tax charge	**(68)**	**(68)**
At 31 December 2009	**79**	**78**

15 SHARES

	Group and Society 2009 £'000	2008 £'000
Held by individuals	**231,179**	231,020
Other shares	**121**	25
	231,300	231,045
Shares are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	**2,173**	4,381
Repayable on demand	**155,730**	163,075
Other shares by residual maturity repayable:		
In not more than three months	**15,156**	4,428
In more than three months but not more than one year	**36,353**	34,793
In more than one year but not more than five years	**21,855**	24,368
In more than five years	**33**	–
	231,300	231,045

16 AMOUNTS OWED TO CREDIT INSTITUTIONS

	Group and Society 2009 £'000	2008 £'000
Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	**53**	341
Repayable on demand	**–**	–
Repayable with agreed maturity dates or period of notice:		
In not more than three months	**18,150**	37,800
In more than three months but not more than one year	**1,000**	2,500
	19,203	40,641

17 AMOUNTS OWED TO OTHER CUSTOMERS

	Group and Society 2009 £'000	2008 £'000
Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	**7**	50
On demand	**1,612**	1,308
With agreed maturity dates or period of notice:		
In not more than three months	**1,600**	1,059
In more than three months but not more than one year	**250**	2,000
	3,469	4,417

18 OTHER LIABILITIES

	Group		Society	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Falling due within one year:				
Income tax	**326**	595	**326**	595
Corporation tax	**22**	–	**27**	8
Other creditors	**426**	275	**422**	274
	774	870	**775**	877

19 PROVISIONS FOR LIABILITIES

	Group and Society
Financial Services Compensation Scheme	**£'000**
At 1 January 2009	**470**
Amounts paid during the year	**(95)**
Income and expenditure account	**(127)**
At 31 December 2009	**248**

Financial Services Compensation Scheme

Based on its share of protected deposits, the Society, in common with all regulated UK deposit takers, pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. The FSCS levy consists of two parts – a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

In 2008 a number of claims were triggered against the FSCS as a result of a number of institutions being declared in default by the FSA. The FSCS met the claims by way of loans received from HM Treasury. The FSCS, in turn, acquired the rights to the realisation of the assets of these banks. The FSCS is liable to pay interest on the loans from the Bank of England. The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the banks to fully repay the respective loans from HM Treasury. To the extent that the loans have not been repaid in full by the 31 March 2012, the FSCS will agree a schedule of repayments with HM Treasury and levy the industry, including The Mansfield Building Society, accordingly.

As a result of past notifications it received from the Financial Services Authority, the Society recognised a provision for a levy of £470,098 in its results for the period ended 31 December 2008, covering the scheme years up to and including 2011/2012. Greater clarification has subsequently been received from the FSA on the amounts to be provided. This confirms that accrual should only be made for liabilities incurred as a result of market participation up to the balance sheet date. This has resulted in the Society being required to provide only for amounts covering the scheme years up to 2010/11.

This change in accounting estimate results in a credit to profit and loss of £127,000 which, coupled with a payment the Society made in 2009 towards the levy, leaves a provision balance at 31 December 2009 of £248,000. The remaining provisions balance represents a charge for the management expenses levy due in respect of the 2009/10 levy year and the 2010/11 levy year and has been calculated by reference to the level of protected deposits the Society held at 31 December 2008 and 31 December 2009, together with an estimate of management expense levies over the levy period. No amounts have been set aside to take into account management expense levies for future scheme years, or compensation levies which may arise, anticipated proceeds from eventual disposal of assets or any additional levies that may become due as a result of any refinancing after the maturity of the initial three year loan facility.

20 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

Financial commitments

Staff pensions

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

Capital commitments

No material capital expenditure has been contracted for or authorised at 31 December 2009 (2008: £nil).

Operating lease commitments

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

Land and buildings	Group		Society	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Within one year	**–**	8	**–**	8
In the second to fifth year inclusive	**–**	–	**–**	–
Over five years	**6**	6	**6**	6
	6	14	**6**	14

21 REVALUATION RESERVE

	Group	Society
	£'000	£'000
At 1 January 2009 and 31 December 2009	555	555

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

22 GENERAL RESERVES

	Group	Society
	£'000	£'000
At 1 January 2009	17,950	17,994
Profit for financial year	261	278
Actuarial gains and losses net of deferred tax	(341)	(341)
At 31 December 2009	17,870	17,931

23 FINANCIAL INSTRUMENTS (Group and Society)

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

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

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

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

Unmatured interest rate contracts

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

	Group and Society	
	2009	2008
	£'000	£'000
Notional principal amount	**73,000**	54,000
Credit risk weighted amount	**134**	34
Replacement cost	**53**	25

