the mansfield building society

Annual Report and Accounts 2017

Contents

Directors' Report

The Directors are pleased to present their annual report together with the Society's Accounts and Annual Business Statement for the year ended 31 December 2017.

Business objectives

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

Business review

In the last year the housing market showed a good deal of resilience despite the continued political uncertainty emanating from the Brexit process, a deterioration in the UK economic growth forecasts and the government intervention in the Buy to Let market.

Notwithstanding this backdrop, this has been an exceptional year for the Society culminating in a record year for both mortgage advances £93.7m (2016: £63.8m) and mortgage book growth 12.24% (2016: 3.8%). This growth has been achieved whilst maintaining a stable level of profitability which continues to grow our capital reserves by £1.5m (2016: £1.6m). This level of profitability is required not only to support the lending growth, but also to reflect the Society's ongoing need to maintain a strong level of capital reserves.

Profit after tax remained steady at £1.5m and this has further bolstered capital reserves to £26m resulting in a healthy gross capital ratio of 7.64% (2016: 8.07%). Members should place great assurance that this level of capital reserves continues to comfortably exceed the regulator's minimum requirement. The Board believes that the current capital levels are appropriate and stress testing scenarios confirm that we have a strong protective buffer to provide contingency against future headwinds in the market.

In 2017 the Society delivered strong growth in the mortgage book by lending £93.7m of gross advances. This has been achieved as a result of the investment in people and technology that the Society made to improve the support given to our customers in the intermediary mortgage market and to those customers that come to us directly. There has been a significant increase in market competition from retail banks as well as a number of new market entrants and challenger banks continue to enter the market and typically specialise in the type of underserved mortgage segments that the Society has successfully supported over the past few years. This competition has resulted in rates in the mortgage market being at historically low levels. Against the backdrop of aggressive pricing in the market, the Society has carefully balanced the need to maintain competitive rates whilst also protecting profitability, and has delivered an excellent lending result in a highly competitive market.

The continuation of the Funding For Lending Scheme (FLS) and the introduction of the Term Funding Scheme, resulted in regular market-wide reductions in savings rates during 2016 and 2017. It was therefore encouraging to see that the Bank of England Base Rate increased in November after being at a record low of 0.25%. As a result of this the Society has announced increases to savings and mortgage accounts effective from January 2018. The Society has regularly appeared in the Best Buy tables during 2017 in respect of the competitiveness of our savings rates, reflected in retail savings balances growing by over £15m during the year.

The interest margin has fallen to 1.78% (2016: 1.83%) due to the competitive pressure that was exerted on mortgage yields. Net interest margin will come under further pressure in 2018 as more lenders enter the market, typically with aggressive product pricing.

Directors' Report (continued)

The Society has continued to make further investment in strengthening the people and system resources that are required to maintain the internal capability to deliver future sustained growth, as well as meeting the various regulatory requirements placed upon all lenders and deposit takers. A significant proportion of the year on year increase in Administration costs is directly related to strengthening the systems environment operated by the Society to keep abreast of technology changes and further strengthening of important cyber security defences. The Management Expenses ratio of 1.22% (2016: 1.21%) reflects the continued investment in the Society and remains favourable with peer group comparisons.

However, during 2018, the Management Expenses Ratio is expected to increase as we make the necessary further investments to ensure we continue to meet both customer and regulatory needs.

Whilst strong finances are important, the Board recognises that, as a mutual membership based organisation, the service to our members and our community is paramount. It is therefore pleasing to report that we were highly commended in the Mortgage Finance Gazette awards for Community Engagement. Our members continue to report our service as excellent with 94% of savings customers who returned our survey questionnaires in 2017, willing to recommend the Society to a friend or relative and we also continue to receive very few complaints (equating to less than 0.1% of members). These results reinforce that the combination of a strong personal service proposition, our mutual ethos and competitive rates is an effective strategy for the Society to follow.

We regularly receive positive feedback about many of our mortgage products and are pleased to be able to help many first time buyers achieve their aspirations of owning their own home.

The healthy results underline the Society's ability to operate soundly and successfully. The Board of Directors is fully committed to The Mansfield remaining an independent mutual building society for the benefit of its members.

Community involvement

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

Our staff chose Macmillan Cancer Support as our charity of the year and have shown great enthusiasm towards raising funds throughout the year. Staff have participated in many events including climbing Mount Snowdon, the Notts 10k run, a quiz night, Branch to Branch walk, The Mansfield's own 'bake off', a 'biggest loser' sponsored diet and an exercise bike challenge in the Mansfield branch that brought out the competitive side of many staff members. In total the staff, and their sponsors, have collectively raised the substantial sum of £7,480. We are proud to be supporting Macmillan Cancer Support and we will be organising further fundraising events and providing staff volunteering days throughout 2018.

In addition, we actively encourage staff to participate in the Work in the Community Scheme through granting two days paid leave each year for our staff to assist local deserving causes.

Staff assistance in 2017 included supporting craft projects at a local school; clearing wasteland to create more useable space for a community garden; assisting with interview/CV practice and career evenings for local teenagers; supporting the local Prince's Trust initiative; and painting walls at a local school. The response from the recipients of this support has been extremely positive:

"A huge thank you to you and your amazing team who have gone the extra mile this year in making the right kind of difference to young people at the Brunt's Academy "

The Society's Community Support scheme contributions totalled £20,000 in 2017 (2016: £20,000) as the Board demonstrated an ongoing commitment to provide support for worthy causes in our local community. In addition to these endeavours, the Society set up a Charitable Trust Fund in 2015 which will be used to fund larger charitable donations and provide enduring support to our local communities. The fund was started up with a £50,000 donation from Society profits and a further £25,000 was contributed in 2016.

Directors' Report (continued)

The fund trustees awarded the first donation of £10,000 from the scheme in 2017 – this was granted to the Inspire and Achieve charity to fund the Prince's Trust programme for young adults in the Mansfield area. A further grant of £10,000 is planned to continue to support this worthy cause in 2018. This support has been well received by the charity concerned:

"Not only has your financial support helped the Prince's Trust Programme get up and running in Mansfield, but the time dedicated by your individual staff members has been amazing – thank you all"

The Society has provided a further £45,000 into the Charitable Trust Fund out of 2017 profits, to enable the fund to support more local charities and initiatives.

It remains the Society's policy not to make political donations.

Key performance indicators

The following table provides an overview of the key performance indicators (KPIs) over the last four years.

Significant Statistics	2017	2016	2015	2014
Total Assets £m (1)	**368.1**	328.8	314.7	286.6
New Mortgage Lending £m	**93.7**	63.8	70.1	52.1
Mortgage Assets growth %	**12.2%**	3.8%	9.5%	1.6%
Retail Share Balances net increase/(decrease) £m	**15.8**	20.7	14.4	(0.8)
Total Savings Balances net increase £m (2)	**16.2**	18.6	24.0	0.1
Management Expenses as a % mean Total Assets	**1.22%**	1.21%	1.23%	1.19%
Cost to Income Ratio %	**67.88%**	65.16%	62.36%	62.73%
Profit After Tax £m	**1.55**	1.57	1.57	1.31
Liquid Assets as a % of Shares and Borrowings (1)	**22.03%**	22.41%	21.87%	21.68%
Mortgage Arrears on accounts >2 months in arrears £m	**0.06**	0.06	0.06	0.06
Gross Capital as a % of Shares and Borrowings	**7.64%**	8.07%	7.89%	8.09%

(1) In 2014, 2015, 2016 and 2017 respectively the Society held cumulative drawdown balances of £27m, £31m, £31m and £15m from the Funding For Lending Scheme (FLS). This funding was accounted for off balance sheet unless it was the subject of a repurchase agreement. In 2014, 2015, 2016 and 2017 the repurchase agreements were for £20m, £22m, £23m and Nil which brings that funding onto the balance sheet and leaves £7m, £9m, £8m and £15m off balance sheet in each year.

(2) Total savings includes retail share balances and deposits into non member accounts, for example, Business Deposit and SIPP Cash Deposit.

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

- Management expenses as a percentage of mean total assets measures the Society's efficiency. The Society has continued to invest in staff, training and systems, representing an investment that the Society is making in the future sustainability of the business.

- Liquid assets as a percentage of shares and borrowings are monitored by the Board to ensure an adequate level of liquidity is maintained to meet payments when they become due.

- Gross capital is the general reserve expressed as a percentage of shares and borrowings. It is an indication of the Society's financial strength, and represents accumulated post tax profits.

Directors' Report (continued)

Mortgages

We are pleased to report an exceptional mortgage lending performance with completed advances of £93.7 million (2016: £63.8 million) the majority of which are secured on residential wholly owner occupied property. The increase in mortgage balances has been funded, in the main, by retail savings inflows from new members joining the Society, some wholesale borrowing from other building societies and Local Authorities and drawdowns from the Term Funding Scheme (TFS). We continue to closely monitor all lending decisions, adopting a common-sense and responsible approach to new lending in order to maintain a high quality loan book.

All mortgage cases are fully assessed by our own underwriters (we do not operate automated credit scoring) to understand each case on its own merits. Our underwriting process ensures borrowers have adequate repayment affordability even allowing for the impact of potential future interest rate increases.

There continues to be strong market/intermediary demand for different segments of mortgage lending including First Time Buyer/Low-Deposit mortgages, Buy to Let, Shared Ownership (part-rent/part-buy), Self Build and Lending into Retirement. The Society maintains prudent limits to ensure we do not allow the mortgage book to become over reliant on the performance of any particular lending segment.

The Board is encouraged to see continued Government backing for a number of housing initiatives to assist people to obtain their own home and is keen to support these where possible. The Society offers a number of products to assist First Time Buyers including the Help to Buy Scheme.