Risk management

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

Credit risk

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

Liquidity risk

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

Interest rate risk

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

After taking into account the derivatives entered into by the Group, the interest rate sensitivity exposure at 31 December 2009 was:

Group	Next interest reset date					
	Not more than three months £'000	**More than three months but not more than six months £'000**	**More than six months but not more than one year £'000**	**More than one year but not more than five years £'000**	**Non interest bearing £'000**	**Total £'000**
Assets						
Liquid assets	**55,793**	**6,000**	**2,000**	**–**	**96**	**63,889**
Loans and advances to customers	**119,442**	**11,462**	**16,672**	**60,887**	**(371)**	**208,092**
Tangible fixed assets	**–**	**–**	**–**	**–**	**1,423**	**1,423**
Other assets	**–**	**–**	**–**	**–**	**246**	**246**
Total assets on balance sheet	**175,235**	**17,462**	**18,672**	**60,887**	**1,394**	**273,650**
Off balance sheet assets	**70,000**	**–**	**2,000**	**1,000**	**–**	**73,000**
Total assets on/off balance sheet	**245,235**	**17,462**	**20,672**	**61,887**	**1,394**	**346,650**
Liabilities						
Shares	**170,931**	**5,736**	**30,617**	**21,843**	**2,173**	**231,300**
Amounts owed to credit institutions and other customers	**21,362**	**1,250**	**–**	**–**	**60**	**22,672**
Other liabilities	**–**	**–**	**–**	**–**	**1,253**	**1,253**
Reserves	**–**	**–**	**–**	**–**	**18,425**	**18,425**
Total liabilities on balance sheet	**192,293**	**6,986**	**30,617**	**21,843**	**21,911**	**273,650**
Off balance sheet liabilities	**7,000**	**13,000**	**11,000**	**42,000**	**–**	**73,000**
Total liabilities on/off balance sheet	**199,293**	**19,986**	**41,617**	**63,843**	**21,911**	**346,650**
Interest rate sensitivity gap	**45,942**	**(2,524)**	**(20,945)**	**(1,956)**	**(20,517)**	**–**

At 31 December 2008:

Group	Next interest reset date					
	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but not more than five years £'000	Non interest bearing £'000	Total £'000
Total assets	204,995	16,078	13,259	59,577	2,039	295,948
Total liabilities	211,226	9,233	26,523	24,349	24,617	295,948
Off balance sheet items	47,000	(6,000)	(6,000)	(35,000)	–	–
Interest rate sensitivity gap	40,769	845	(19,264)	228	(22,578)	–

Fair value of financial instruments

The table below shows a comparison of the book and fair values of some of the Group's financial instruments as at 31 December 2009. The table excludes those items which are not listed, publicly traded, or where no liquid market exists. Market values have been used to determine fair values of debt securities and interest rate swaps. The fair value of the debt securities has also been independently estimated by Tradition UK Ltd of London.

	2009		2008	
	Book value £'000	**Fair value £'000**	Book value £'000	Fair Value £'000
On balance sheet debt securities	**6,011**	**6,021**	8,276	8,367
Off balance sheet interest rate swaps	**–**	**(1,822)**	–	(2,189)

Hedges

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

The following table sets out the movements in unrecognised and recognised gains and losses in the year to 31 December 2009.

	Unrecognised gains £'000	Unrecognised (losses) £'000	Net gain/(loss) £'000
Gains and losses unrecognised at the start of the year	25	(2,214)	(2,189)
Items unrecognised at the start of the year recognised in the year	23	(1,374)	(1,351)
Items unrecognised at the start of the year and unrecognised in the year	2	(840)	(838)
Gains and losses arising in the year unrecognised in the year	51	(1,035)	(984)
Unrecognised at the end of the financial year	53	(1,875)	(1,822)
Of which:			
Expected to be realised in the year to 31 December 2010	52	(1,309)	(1,257)
Expected to be realised after 31 December 2010	1	(566)	(565)
	53	(1,875)	(1,822)

24 PENSIONS

Defined contribution scheme

The Society operates a Group Personal Pension Plan, The Mansfield Building Society 2007 Group Personal Pension Plan, that is open to all members of staff who have joined the Society since 1 March 2007. During the year ended 31 December 2009, the Society made contributions of £89,000 (2008: £81,000), which are included in the Income and Expenditure account within administrative expenses. At 31 December 2009, there were no outstanding or prepaid contributions.

Defined benefit scheme

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

Details in respect of the scheme are provided below in accordance with Financial Reporting Standard 17 – Retirement Benefits (FRS17). A professional qualified actuary carries out an actuarial valuation every three years. The latest valuation of the Scheme was undertaken as at 1 March 2007 using the projected unit valuation method and both the assets and liabilities include the value of those pensions in payment which are secured with insured annuities. In accordance with FRS17, this latest actuarial valuation was updated to the accounting date by an independent qualified actuary.