Overall arrears levels have remained very low reflecting the low levels of unemployment and the Society's robust underwriting approach which stress-tests future borrower affordability were interest rates to increase significantly.

As at 31 December 2017 there was one mortgage case where repayments were 12 months or more in arrears (2016: nil); the amount of those arrears being £5,535 (2016: £nil) and the mortgage balance £74,668 (2016: £nil). The Society always attempts to assist customers in arrears to reach a manageable solution. This is the reason that the cases with arrears greater than 12 months are infrequent, as customers were able to find a solution to reduce the arrears which was the right outcome for our customers and the Society. Where the Society considers there to be a possibility of loss, an impairment allowance is made in accordance with Board approved policy.

The Society, once again, suffered no mortgage losses in the year.

Borrowers experiencing payment difficulties are encouraged to contact the Society as a number of forbearance measures are available to assist them, if appropriate, with what, in most cases, are temporary problems. These measures could include: a temporary transfer to interest only payments; agreeing an arrears repayment plan; term extensions; or a temporary reduction in payments in order to reduce the financial pressure on the borrower. For all these cases, the intention is that the borrower will resume normal payments as soon as they are able. See note 26 for further detail of the number of loans currently being managed, utilising forbearance measures.

The Board recognises the need to prudently provide for losses. A review of the impairment allowance for forbearance cases, interest only cases where the customer has no evidence of a repayment vehicle and those customers with a higher propensity to default, has resulted in a small reduction in the impairment allowance to £621,000 (2016: £625,000).

Directors' Report (continued)

Savings

Member savings balances increased by £15.8m in 2017 (2016: increase by £20.7 million). This change was driven by a strategy of maintaining competitive rates across a wide range of products. Postal Notice accounts were particularly successful along with the range of Fixed Rate Bonds and our Community Deposit Account.

At our AGM in April we launched a range of Community Savings accounts which pay a competitive rate of interest to our members as well as providing a contribution to the Charitable Trust Fund from the Society. The charitable contribution is based on the average balances on the account during the year. Since launch we have now attracted over £2.8m into these accounts.

Notwithstanding the recent increase in the Bank of England Base Rate, the ongoing low interest rate environment is likely to prevail in the foreseeable future given that the Bank of England have repeatedly stated that any future rate rises will be phased in gradually.

We constantly monitor the market to ensure our savings products remain competitively priced and again we are ahead of average savings rates in the market. We continue to reserve our better savings rates for loyal and local customers and also, the Community Deposit Account (for local clubs, charities and associations) continues to provide a higher rate than other comparable deposit accounts. We also attract future savers through maintaining a competitive range of products for younger savers.

Capital and liquidity

The Prudential Regulatory Authority supervises the financial health of all building societies and enforces strict requirements in respect of capital and liquidity levels as well as broader systems of governance and control.

This regulatory oversight aligns fully with the Society's Promise of maintaining a safe and secure haven for savings. Growing Capital Reserves each year through maintaining healthy levels of post-tax profits, protects members against future risks and enables us to offer a wide range of mortgage products that generate income to maintain competitive savings rates.

At 31 December 2017, gross capital, which is represented by reserves, amounted to £26.0 million (2016: £24.5 million), being 7.64% of total shares and borrowings (2016: 8.07%). Free capital, which comprises gross capital, loan impairment allowance less tangible and intangible fixed assets, amounted to £24.6 million (2016: £23.3 million) being 7.21% of total shares and borrowings (2016: 7.70%).

Liquid assets in the form of cash in hand, deposits with credit institutions and debt securities stood at £75.1 million representing 22.03% of shares and borrowings as at 31 December 2017. This compares with £68.0 million and 22.4% reported at 31 December 2016. The liquid assets figure of £75.1 million does not include £15 million (2016: £8.0 million) of Treasury Bills we hold as part of the FLS as these are held off balance sheet for accounting purposes. The Board has been able to keep liquidity at efficient levels as the Society continues to have access to the various facilities in the Bank of England's Sterling Monetary Framework operations. This facility is designed to provide lenders with greater access and flexibility in managing balance sheet funding.

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

Financial risk management objectives and policies

The Society has a formal structure for managing risk, including procedures for identifying and measuring risks, establishing risk limits, reporting lines, mandates and other control procedures. The Board is responsible for managing and controlling the balance sheet exposures and the use of financial instruments for risk management purposes. Further details on these risks can be found in notes 26, 27 and 28.

Directors' Report (continued)

Principal risks and uncertainties

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

- **Strategic risk** is the impact on the Society's business model as a result of the changing interest rate environment, competition and legislation. These have the potential to reduce the Society's profit levels and contribution to capital, thereby threatening the financial strength of the Society. Strategic risk is regularly considered by the Board.

- **Credit risk** is the risk that mortgage customers or treasury counterparties default on their obligation to pay.

  Mortgage credit risk is controlled in accordance with the Board-approved lending policy and by strict controls over lending mandates. Mortgage applications are approved by a central underwriting team in accordance with the lending policy. Quality control reports are regularly considered by the Credit Committee.

  Counterparty credit risk is controlled through adherence to the Board-approved policies for Liquidity and Financial Risk Management – these include prudent limits on credit exposures to individual and groups of counterparties.

- **Interest rate risk** is the risk of mismatches between the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates, impacting on profitability and the value of the Society's assets and liabilities. Interest rate risk is managed utilising financial instruments where appropriate (in accordance with the Board-approved policies for Liquidity and Financial Risk Management), and are regularly reviewed by the Management Assets & Liabilities Committee. A detailed analysis of the Society's interest rate sensitivity at 31 December 2017 can be found in note 28 on pages 62 to 63.

- **Liquidity risk** is the risk of being unable to meet demands and commitments to provide funds to customers and other third parties. Liquidity risk is controlled through adherence to the Board-approved policies for Liquidity and Financial Risk Management – this ensures sufficient funds in liquid form are available at all times so the Society can meet its liabilities as they fall due. Stress tests are carried out regularly to confirm that the Society can withstand normal and abnormal cash outflows. The policies for Liquidity and Financial Risk Management are regularly reviewed by the Risk Committee and are approved by the Board.

- **Operational risk *(including Cyber risk)*** is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events. The Society has robust processes and controls in place for all operational areas, which are designed to mitigate this risk. The Society has invested heavily in upgrading IT systems and enhancing security measures to ensure we are protected from Cyber risk. The Audit and Compliance Committee is responsible for assessing the effectiveness of the system of inspection and control including cyber protection.

- **Legal and Regulatory risk** is the risk of failing to interpret, implement and comply with the array of legal and regulatory requirements. This is regularly reviewed by the Risk Committee.

- **Conduct Risk** is the risk of the Society providing poor outcomes to customers. The Society is committed to treating customers fairly and this is underpinned by the Society's Conduct risk framework, which is regularly reviewed by the Risk Committee. The executive committees monitor conduct risk at an operational level.

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

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

Directors' Report (continued)

Corporate social responsibility

The Society is committed to supporting the community that it serves and does this via a combination of financial support and volunteering from staff (see page 2 for details).

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

Staff

The Society is proud of our excellent customer service record and this is founded upon well qualified staff, motivated to do an excellent job and who act in the best interests of our members. The Board would like to thank the staff for delivering an excellent year of profitable growth whilst maintaining a high level of service to our members. Our staff worked extremely hard throughout 2017 and coped admirably with the challenge of balancing high volumes of business with the need for change in both processes and systems, to keep pace with regulation. We have invested in additional resources to ensure that all staff have the appropriate time and tools to deliver our service commitment to provide individual personal service to members.

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

The Society has also invested in learning and development resource in 2017 and formal job training was supplemented by a series of "Lunch & Learn" sessions which allowed staff to learn new skills in a more relaxed environment. Staff support was further enhanced by a new Health and Well Being programme which has been successfully introduced for all staff to take advantage of.

2018 will see the launch of our Management Development programme which will focus on the key skills of managing both people and tasks. This will be made available to all managers and aspiring managers.

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

The Board thanks everyone for their dedication and hard work in achieving another year of excellent results enabling the Society to maintain its place in a continually evolving financial services market.

Future developments

Our careful and cautious approach to mortgage underwriting has protected the Society from serious financial losses. Our considered and prudent approach to conducting our business affairs means that we are well placed to take advantage of opportunities in sectors that are sometimes ignored by larger lenders. Buy to let, self-build, shared ownership and lending into retirement are areas in which we are actively increasing our mortgage book in a controlled manner and this will continue into 2018.

The use of mortgage brokers to assess and recommend mortgage solutions continues to grow in popularity and the Society will continue to invest in the infrastructure for this part of the business with the enhancement of our Mortgage Broker Portal in 2018 to allow mortgage intermediaries to obtain a decision in principle and make an application over the internet.

Our range of savings products will continue to be reviewed to ensure they remain competitive and ahead of average savings rates in the market. In addition, consideration will be given to upgrading the existing online access we provide to savings accounts.

Directors' Report (continued)

The Society will also invest in the infrastructure of the branch network and we expect to start the refurbishment of at least one of our premises in 2018.

In 2017 the Society invested in upgrading our IT infrastructure and strengthening our defences against Cyber threats. These threats are continually evolving and further investment will be required to maintain our levels of protection.

The level of mortgage growth achieved in 2017 was an exceptional performance in a difficult market. Given market competition is intensifying, the Board expects growth in mortgages to be a challenge for the year ahead with market pricing likely to drive a reduction in the interest margin that the Society is able to achieve.

Notwithstanding these market pressures, the Society is well placed to maintain its strong capital position and robust infrastructure to meet customer and regulatory needs.

The Board is very proud of the work that our staff perform in the community and is supportive of the increased focus that this activity will receive in future years. 2018 will see the launch of our financial education programme in local schools and there are plans to roll this out to a wider audience if successful.

Directors

The following were directors of the Society during the year:

Non-executive directors

Jeremy Cross, ACA	Chairman
Rob Clifford, CertPFS	Vice Chairman and Senior Independent Director
Robert Hartley, FRICS	
Alison Chmiel, FCMA	
Colin Bradley, ACA, ACIB	
Nick Baxter, DipM DipMan (Open)	

Executive directors

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

Gev Lynott and Rob Clifford stand for re-election in accordance with Rule 26 (retirement by rotation).

At 31 December 2017 no director held any interest in the shares or debentures of any connected undertaking.

Other matters

Creditor payment policy

The Society does not follow a formal code or standard on payment practice. Instead, the Society has continued with its policy of ensuring payments to trade creditors are made promptly within the agreed terms of credit, once the contractual obligations of the supplier have been discharged. Amounts due to creditors as at 31 December 2017 represented 4 days (2016: 3 days).

Auditor

After a full tender process during 2017 the Board has decided to continue to recommend KPMG LLP be appointed as auditor and a resolution for their appointment will be proposed to the Society's forthcoming Annual General Meeting.

Directors' Report (continued)

Events since the year end

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

Going concern

The directors have considered the risks and uncertainties outlined on page 6 and the extent to which they might affect the preparation of the annual report and accounts on a going concern basis.

The Society's future plans have been discussed by the Board and outlined on page 7. Furthermore the Society's forecasts and plans, taking account of current and possible future operating conditions, have been subjected to stress tests and scenario analysis and indicate that the Society has sufficient operating liquidity and capital for the foreseeable future. As such the Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason the accounts are prepared on a going concern basis.

On behalf of the Board of Directors

Jeremy Cross
Chairman
1 March 2018

Corporate Governance Report

The Society has regard to the principles of the Financial Reporting Council's UK Corporate Governance Code, last updated in April 2016.

The Role of the Board

Code Principle:

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

Board comment:

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

At 31 December 2017 the Society's Board consisted of six non-executive directors (including the Chairman) and two executive directors who have the collective responsibility for ensuring that the affairs of the Society are managed competently and with integrity. The Board views all the non-executive directors as being independent in character. In 2017 the Board met 10 times to closely monitor the Society's business performance. At the meeting in November a detailed review of the Society's strategy took place.

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

Nomination Committee

The Nomination Committee meets at least annually or at any other time determined by the Committee. The principal functions are to review the independence, structure, skills, knowledge, fitness and performance of the Board. It also makes recommendations on Board succession planning and election of directors.

Committee members during the year were Jeremy Cross (Chairman), Rob Clifford and Gev Lynott.

Remuneration Committee

The Committee meets three times each year. It is responsible for the remuneration policy for all directors of the Society. The Committee also makes recommendations to the Board regarding remuneration and contractual arrangements for both the Society's executive/senior management team and Remuneration Code staff. In addition the Committee reviews, at a strategic level, the quality and effectiveness of the people resources deployed within the Society.

Committee members during the year were Robert Hartley (Chairman) and Jeremy Cross.

Meetings of the Committee are also attended, as appropriate, by Gev Lynott (Chief Executive), Paul Wheeler (Deputy Chief Executive and Finance Director) and Vickie Preston (HR Manager), who withdraw from the meeting when their own remuneration is being considered, or on request.

Further information on the role of the Remuneration Committee is included within the Directors' Remuneration Report on page 19.

Corporate Governance Report (continued)

Audit and Compliance Committee

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

The Committee has responsibility for the financial reporting of the Society and this includes review of accounting policies and the integrity of these financial statements.
The Committee also has responsibility to ensure that auditor objectivity is maintained where the external auditor provides additional non audit services.

Current Committee members are Colin Bradley (Chairman), Jeremy Cross and Robert Hartley. Colin Bradley and Jeremy Cross both collectively have financial business knowledge. The meetings are attended by representatives from internal and external audit, together with the Chief Executive, Deputy Chief Executive and Finance Director, the Risk and Compliance Executive and Money Laundering Reporting Officer.

A report from the Audit and Compliance Committee is included on P17.

Risk Committee

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

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

Committee members are Alison Chmiel (Chairman), Jeremy Cross, Rob Clifford, Nick Baxter, Gev Lynott and Paul Wheeler. Jill Watson (Risk and Compliance Executive) and David Newby (Mortgage Executive) attend as appropriate.

Attendance at Board and Committee meetings

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

	Board	Nomination Committee	Remuneration Committee	Risk Committee	Audit and Compliance Committee
Number of Meetings	10	2	3	4	6
Non-executive directors					
Jeremy Cross	10	2	3	4	6
Alison Chmiel	10	*	*	4	*
Colin Bradley	10	*	*	*	6
Robert Hartley	9	*	3	*	5
Rob Clifford	10	2	*	4	*
Nick Baxter	9	*	*	4	*
Executive directors					
Gev Lynott	10	2	*	4	*
Paul Wheeler	9	*	*	3	

* Denotes not a member of the Committee

Corporate Governance Report (continued)

Division of Responsibilities

Code Principle:

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

Board comment:

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

The Chairman

Code Principle:

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

Board comment:

The Chairman sets the direction and culture of the Board, facilitating effective contribution from directors, maintaining constructive relations between executive and non-executive directors and ensuring that directors receive accurate, timely and clear advice and information. The current Chairman was appointed in May 2015, he has been a member of the Board for five years.

Non-Executive Directors

Code Principle:

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

Board comment:

The Board provides an independent and constructive challenge to the executive team with regard to the strategy and business performance of the Society. They ensure that the interests of the members are maintained and that the Society is fully compliant with all regulations. This requires time commitment for both attendance at Society meetings and continued development of their knowledge and skills relating to the building society sector. Each year the Board carries out a specific, formal review of Society strategy.

The Composition of the Board

Code Principle:

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

Board comment:

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

Corporate Governance Report (continued)

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

Appointments to the Board

Code Principle:

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

Board comment:

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

The Society has a well developed process for recruiting non-executive directors which includes advertising on relevant websites and in appropriate publications. The search and selection process involves the whole Board and is supported with a clear definition of the experience and the required skill set for the role. The Society values diversity but makes appointments to the Board based on merit and on the skills and experience required within the Board as a whole. For these reasons it does not have a measurable diversity policy. All new directors appointed are subject to election by the members at the next Annual General Meeting of the Society following their appointment.

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

Commitment

Code Principle:

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

Board comment:

Non-executive directors are required to commit a minimum of three days per month to their Board responsibilities. Directors are informed of the time commitment in the letter of appointment. The Board evaluates the ability of directors to commit the time required for their role, prior to appointment. The formal appraisal process carried out by the Chairman each year also assesses whether directors have demonstrated this ability during the year. The attendance record during the year of Board and Committee members is set out on page 11.

Corporate Governance Report (continued)

Development

Code Principle:

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

Board comment:

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

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

Information and Support

Code Principle:

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

Board comment:

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

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

Evaluation

Code Principle:

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

Board comment:

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

The Society has a formal performance evaluation system for all members of staff including the executive directors. The Chief Executive holds a performance review with the senior managers including the Deputy Chief Executive and Finance Director. The Chairman reviews the Chief Executive's performance and reports to the Board. A performance evaluation system for non-executive directors, including the Chairman, has been in operation for several years. In 2017 this included 360° feedback completed by each individual director. The Chairman reviewed the output of all questionnaires and used these as a basis for an appraisal interview with each non-executive director. The Vice Chairman supported by the other non-executive directors, undertook the appraisal interview for the Chairman. This procedure identifies any individual and Board training requirements and provides the evidence for the Board as to whether to recommend to members that a director should be re-elected.

Corporate Governance Report (continued)

Re-election

Code Principle:

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

Board comment:

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

Financial and Business Reporting

Code Principle:

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

Board comment:

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

The responsibilities of the Directors in relation to the preparation of the Society's accounts and the statement that the Society's business is a going concern are contained in the Statement of Directors' Responsibilities on page 22.

The Audit and Compliance Committee Report on pages 17 to 18 describes the main areas of accounting judgement considered by the Audit and Compliance Committee.

Risk Management and Internal Control

Code Principle:

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

Board comment:

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

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

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

Corporate Governance Report (continued)

Audit and Compliance Committee and Auditors

The Audit and Compliance Committee Report on pages 17 to 18 explains how the Society applies the Code Principles relating to corporate reporting and internal control.

Dialogue with Shareholders

Code Principle:

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

Board comment:

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

Constructive use of the Annual General Meeting (AGM)

Code Principle:

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

Board comment:

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

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

Remuneration

The Directors' Remuneration Report on page 19 explains how the Society pays regard to the Code Principles relating to remuneration.

Jeremy Cross
Chairman
1 March 2018

Audit and Compliance Committee Report

This report explains how the Society applies the principles of the UK Corporate Governance Code April 2016 (the Code) relating to the operation of the Audit and Compliance Committee and the system of internal control. The report details how the Committee discharged its responsibilities in line with the provisions of the April 2016 version of the Financial Reporting Council's 'Guidance on Audit Committees'. In particular it details the significant issues reviewed and concluded on including the Committee's assessment of those areas on which accounting judgement was exercised. The Audit & Compliance Committee met five times last year and in addition met to approve the year end accounts and also met with the external and internal auditors without the Executive Directors present.