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

	Year to 31 December	
Assumptions	**2009**	2008
Price inflation	**3.8%**	2.9% pa
Discount rate	**5.7%**	6.4% pa
Expected return on assets	**6.4%**	5.4% pa
Pension increases (LPI)	**3.6%**	2.7% pa
Future salary increases	**n/a**	n/a

In valuing the liabilities of the Scheme at 31 December 2009, mortality assumptions have been made as indicated below. If life expectancy had been changed to assume that all members of the Scheme lived one year longer, the value of the reported liabilities would have increased by up to £158,000 before adjustment for deferred taxation. Similarly, if the discount rate used was 0.1% lower, the reported deficit would have increased by approximately £100,000.

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

	2009	2008
Life expectancy at age 65 (at accounting date) – Male	**22.6 years**	22.5 years

Amounts recognised in the balance sheet:

	As at 31 December	
	2009	2008
	£'000	£'000
Liabilities	**231**	–
Assets	**–**	–
Net liability	**231**	–

The amounts recognised in Income and Expenditure are as follows:

	Year to 31 December	
	2009	2008
Included within administrative expenses:	**£'000**	£'000
Current service cost	**–**	–
Past service cost	**–**	16
Total operating charge	**–**	16

	Year to 31 December	
	2009	2008
Included within finance charges:	**£'000**	£'000
Expected return on pension scheme assets	**221**	246
Interest on post retirement liabilities	**(248)**	(259)
Net return to charge being the pension finance charge	**(27)**	(13)
Total pensions expense for the Scheme	**(27)**	(29)

Over the year to 31 December 2009, contributions by the Society of £180,000 were made to the Scheme (Year to 31 December 2008: £180,000). During the year to 31 December 2010 the Society expects to contribute approximately £180,000 to the Scheme.

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses is a loss of £474,000 (2008: loss of £116,000 which included the impact of the £523,000 balance sheet adjustment to comply with asset limit requirements). As at 31 December 2009 cumulative actuarial gains and losses reported in the statement of total recognised gains and losses amount to a loss of £1.0m (31 December 2008: Loss of £0.6m)

The post retirement deficit under FRS17 moved as follows:

	Year to 31 December	
	2009	2008
	£'000	£'000
Post retirement deficit at start of year	**–**	(35)
Past service cost	**–**	(16)
Contributions	**180**	180
Other net finance charge	**(27)**	(13)
Actuarial (losses)/gains	**(997)**	407
Adjustment for asset limit	**523**	(523)
	(321)	–

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

	2009	2008
Defined benefit obligation	**£'000**	£'000
At 1 January	**3,900**	4,604
Past service cost	**–**	16
Interest cost	**248**	259
Actuarial losses (gains)	**1,156**	(679)
Benefits paid	**(41)**	(300)
At 31 December	**5,263**	3,900

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

	2009	2008
Scheme assets	**£'000**	£'000
At 1 January	**4,423**	4,569
Expected return on Scheme assets	**221**	246
Actuarial gains (losses)	**159**	(272)
Contributions by employer	**180**	180
Benefits paid	**(41)**	(300)
At 31 December	**4,942**	4,423

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

	31 December 2009		31 December 2008	
Components	**Expected return**	**Fair value £'000**	Expected return	Fair value £'000
Equities	**8.2% pa**	**1,799**	7.4% pa	1,353
Bonds	**5.6% pa**	**1,488**	3.8% pa	1,878
Property	**7.0% pa**	**388**	5.6% pa	385
Cash	**4.3% pa**	**550**	3.8% pa	202
Other	**5.7% pa**	**717**	6.4% pa	605
Total		**4,942**		4,423

The overall expected long term rate of return on assets is the average of the rates disclosed above taking into account the underlying asset portfolio of the Scheme. The actual return on the Scheme assets over the year was a gain of £380,000 (2008: loss of £26,000).

A five year history of the Scheme is shown below (1):

	As at 31 December				
	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Present value of pension obligation for the Scheme	**5,263**	3,900	4,604	4,417	4,737
Fair value of Scheme assets	**4,942**	4,423	4,569	4,324	3,804
(Deficit)/surplus in the Scheme	**(321)**	523	(35)	(93)	(933)
Adjustment for asset limit (2)	**–**	(523)	–	–	–
Related deferred tax asset	**90**	–	10	28	280
Net pension liability	**(231)**	–	(25)	(65)	(653)

Notes:

(1) As permitted by FRS17, the Group has elected not to restate quoted asset amounts from mid-market prices to bid prices in respect of 2005 as there was no material difference.