The Committee acts independently of the Executive to ensure that the interests of members are properly protected in relation to financial reporting and internal control. All of the current members of the Committee are independent non-executive directors with extensive experience of the financial services sector. The Chair of the Committee is a Chartered Accountant with significant, relevant accounting and audit competence. The Committee has reviewed the collective skills of members and concluded that the balance of skills, knowledge and experience of the Committee is appropriate.

Financial and Business Reporting

Code Principle:

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

Board comment:

The Audit and Compliance Committee has oversight of Financial Reporting within the Society. As such it is charged with monitoring the integrity of the Society's financial statements and reviewing critical accounting policies, judgements and estimates. This includes reviewing the appropriateness of the going concern basis for preparing the accounts and advising the Board whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable.

The Committee also paid particular attention during the year to the following matters which are important by virtue of their potential impact on the Society's results, particularly because they involve a high level of complexity, judgement or estimation by management:

Effective interest rate - Interest income on the Society's mortgages is measured under the effective interest rate (EIR) method. The application of the EIR method of accounting requires judgement and the accounting entries involve estimates based on key assumptions, particularly around the behavioural life of products and requires management to make a number of financial modelling estimates. The Committee has examined the approach taken including the revised mortgage product lives, and has satisfied itself that the estimates and accounting treatment are appropriate.

Provisioning for loan impairment - The Committee monitored loan impairment provisions by considering key assumptions contained in the Society's provisioning model and the relevant disclosure in the Report and Accounts. In particular, the Committee considered and challenged the assumptions adopted, and has satisfied itself with the level of impairment provisions made for the mortgage portfolio.

Hedge accounting - The Society has implemented hedge accounting in line with IAS 39. The designated macro hedges require matching, hedge effectiveness documentation and testing; and fair valuing both the hedged instrument and the underlying hedged item. The Committee considered the appropriateness of the hedging arrangements and the fair value processes in respect of hedging instruments and the underlying hedged items. The Committee agreed that hedge accounting had been applied in accordance with IAS 39.

Statutory Audit - The Committee considered matters raised during the statutory external audit, through discussion with senior management of the business and the external auditor, and concluded that there were no adjustments required that were material to the financial statements. In light of its enquiries above, the Committee is satisfied that, taken as a whole, the 2017 Annual Report and Accounts is fair, balanced and understandable and provides a clear and accurate presentation of the Society's position and prospects.

Audit and Compliance Committee Report (continued)

Audit and Compliance Committee and Auditors

Code Principle:

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

Board comment:

The Society recognises the importance of good systems of internal control in the achievement of its objectives and the safeguarding of its assets. Good internal controls also facilitate the effectiveness and efficiency of operations, help to ensure the reliability of internal and external reporting, and assist in compliance with applicable laws and regulations. Management are responsible for designing an appropriate internal control framework whereas the Audit & Compliance Committee is responsible for ensuring that the Board receives appropriate assurance over the effective operation of this framework. Consistent with these responsibilities, the Committee undertook the following activities during 2017 to satisfy itself over the robustness of the internal control framework:

Compliance - The Society's Compliance function provides second line assurance on activities across the Society. The outputs of Compliance activities are reported to the Committee, together with progress updates on management's implementation of the findings. During the year, the Committee approved and monitored the Compliance function's annual plan of work.

Internal Audit - The Society's Internal Auditors (Deloitte LLP) provide independent assurance to the Board, via the Audit and Compliance Committee, on the effectiveness of the internal control framework. The information received and considered by the Committee during 2017 provided assurance that there were no material breaches of control and that the Society maintained an adequate internal control framework that met the principles of the UK Corporate Governance Code. The Committee is also responsible for agreeing the annual budget for the Internal Audit service and for approving its annual risk based plan of work. Internal Audit provides the Committee with reports on its findings and recommendations as well as updates on the progress made by management in addressing these findings, including verification that actions have been accurately reported as complete. The Committee is satisfied that, throughout 2017, Internal Audit had an appropriate level of resource to deliver its plan of work and that it discharged its responsibilities effectively.

External Audit - The Audit and Compliance Committee is responsible for providing oversight of the external audit process by monitoring the relationship with the external auditor, agreeing its remuneration and terms of engagement, and making recommendations to the Board on the appointment, re-appointment or removal of the external auditor as appropriate. As part of the external audit process, the external audit firm KPMG will highlight any material control weaknesses that come to their attention. During this year's audit no such points were raised. The Committee is also responsible for monitoring the performance, objectivity and independence of the external auditor, ensuring that the policy regarding the external audit firm providing non-audit services is appropriately applied. During the year the external auditor did not undertake any non-audit services.

Audit Tender - In order to retain independence and objectivity, the Society's policy is to tender for audit services on a regular basis. Both the external and internal audit contracts were put out to tender in 2017, with 4 firms being invited to tender for each. In July 2017 the Audit and Compliance Committee received presentations from four audit firms for the internal audit and three for the external audit. As a result of the tender, Deloitte LLP have been re-appointed as internal auditor and KPMG LLP are being recommended for re-appointment as external auditor at the 2018 AGM.

Colin Bradley
Audit and Compliance Committee Chairman
1 March 2018

Directors' Remuneration Report for the year ended 31 December 2017

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

The Remuneration Committee

This report has been prepared by the Remuneration Committee, which is made up entirely of non-executive directors and meets three times a year, with special meetings as needed. The membership of the Committee during 2017 was:

Robert Hartley (Chair)

Jeremy Cross

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

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

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

Policy for executive directors

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

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

Bonus – the two executive directors are entitled to a medium term bonus which is a non-pensionable, performance related cash bonus payable on achievement of Board specified key performance indicators and personal objectives which include risk management objectives. Performance is based on a one year period with 50% of the payment being deferred equally over the following two years. The deferred payment is subject to additional medium term performance objectives. Payment is not guaranteed and the maximum bonus is 20% of basic salary. Given the successful performance during 2017, the two executive directors have earned 15% of basic salary as reward under this scheme.

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

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

Directors' Remuneration Report for the year ended 31 December 2017 (continued)

Service contracts

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

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

Policy for non-executive directors

The remuneration of non-executive directors is reviewed annually by the Remuneration Committee, using external data from other comparable building societies, and by a performance review process undertaken by the Society's Chairman.

The remuneration of the Chairman is reviewed by the 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 2017 are shown below.

Audited	2017 £000	2016 £000
Non-executive directors' fees	144	140
Executive directors' remuneration	354	331
Total	**498**	471

Non-executive directors' fees	2017 £000	2016 £000
Jeremy Cross (Chairman)	33	32
Rob Clifford	21	21
Alison Chmiel	24	23
Robert Hartley	21	21
Ian Rowling (1)	-	20
Nick Baxter (2)	21	-
Colin Bradley	24	23
Total	**144**	140

Directors' Remuneration Report for the year ended 31 December 2017 (continued)

Executive directors	Salary £000	Annual Bonus £000	Deferred Bonus £000	Benefit £000	Pension £000	2017 £000
Gev Lynott (CEO) (3)	151	11	12	18	0	192
Paul Wheeler (DCEO) (4)	105	9	9	14	25	162
Total	**256**	**20**	**21**	**32**	**25**	**354**

Executive directors	Salary £000	Annual Bonus £000	Deferred Bonus £000	Benefit £000	Pension £000	2016 £000
Gev Lynott (CEO) (3)	144	9	9	17	-	179
Paul Wheeler (DCEO) (4)	104	9	7	14	18	152
Total	248	18	16	31	18	331

(1) Ian Rowling resigned from the Board November 2016

(2) Nick Baxter joined the Board January 2017.

(3) Pension contributions for Gev Lynott have been made in full for 6 future years during the financial year ended 31 December 2012. A contract is in place which returns this money to the Society on a pro rata basis should Gev Lynott leave before May 2018.

(4) Paul Wheeler has chosen to salary sacrifice his pension contributions thus reducing his salary and increasing his pension benefit.

On behalf of the Board of Directors

Robert Hartley
Chair of the Remuneration Committee
1 March 2018

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities in Respect of the Annual Report, the Directors' Report and the Financial Statements

The directors are responsible for preparing the Annual Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then 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 financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company 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 company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board of Directors

Jeremy Cross
Chairman
1 March 2018

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

1. Our opinion is unmodified

We have audited the annual accounts of The Mansfield Building Society for the year ended 31 December 2017 which comprise the statement of comprehensive income, statement of financial position, statement of changes in members' interests, cash flow statement and the related notes, including the accounting policies in note 1.

In our opinion the annual accounts:

- give a true and fair view of the state of affairs of the Society as at 31 December 2017 and of the income and expenditure of the Society for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit and compliance committee.

We were appointed as auditor by the members for period ended 31/12/2008. The period of total uninterrupted engagement is for the 10 financial years ended 31 December 2017.

We have fulfilled our ethical responsibilities under, and we remain independent of the Society in accordance with, UK ethical requirements including the FRC Ethical Standard applicable to public interest entities. No non-audit services prohibited by that standard were provided.

Materiality: annual accounts as a whole	£77k (2016:£131k) 4% (2016: 7%) of Profit before tax

Risks of material misstatement		**vs 2016**
Recurring risks	Revenue Recognition	◄►
	Impairment of loans and advances to customers	◄►

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the annual accounts and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise on the following pages the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the annual accounts as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Impairment of loans and advances to customers

(£620,762; 2016: £624,000)
Refer to page 17 (Audit and Compliance Committee Report), page 33 (accounting policy) and page 45 (financial disclosures)

The Risk

Subjective estimate:

Individual impairment provisions cover loans specifically identified as impaired and a collective impairment provision is held for all other loans for those impairments incurred but not yet specifically identified.

The Directors judge individual impairments by reference to loans that have suffered significant financial difficulty of the borrower, the restructuring of a loan or advance by the Society on terms that the Society would not consider otherwise, indications that a borrower or issuer will enter bankruptcy, and observable data relating to a group of assets such as adverse changes in payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The impairment provision is derived from a model that uses a combination of the Society's historical experience and, due to the Society's limited loss experience, external data, adjusted for current conditions. In particular, judgement is required on the key assumptions of probability of defaults existing and forced sale discounts against collateral.
The collective impairment model is most sensitive to movements in the forced sale discount assumption.

Our Response

Our procedures included:

- **Control testing**: We tested controls over the acceptance, monitoring and reporting of credit risk.
- **Benchmarking assumptions:** We compared the key assumptions used in the impairment provision model, being selling costs and forced sale discount, with those applied at peer organisations.
- **Our sector experience**: We challenged the key assumptions used in the impairment provision model, being probability of default and forced sale discount, using our knowledge of recent impairment experience in this industry, including that of the Society.
- **Sensitivity analysis**: We assessed the provision model for its sensitivity to changes in the key assumptions of probability of default and forced sale discount and appropriateness of impairment triggers by performing stress testing to help us assess the reasonableness of the assumptions and identify areas of potential additional focus.
- **Tests of detail**: We identified a selection of loans by filtering data from loan book reports and examined accounts with higher LTVs to identify individual loans which may have unidentified impairments. We tested the provision attached to these loans by reference to relevant supporting information such as the core loan system in addition to other items such as the existence of additional collateral to challenge the completeness and accuracy of the Society's specific impairment provision estimate. We have assessed the expertise of the credit reference agency.
- **Assessing transparency**: We assessed the adequacy of the Society's disclosures in respect of the degree of estimation involved in arriving at the provision.

Our results:

- We found the assumptions used in the calculation of the impairment provision in respect of loans and advances to customers to be acceptable (2016: acceptable).

Data Capture

The collective and individual impairment provision model use a combination of static (e.g. original collateral valuation) and dynamic data (e.g. current balance/interest rates/valuations) in respect of the Society's loans as well as from external sources (e.g. house price index (HPI) tables to drive indexed valuations or ratings agency reports to derive probability of default). Owing to the risk of incorrect data in the underlying system there is a risk that the data used in the provision model are inaccurate

Our procedures included:

- **Control observations**: We tested controls over the lending processes that capture certain static data used in the impairment model (e.g. initial collateral valuation, loan amounts and product interest rates) by observing the operation of these controls over these processes.
- **Data comparison**: We checked both a sample of internal data and the data totals used in the model back to the Society's underlying source (e.g. current balance on the mortgage loan system). We also checked the external inputs of HPI to external sources.

Our results:
- We found the data used in the calculation of the impairment provision in respect of loans and advances to customers to be acceptable (2016: acceptable).

Revenue Recognition

EIR Income Adjustment £154,563, (2016: £162,294) year end EIR Asset £584,769 (2016: £440,275)
Refer to page 17 (Audit and Compliance Committee Report), page 32 (accounting policy) and page 44 (financial disclosures)

The Risk

Subjective Estimate:

Using a spreadsheet model, interest earned and fees incurred on loans are recognised using the effective interest rate ('EIR') method that spreads directly attributable expected cash flows over the expected lives of the loans. We have audited the Early Redemption Charge model, Fee EIR model and the Interest EIR model.

The Directors apply judgement in deciding and assessing the expected repayment profiles used to determine the EIR period. The most critical element of judgement in this area is the estimation of the future redemption profiles of the loans. This is informed by product mix and past customer behaviour of when loans are repaid.

Our Response

Our procedures included:

- **Our sector experience**: We assessed the key assumptions behind the expected customer lives and profiles of all material loan products against our own knowledge of industry experience and trends, including benchmarking with comparable lenders.
- **Historical comparison**: We assessed the reasonableness of the model's expected repayment profile assumptions against historical experience of loan lives based on customer behaviour, product mix and recent performance.
- **Assessing transparency**: We assessed the adequacy of the Society's disclosures in respect to degree of estimation in the EIR adjustment

Our results:

- We found the resulting estimate of the interest income to be acceptable (2016: Acceptable).

Accounting Application:

Transaction costs are required to be spread over the EIR period. Given that transaction costs are often one off costs, usually occurring either at the start or at the end of the contract, it is not uncommon for these to be overlooked when constructing EIR models. The EIR model is complex and so open to the possibility that the modelling principles are not in accordance with accounting requirements.

Our procedures included:

- **Methodology implementation:** We compared the application of the EIR methodology and the cash flows included in the model with the relevant accounting standard, checking that the model included the appropriate level of any transaction costs.
- **Test of detail**: We assessed whether the model performs the EIR calculation as designed, by applying the model to a selection of data.

Our results:

- The results of our testing were satisfactory (2016: satisfactory).

Data capture:

The EIR model used data about the Society's loans that are sourced in other systems such as the loan system. Owing to the risk of incorrect data in the underlying system there is a risk that the data used in the model are inaccurate.

Our procedures included:

- **Control observation**: We tested controls over the lending processes that capture certain static data used in the EIR model (such as loan balance and interest rate) by observing the operation of the controls over these processes, and inspecting underwriting documents. We also tested General IT controls over the mortgage system.
- **Data comparison**: We checked both a sample of the internal data and the data totals used in the model back to the Society's underlying source (e.g current balance on the mortgage loan system). We also agreed the life profile assumptions in the model to the profiles produced by the Society, and assessed as outlined above.

Our results:

- We found the data used in the calculation of the effective interest rate adjustment for loans to be acceptable (2016: acceptable).

3. Our application of materiality and an overview of the scope of our audit

Materiality for the annual accounts as a whole was set at £77,000 (2016: £131,000), determined with reference to a benchmark of profit before tax, of which it represents 4% (2016: 7%).

We agreed to report to the Audit and Compliance Committee any corrected or uncorrected identified misstatements exceeding £3,800 (2016: £6,500), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Society was undertaken to the materiality level specified above and was all performed at the Society's head office in Mansfield.

4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the annual accounts. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

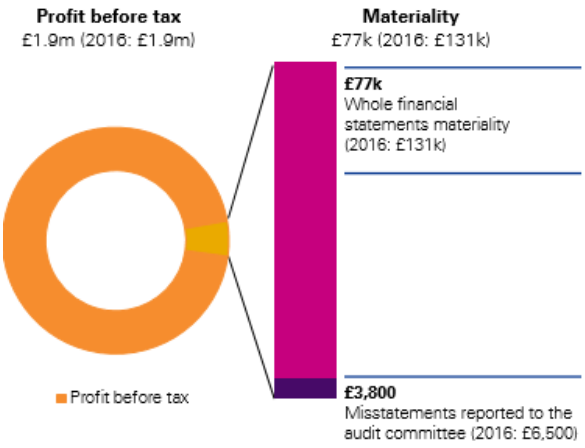
The directors are responsible for the other information presented in the annual report together with the annual accounts. Our opinion on the annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our annual accounts audit work, the information therein is materially misstated or inconsistent with the annual accounts or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Annual Business Statement and Directors' Report

In our opinion:

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



6. We have nothing to report on the other matters on which we are required to report by exception

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- the annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 22, the directors are responsible for: the preparation of annual accounts which give a true and fair view; such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error; assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual accounts. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the annual accounts.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified relevant areas of laws and regulations, that could have a material effect on the financial statements, from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Society's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related building society legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related annual accounts items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital and liquidity, and conduct including PPI mis-selling, money laundering, financial crime, market abuse regulations and mortgage advice and record keeping, recognising the financial and regulated nature of the Society's activities. With the exception of any known or possible non- compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence.

We considered the effect of any known or possible non-compliance with these as part of our procedures on the related annual accounts items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

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

Matthew Rowell (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

1 March 2018

Statement of Comprehensive Income for the year ended 31 December 2017

	Note	2017 £000	2016 £000
Interest receivable and similar income	2	9,423	9,766
Interest payable and similar charges	3	(3,234)	(3,868)
Net interest income		**6,189**	5,898
Fees and commissions receivable	4	154	186
Fees and commissions payable	4	(106)	(102)
Other operating income		6	6
Net gains from derivative financial instruments	5	40	1
Total net income		**6,283**	5,989
Administrative expenses	6	(4,087)	(3,757)
Depreciation and amortisation	14 & 15	(177)	(145)
Operating profit before impairment losses and provisions		**2,019**	2,087
Impairment losses on loans and advances	13	4	8
Provisions for liabilities	22	(109)	(118)
Profit before tax		**1,914**	1,977
Tax expense	9	(368)	(402)
Profit for the financial year		**1,546**	1,575

Other Comprehensive Income

	2017 £000	2016 £000
Defined benefit costs (note 29)	-	-
Income tax on other comprehensive income	-	-
Total comprehensive income for the year	**1,546**	1,575

Profit for the financial year arises from continuing operations. Both the profit for the financial year and total comprehensive income for the period are attributable to the members of the Society.

The notes on pages 32 to 67 form part of these accounts.