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

The history of experience gains and losses is:

	Year to 31 December				
	2009	**2008**	**2007**	**2006**	**2005**
Experience adjustments on the Scheme's liabilities (£'000)	**(1,156)**	0	174	(10)	(127)
Percentage of the present value of the Scheme's liabilities	**(22.0%)**	0.0%	3.8%	(0.2%)	(2.7%)
Experience adjustments on the Scheme's assets (£'000)	**159**	(272)	(88)	13	319
Percentage of the Scheme's assets	**3.2%**	(6.2%)	(2.0%)	0.3%	8.4%

ANNUAL BUSINESS STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

1 STATUTORY PERCENTAGES

	At 31 December 2009 %	Statutory limit %
Proportion of business assets other than in the form of loans fully secured on residential property – 'Lending limit'	**2.13**	**25.00**
Proportion of shares and borrowings other than in the form of shares held by individuals – 'Funding limit'	**8.97**	**50.00**

Explanation

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

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

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

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

2 OTHER PERCENTAGES

	At 31 December 2009	At 31 December 2008
As a percentage of shares and borrowings:	**%**	%
Gross capital	**7.25**	6.70
Free capital	**6.82**	6.30
Liquid assets	**25.16**	26.31
Group profit after taxation as a percentage of mean total assets	**0.09**	0.05
Group management expenses as a percentage of mean total assets	**0.89**	0.97

Explanation

The above percentages have been calculated from the balance sheet and income and expenditure account.

'Gross capital' represents the general reserve together with the revaluation reserve as shown in the balance sheet.

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

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

'Mean total assets' are the average of the 2009 and 2008 total assets.

'Liquid assets' represent the total of cash in hand, loans and advances to credit institutions and other liquid assets shown in the balance sheet.

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

ANNUAL BUSINESS STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)

3 INFORMATION RELATING TO THE DIRECTORS AT 31 DECEMBER 2009

DIRECTORS

Name	Date of birth	Date of appointment as Director	Business occupation	Other directorships
Nigel Carnall, BSc (Est Man), FRICS, FAAV *Chairman of the Board*	06.02.48	09.03.95	Chartered Surveyor	Sherwood Communities Development trust; Central Association of Agricultural Valuers
Simon Brister	06.02.49	10.05.07	Solicitor	Dales Housing Ltd
Darren Garner, FCCA	29.09.71	14.08.08	Building Society Finance Director and Secretary	
Christine Morris, BA(Hons)	10.04.54	10.05.07	Retired Commercial Director	MB Simply Mortgages Ltd
James Pinder, FBCO	09.02.46	01.03.96	Optometrist	Regent Financial Advisors Ltd MB Simply Mortgages Ltd
Nigel Quinton, FCCA	25.12.57	12.05.05	Building Society Chief Executive	MB Simply Mortgages Ltd Regent Financial Advisors Ltd
Richard Smith, ACIB	12.11.49	12.12.02	Management Consultant	Stopford Consulting Ltd
Nigel Tamplin, FCA	19.01.51	11.05.06	Chartered Accountant	Gyron Internet Ltd

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

DIRECTORS' SERVICE CONTRACTS

The executive directors, Nigel Quinton and Darren Garner, have service contracts with the Society dated 24 June 2008 and 25 June 2008, respectively.

The Chief Executive, Nigel Quinton, has a service contract which can be terminated by the individual giving nine month's notice in writing or the Society giving twelve month's notice. The service contract with the Chief Executive is reviewed annually at the end of each completed year. The Finance Director and Secretary, Darren Garner, has a service contract which can be terminated by either party giving to the other six month's notice in writing.

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Directors

Nigel Carnall, BSc (Est Man), FRICS, FAAV, *Chairman*

Simon Brister

Darren Garner, FCCA

Christine Morris, BA (Hons)

James Pinder, FBCO

Nigel Quinton, FCCA

Richard Smith, ACIB

Nigel Tamplin, FCA

Chief Executive

Nigel Quinton, FCCA

Finance Director and Secretary

Darren Garner, FCCA

Compliance and Employee Development Executive and Money Laundering Reporting Officer

Julia Bushby

Mortgage and Personnel Executive

Maggie Smith

Information Systems Manager

Brian Seddons

Sales and Marketing Manager

Mike Taylor, LLB, ACIB

Product Manager

Peter Doherty

Auditors

KPMG Audit Plc
Chartered Accountants and
Registered Auditor

Bankers

Barclays Bank PLC

Solicitors

Harrop White, Vallance & Dawson

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Established 1870
Member of the Building Societies Association with Trustee Status
Member of the Financial Ombudsman Service Scheme
Authorised and regulated by the Financial Services Authority - Reference Number 206049

the mansfield building society