Statement of Financial Position as at 31 December 2017

	Note	2017 £000	2016 £000
Assets			
Cash in hand and balances with the Bank of England		53,602	35,970
Loans and advances to credit institutions	10b	19,465	25,980
Debt securities	10c	2,008	6,043
Derivative financial instrument assets	11	139	8
Loans and advances to customers	12	290,501	258,813
Tangible fixed assets	14	1,599	1,462
Intangible assets	15	371	168
Other debtors	16	403	323
Total assets		**368,088**	328,767
Liabilities			
Shares	17	264,818	249,061
Amounts owed to credit institutions	18	42,041	24,780
Amounts owed to other customers	19	33,987	29,543
Derivative financial instrument liabilities	11	51	126
Accruals and deferred Income		517	299
Other liabilities	20	525	334
Provisions for liabilities	22	109	130
Net pension liability	29	-	-
Total liabilities		**342,048**	304,273
Reserves			
General reserves	24	26,040	24,494
Total reserves attributable to members of the Society		**26,040**	24,494
Total reserves and liabilities		**368,088**	328,767

The notes on pages 32 to 67 form part of these accounts.

These accounts were approved by the Board of Directors on 1 March 2018 and signed on its behalf by:

Jeremy Cross
Chairman

Paul Wheeler
Deputy Chief Executive, Finance Director and Secretary

Gev Lynott
Chief Executive and Director

Statement of Changes in Members' interests

	General Reserve 2017 £000	Total 2017 £000	General reserve 2016 £000	Total 2016 £000
Balance at 1 January	24,494	24,494	22,919	22,919
Total comprehensive income for the period				
Profit or loss	1,546	1,546	1,575	1,575
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	1,546	1,546	1,575	1,575
Balance at 31 December	**26,040**	**26,040**	24,494	24,494

Cash Flow Statement for the year ended 31 December 2017

	Note	2017 £000	2016 £000
Cash flows from operating activities			
Profit before tax		1,914	1,977
Adjustment for			
Depreciation and amortisation		177	145
(Decrease) in impairment of loans and advances		(4)	(8)
Total		**2,087**	2,114
Changes in operating assets and liabilities			
(Increase) in prepayments, accrued income and other assets		(162)	(92)
Increase/(Decrease) in accruals, deferred income and other liabilities		159	(412)
Increase in loans and advances to customers		(31,688)	(9,524)
Increase in shares		15,957	20,707
Increase/(Decrease) in amounts owed to other credit institutions and other customers		44,404	(8,783)
Decrease/(Increase) in loans and advances to credit institutions		8,900	(6,000)
Taxation paid		(329)	(431)
Net cash generated (used) by operating activities		**39,328**	(2,421)
Cash flows from investing activities			
Purchase of debt securities		(2,000)	(6,000)
Maturity of debt securities		6,000	1,000
Purchase of tangible fixed assets		(230)	(83)
Disposal of tangible fixed assets		-	12
Purchase of intangible fixed assets		(288)	(110)
Sales and maturities of Treasury Bills		(22,746)	1,030
Net cash (used in) investing activities		**(19,264)**	(4,151)
Net Increase/(Decrease) in cash and cash equivalents		**20,064**	(6,572)
Cash and cash equivalents at 1 January 2017		41,867	48,439
Cash and cash equivalents at 31 December 2017	10(a)	**61,931**	41,867

The notes on pages 32 to 67 form part of these accounts.

Notes to the Accounts

1 Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

Basis for preparation

The Society annual accounts are prepared and approved by the directors in accordance with FRS102 (The Financial Reporting Standard applicable in the UK and Republic of Ireland) and those parts of the Building Societies Act 1986 and Building Societies (Accounts and Related Provisions) Regulations 1998 applicable to societies reporting under FRS102. The Society has also chosen to apply the recognition and measurement provisions of IAS39 (Financial Instruments: recognition and measurement).

The annual accounts are prepared under the historical cost convention as modified by the fair value of derivatives.

The accounts have been prepared on the going concern basis as outlined in the Directors' report on page 9.

The preparation of accounts in conformity with FRS102 and IAS39 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

Interest income and expense

Interest income and interest expense for all interest bearing financial instruments are recognised in 'interest receivable and similar income' or 'interest payable and similar charges' using the effective interest rates of the financial assets or financial liabilities to which they relate. The effective interest rate is the rate that discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying amount of the financial asset or liability.

Interest on impaired financial assets is recognised at the original effective interest rate of the financial asset applied to the carrying amount as reduced by an allowance for impairment.

Fair value changes on other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the statement of comprehensive income.

Fees and commissions

If the fees are an integral part of the effective interest rate of a financial instrument, they are recognised as an adjustment to the effective interest rate and recorded in interest income/payable.

Other fees are recognised on an accruals basis when the service has been provided or on the completion of an act to which the fee relates.

Commission receivable from the sale of third party products is recognised upon fulfilment of contractual obligations, that is when policies go on risk or on completion of a transaction.

Derivative financial instruments and hedge accounting

The Society uses derivatives for risk management purposes. The Society does not use derivatives for trading purposes. Derivatives are measured at fair value in the statement of financial position. Fair values are obtained by applying market rates to a discounted cash flow model. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Notes to the Accounts (continued)

The Society designates derivatives held for risk management purposes as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Society formally documents the relationship between the hedging instruments and hedge items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Society makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit and loss, changes in the fair value of the derivative are recognised immediately in profit and loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of comprehensive income as the hedged item).

Financial assets

The Society classifies non derivative financial assets as either loans and receivables or held to maturity assets. Management determines the classification of financial assets at initial recognition. No assets have been classified as available for sale.

Loans and receivables

The Society's loans and advances to customers are classified as loans and receivables. Loans and advances to Credit Institutions are classified as financial assets at amortised cost. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Society measures its customer loans and receivables at amortised cost, using the effective interest method, less impairment. The initial value may, if integral to the effective interest rate, include certain upfront costs and fees such as procuration fees, mortgage indemnity guarantee premiums and arrangement fees, which are recognised over the expected life of mortgage assets. Mortgage discounts are also recognised over the expected life of mortgage assets as part of the effective interest rate. Throughout the year and at each year end, the mortgage life assumptions are reviewed for appropriateness. If there is a change in the mortgage life assumption, the future cash flows of the associated mortgages are reforecast over the revised expected life using the original effective interest rate. The resulting change in carrying value of the mortgages is recognised in interest receivable and similar income.

Held to maturity

The Society's debt securities are classified as held to maturity as they have fixed or determinable payments and a fixed maturity date to which the Society intends to hold the asset. The asset is held at nominal value plus accrued interest on the balance sheet.

Impairment of financial assets not carried at fair value through profit and loss

Assets carried at amortised cost

Throughout the year and at each year-end, individual assessments are made of all loans and advances against properties which are in possession or in arrears and/or are subject to forbearance activities or where the loan is interest only and there is no evidence of a repayment vehicle. Individual impairment provision is made against those loans and advances where there is objective evidence of impairment.

Notes to the Accounts (continued)

If there is objective evidence of impairment, the amount of loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. In considering expected future cash flows, account is taken of any discount which may be needed against the indexed value of the property at the statement of financial position date thought necessary to achieve a sale and expected costs of realisation.

In addition the Society assesses whether there is objective evidence to suggest a financial asset or group of financial assets is likely to be impaired. Where a collective assessment is made, each category or class of financial asset is split into groups of assets with similar credit risk characteristics. The Society measures the amount of impairment loss by applying expected loss factors based on external credit reference data, industry/Society experience of default, the effect of movements in house prices and any adjustment for the expected forced sale value.

Tangible fixed assets and depreciation

Depreciation is provided on all tangible fixed assets, with the exception of freehold land and assets in the course of construction, at rates calculated to write off each asset over its expected useful life. The straight line basis has been used in the following way:

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

Depreciation is not provided on freehold land.

Intangible assets

Computer Software

Purchased software and costs directly associated with the development of computer software are capitalised as intangible assets where the software is an identifiable asset controlled by the Society which will generate future economic benefits and where costs can be reliably measured.

Intangible assets are stated at cost less cumulative amortisation.

Amortisation begins when the asset becomes available for operational use and is charged to the statement of comprehensive income on a straight-line basis over the estimated useful life of the software, which is estimated at 4 years.

Pension costs

The Society operates a personal pension plan that is open to all staff. For employees not wishing to join this plan there is a personal pension plan with a separate provider for auto enrolment purposes. Pension costs in respect of these plans are charged to the Statement of Comprehensive Income 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 and liabilities are measured at fair value at each balance sheet date. Any resulting deficit is recognised immediately on the balance sheet net of deferred tax however any resulting surplus is not recognised in the balance sheet as there are specific clauses in the trust deed which prevents the Society accessing any surplus funds. The Scheme has been closed to future accruals since 28 February 2007. Further details on pension schemes are provided in note 29 to the Accounts.

Notes to the Accounts (continued)

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. Deferred tax is recognised in respect of all timing differences 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.

Operating leases

The costs associated with operating leases are charged on a straight-line basis over the period of the lease.

Liquid assets

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

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

Cash and cash equivalents - for the purposes of the cash flow statement, cash and cash equivalents comprise highly liquid investments that are convertible into cash and have an insignificant risk of change in value.

Accounting estimates and judgements

The Society makes estimates and judgements that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are described below:

a) Impairment losses on loans and advances to customers

The Society reviews its mortgage advances portfolio at least every half year to assess impairment. In determining whether an impairment loss should be recorded, the Society is required to exercise a degree of judgement. Impairment provisions are calculated using historical arrears experience, modelled credit risk characteristics and expected cashflows. Estimates are applied to determine prevailing market conditions (for example, house prices are adjusted for movement in valuations based on the Land Registry house price index), customer behaviour (for example, default rates) and the length of time expected to complete the sale of properties in possession. The accuracy of the provision would therefore be affected by unexpected changes to these assumptions.

The key assumption is the estimate of the value of the property at the point of recovery and to the extent that house prices differ from that estimated by 5%, the impairment allowance on loans and advances would change by an estimated £0.16 million.

Notes to the Accounts (continued)

b) Effective Interest Rates and revenue recognition

When calculating the expected future cash flows of a mortgage, the expected life of that mortgage is key to this calculation as it determines the expected effective interest to be earned. In determining the expected life of mortgage assets, the Society uses historical redemption data as well as management judgement.

At regular intervals throughout the year, the expected life of mortgage assets is reassessed for reasonableness. Any variation in the expected life of mortgage assets will change the carrying value in the statement of financial position and the timing of the recognition of interest income.

A 2 month increase in the expected life profile of mortgage assets would result in an increase in the value of loans on the statement of financial position by approximately £0.13 million, and a corresponding increase in interest receivable. A 2 month decrease in the expected life profile of mortgage assets would result in an decrease in the value of loans on the statement of financial position by approximately £0.08 million, and a corresponding decrease in interest receivable.

c) Employee benefits

The Society operates a defined benefit pension scheme. Significant judgements (on such areas as future interest rates, inflation rates and mortality rates) have to be exercised in estimating the value of the assets and liabilities of the scheme, and hence of its net surplus.

The assumptions and associated sensitivities are outlined in note 29 to the accounts.

Notes to the Accounts (continued)

2 Interest Receivable and Similar Income

	2017 £000	2016 £000
On loans fully secured on residential property	9,378	9,714
On loans fully secured on land	16	19
Interest and other income on debt securities (all fixed income)	42	46
Interest and other income on other liquid assets	191	225
Net expense on derivatives	(204)	(238)
	9,423	9,766

Included within interest income is £104,910 (2016: £92,663) in respect of interest income accrued on impaired loans, two or more months in arrears.

3 Interest Payable and Similar Charges

	2017 £000	2016 £000
On shares held by individuals	2,925	3,377
On deposits and other borrowings	309	491
	3,234	3,868

Notes to the Accounts (continued)

4 Fees and Commissions

a) Fees and Commissions Receivable

	2017 £000	2016 £000
Insurance commission	19	69
Other commissions	10	7
Fees receivable	125	110
	154	186

b) Fees and Commissions Payable

	2017 £000	2016 £000
Bank charges	60	55
Other fees payable	46	47
	106	102

5 Net Income from other Financial Instruments at Fair Value through Profit and Loss

	2017 £000	2016 £000
Movement in derivatives in designated fair value hedge relationships	206	47
Movement in hedged items in fair value hedge accounting relationships	(166)	(46)
	40	1

Included in the above are fair value gains of £139,042 (2016: £8,113) on derivatives held in qualifying fair value hedging relationships and £50,864 (2016: £126,016) representing losses on derivatives in qualifying fair value hedging relationships. Also included are fair value gains of £46,729 (2016: £97,469) in the fair value of the hedged item attributable to the risk hedged and losses of £121,778 (2016: £6,505) in the fair value of the hedged item attributable to the risk hedged.

Notes to the Accounts (continued)

6 Administrative Expenses

	2017 £000	2016 £000
Wages and salaries	2,221	1,929
Social security costs	226	217
Contributions to defined contribution pension scheme	168	154
Other administrative expenses	1,472	1,457
Total administrative expenses	**4,087**	3,757

Included in other administrative expenses are the following:

Auditor's remuneration (stated exclusive of VAT)

	2017 £000	2016 £000
Payments to the Auditor for:		
Audit of these financial statements	46	41
Amounts receivable by the Society's Auditors and its associates in respect of:		
Audit of Client Assets	4	3
Other audit services	-	5
Other services including taxation	-	2

7 Staff Numbers

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

	2017	2016
Full time		
Principal office	37	34
Branch offices	24	21
	61	55
Part time		
Principal office	11	9
Branch offices	8	9
	19	18

Notes to the Accounts (continued)

8 Directors' Remuneration

Remuneration of Directors

	2017 £000	2016 £000
For services as non-executive directors	144	140
For services as executives	354	331
	498	471

Further details of the directors' remuneration are given in the Directors' Remuneration Report on page 19.

(a) Directors' loans and transactions

At 31 December 2017, there were no outstanding mortgage loans granted in the ordinary course of business to any directors or their connected persons (2016: £nil).

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 2017, will be available for inspection at the Principal Office for a period of 15 days up to and including the Annual General Meeting.

(b) Related party transactions

During the year there were no services provided to the Society by any connected business of a serving director. At 31 December 2017, there were no amounts outstanding to any connected businesses (2016: £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.

At 31 December 2017 a total of £33,963 was held in Society savings by the directors.

Notes to the Accounts (continued)

9 Tax on Profit on Ordinary Activities

Analysis of charge in year	2017 £000	2016 £000
Current tax		
Corporation tax at 19.41% (2016: 20%)	346	384
Adjustments relating to prior year	(11)	6
Total current tax	**335**	390
Deferred tax		
Origination and reversal of timing differences	30	18
Adjustment to prior year estimates	3	(6)
Total deferred tax	**33**	12
Total tax	**368**	402

Factors affecting the tax charge for the current period	2017 £000	2016 £000
Profit on ordinary activities before tax	1,914	1,977
Current tax at 19.41% (2016: 20%)	371	395`
Effects of:		
Expenses not deductible for tax purposes	4	7
Impact of different tax rates	(3)	-
Adjustments relating to prior year	(4)	-
Total tax	**368**	402

The adjustment relating to prior year in 2017 was an overpayment of tax in 2016 which has been carried over and will be offset against the payment to be made for the 2017 liability.

	Current tax 2017 £000	Deferred tax 2017 £000	Total tax 2017 £000	Current tax 2016 £000	Deferred tax 2016 £000	Total tax 2016 £000
Recognised in statement of comprehensive income	335	33	368	390	12	402
Recognised in other comprehensive income	-	-	-	-	-	-
Total tax	**335**	**33**	**368**	390	12	402

Notes to the Accounts (continued)

10 Liquid Assets

(a) Cash and cash equivalents

	2017 £000	2016 £000
Cash in hand	53,602	35,970
Loans and advances to credit institutions	8,329	5,897
Cash and cash equivalents per Cash Flow Statement	**61,931**	41,867

(b) Loans and advances to credit institutions

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

	2017 £000	2016 £000
Repayable on demand	8,343	5,904
In not more than three months	7,112	5,018
In more than three months but not more than one year	4,010	14,053
In more than one year	-	1,005
	19,465	25,980
Total included within cash and cash equivalents	**8,329**	5,897

Notes to the Accounts (continued)

(c) Debt securities

	2017 £000	2016 £000
Certificates of deposit	2,008	6,043
	2,008	6,043

Debt securities have remaining maturities as follows:		
In not more than one year	2,008	6,043
Transferable debt securities comprise:		
Unlisted	-	-

Movements in debt securities during the year are summarised as follows:

	2017 £000	2016 £000
At 1 January	6,043	1,006
Additions	2,008	6,043
Maturities	(6,043)	(1,006)
At 31 December	**2,008**	6,043

Notes to the Accounts (continued)

11 Derivative Financial Instruments

	2017		2016	
	Positive market value £000	Negative market value £000	Positive market value £000	Negative market value £000
Derivatives designated as fair value hedges:				
Interest rate swaps	139	51	8	126

12 Loans and Advances to Customers

	2017 £000	2016 £000
Loans fully secured on residential property	289,681	257,760
Loans fully secured on land	895	962
Fair value of hedged risk	(75)	91
At 31 December	**290,501**	258,813

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

	2017 £000	2016 £000
Maturity analysis		
On call and at short notice	1	48
Repayable with remaining maturity:		
In not more than three months	2,131	2,188
In more than three months but not more than one year	6,831	7,223
In more than one year but not more than five years	44,077	41,156
In more than five years	238,082	208,823
	291,122	259,438
Less allowance for impairment for bad and doubtful debts (note 13)	(621)	(625)
	290,501	258,813

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

At 31 December 2017 the Society had pledged £76.3 million (2016: £44.4 million) of mortgage assets to the Bank of England as collateral under the Funding for Lending Scheme and the Term Funding Scheme.

Notes to the Accounts (continued)

13 Allowance for Impairment

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

	Loans fully secured on residential property		Loans fully secured on land		Total	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
At 1 January						
Individual impairment	137	84	-	-	137	84
Collective impairment	487	549	1	-	488	549
	624	633	**1**	-	**625**	633
Charge / (credit) for the year						
Individual impairment	(23)	53	-	-	(23)	53
Collective impairment	20	(62)	(1)	1	19	(61)
	(3)	(9)	**(1)**	1	**(4)**	(8)
At 31 December						
Individual impairment	114	137	-	-	114	137
Collective impairment	507	487	-	1	507	488
	621	624	**-**	1	**621**	625

Notes to the Accounts (continued)

14 Tangible Fixed Assets

	Freehold land and buildings £000	Equipment, fixtures, fittings and vehicles £000	Total £000
Cost			
At 1 January 2017	1,261	1,080	2,341
Additions	-	230	230
Disposals	-	-	-
At 31 December 2017	**1,261**	**1,310**	**2,571**
Depreciation			
At 1 January 2017	(78)	(801)	(879)
Charge for year	(15)	(78)	(93)
Disposals	-	-	-
At 31 December 2017	**(93)**	**(879)**	**(972)**
Net book value			
At 1 January 2017	1,183	279	1,462
At 31 December 2017	**1,168**	**431**	**1,599**

Included within Society freehold land and buildings above is £482,000 (2016: £482,000) of non-depreciable land.

The net book value of land and buildings occupied by the Society for its own activities is £1,077,577 (2016: £1,090,235).

Notes to the Accounts (continued)

15 Intangible Assets

	Software £000	Assets in the course of construction £000	Total £000
Cost			
At 1 January 2017	843	-	843
Additions	159	128	287
At 31 December 2017	**1,002**	**128**	**1,130**
Amortisation			
At 1 January 2017	(675)	-	(675)
Charge for year	(84)	-	(84)
At 31 December 2017	**(759)**	**-**	**(759)**
Net book value			
At 1 January 2017	168	-	168
At 31 December 2017	**243**	**128**	**371**

16 Other Debtors

	2017 £000	2016 £000
Deferred tax assets (Note 21)	(6)	27
Prepayments and accrued income	409	296
	403	323

Notes to the Accounts (continued)

17 Shares

	2017 £000	2016 £000
Held by individuals	264,796	249,039
Other shares	22	22
	264,818	249,061
Shares are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	681	881
Repayable on demand	161,326	165,188
Other shares by residual maturity repayment:☺		
In not more than three months *	62,023	35,288
In more than three months but not more than one year	15,249	28,145
In more than one year but not more than five years	25,142	19,298
In more than five years	397	261
	264,818	249,061

* see note 27

18 Amounts owed to Credit Institutions

	2017 £000	2016 £000
Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	41	30
Repayable with agreed maturity dates or period of notice:		
In not more than three months	3,000	22,750
In more than three months but not more than one year	3,000	2,000
In more than one year but not more than five years	36,000	-
	42,041	24,780

Included in the amounts above is £0 (2016: £22.7 million) relating to a sale and repurchase agreement of Treasury Bills borrowed from the Bank of England under the Funding for Lending Scheme.

Included in the amounts above is £36.0 million (2016: £0) relating to funds drawn from the Term Funding Scheme.

Notes to the Accounts (continued)

19 Amounts owed to Other Customers

	2017 £000	2016 £000
Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	39	-
On demand	23,203	27,899
With agreed maturity dates or period of notice:		
In not more than three months *	10,745	1,644
In more than three months but not more than one year	-	-
	33,987	29,543

* see note 27

20 Other Liabilities

	2017 £000	2016 £000
Falling due within one year:		
Corporation tax	200	196
Other creditors	325	138
	525	334

21 Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Accelerated capital allowances	-	-	71	56	**71**	56
Short term timing differences	(65)	(83)	-	-	**(65)**	(83)
Tax (assets) / liabilities	**(65)**	(83)	**71**	56	**6**	(27)

In the Budget on 8 July 2015, the UK Government proposed, amongst other things, to reduce the main rate of UK Corporation Tax to 19% with effect from 1 April 2017. A further reduction to 17% with effect from 1 April 2020 was announced in March 2016. The rate reduction to 17% was substantively enacted in September 2016 and existing temporary differences may therefore unwind in periods subject to these reduced rates.

Notes to the Accounts (continued)

22 Provisions

	Bonus Provision > 1 yr £000	FSCS Levy £000	Total £000
Balance at 1 January 2017	80	50	**130**
Provisions charged during the year	82	27	**109**
Provisions utilised during the year	(80)	(50)	**(130)**
Balance at 31 December 2017	**82**	**27**	**109**

Bonus Provision

The Society pays a medium term bonus to all senior staff subject to satisfactory personal performance and based on Society targets. The bonus relates to annual performance and is payable 50% in the year of earning and 25% in the following two years subject to meeting Society medium term and personal targets.

Financial Services Compensation Scheme (FSCS)

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

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

On 31 March 2017 UK Asset Resolution announced the sale by Bradford and Bingley of certain mortgage assets. On 25 April 2017, as a result of that transaction, the amount that FSCS owes to HM Treasury reduced to £4.7bn from the previous balance of £15.7bn. The resulting impact of this is to reduce the interest chargeable on this loan and therefore the levy to the Society.

The Society FSCS provision reflects market participation on 1 April (the start of each scheme year). The year end provision relates to the estimated interest levy for the scheme year 2017/18. This amount was calculated on the basis of the Society's share of protected deposits taking into account the FSCS' estimate of total interest levy for each scheme year. The compensation levy for 2016/17 was charged and utilised within 2017.

23 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 2017 (2016: £nil)

Notes to the Accounts (continued)

24 General Reserves

	2017 £000	2016 £000
At 1 January	24,494	22,919
Profit for the financial year	1,546	1,575
At 31 December	**26,040**	24,494

Notes to the Accounts (continued)

25 Financial Instruments

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

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

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

Financial assets and liabilities are measured on an ongoing basis either at fair value or at amortised cost. This note describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The tables below analyse the Society's assets and liabilities by financial classification:

	Held at amortised cost		Held at fair value	
Carrying values by category 31 December 2017	**Loans and Receivables £000**	**Financial assets and liabilities at amortised cost £000**	**Derivatives designated as fair value hedges £000**	**Total £000**
Financial assets				
Cash in hand	-	53,602	-	53,602
Loans and advances to credit institutions	-	19,465	-	19,465
Debt securities	-	2,008	-	2,008
Derivative financial instruments	-	-	139	139
Loans and advances to customers	290,576	-	(75)	290,501
Total financial assets	290,576	75,075	64	365,715
Non-financial assets	-	2,373	-	2,373
Total assets	**290,576**	**77,448**	**64**	**368,088**
Financial liabilities				
Shares	-	264,818	-	264,818
Amounts owed to credit institutions	-	43,042	-	43,042
Amounts owed to other customers	-	32,986	-	32,986
Derivative financial instruments	-	-	51	51
Other liabilities	-	1,151	-	1,151
Total financial liabilities	-	341,997	51	342,048
Non-financial liabilities	-	26,040		26,040
Total liabilities	**-**	**368,037**	**51**	**368,088**

Notes to the Accounts (continued)

Carrying values by category 31 December 2016	Held at amortised cost		Held at fair value	
	Loans and Receivables £000	Financial assets and liabilities at amortised cost £000	Derivatives designated as fair value hedges £000	Total £000
Financial assets				
Cash in hand	-	35,970	-	35,970
Loans and advances to credit institutions	-	25,980	-	25,980
Debt securities	-	6,043	-	6,043
Derivative financial instruments	-	-	8	8
Loans and advances to customers	258,722	-	91	258,813
Total financial assets	258,722	67,993	99	326,814
Non-financial assets		1,953	-	1,953
Total assets	258,722	69,946	99	328,767
Financial liabilities				
Shares	-	249,061	-	249,061
Amounts owed to credit institutions	-	24,780	-	24,780
Amounts owed to other customers	-	29,543	-	29,543
Derivative financial instruments	-	-	126	126
Other liabilities	-	783	-	763
Total financial liabilities	-	304,147	126	304,273
Non-financial liabilities	-	24,494	-	24,494
Total liabilities	-	328,641	126	328,767

Valuation of financial instruments carried at fair value

The Society holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy (see below).

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs in measuring fair value:

Level 1: The most reliable fair values of financial instruments are quoted market prices in an actively traded market. The Society does not hold any Level 1 assets/liabilities.

Level 2: These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists and quoted prices are available for similar instruments in active markets. The Society's Level 2 portfolio comprises interest rate swaps for which market informed yield curves have been used in their fair value

Notes to the Accounts (continued)

Level 3: These are valuation techniques for which one or more significant inputs is not based on observable market data. Valuation techniques include net present value by way of discounted cash flow models. The Society does not hold any Level 3 assets/liabilities.

The table below summarises the fair values of the Society's financial assets and liabilities that are accounted for at fair value, analysed by the valuation methodology used by the Society to derive the financial instruments fair value:

31 December 2017	**Level 2 £000**
Financial assets	
Interest rate swaps	139
Hedged risk	47
	186
Financial liabilities	
Interest rate swaps	51
Hedged risk	122
	173
31 December 2016	
Financial assets	
Interest rate swaps	8
Hedged risk	97
	105
Financial liabilities	
Interest rate swaps	126
Hedged risk	6
	132

Notes to the Accounts (continued)

Financial assets pledged as collateral

The total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities at 31 December 2017 and 2016 are shown in the following table:

	2017 £000	2016 £000
Debt securities	-	23,000
Loans and advances to customers	76,305	44,364
	76,305	67,364

The debt securities were pledged as collateral for a repurchase agreement relating to Treasury Bills. The mortgage loans are pledged as collateral against the loans received from the Bank of England under both the Funding for Lending Scheme and the Term Funding Scheme.

26 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.

The Society's maximum credit risk exposure is detailed in the table below:

	2017 £000	2016 £000
Cash in hand	53,602	35,970
Loans and advances to credit institutions	19,465	25,980
Debt securities	2,008	6,043
Derivative financial instruments	139	8
Loans and advances to customers - fully secured on residential property	289,717	257,760
- fully secured on land	896	962
Total statement of financial position exposure	365,827	326,723
Off balance sheet exposure – mortgage commitments	16,649	14,648
	382,476	341,371

Notes to the Accounts (continued)

Mortgage Book Credit Risk

Credit quality analysis of loans and advances to customers excluding commitments to lend

	2017		2016	
	Loans fully secured on residential property £000	Loans fully secured on land £000	Loans fully secured on residential property £000	Loans fully secured on land £000
Neither past due nor impaired	284,111	895	253,233	963
Individually impaired				
Not past due	1,066	-	3,315	-
1-2 months	3,904	-	1,341	-
2-4 months	444	-	153	-
4-6 months	482	-	112	-
6 months +	295	-	230	0
	290,302	**895**	258,384	963
Allowance for impairment				
Individual	(114)	-	(137)	-
Collective	(507)	-	(487)	(1)
	(621)		(624)	(1)
Loans and advances to customers (Note 12)	**289,681**	**895**	257,760	962

	Indexed £000	Indexed £000
Value of collateral held		
Neither past due nor impaired	726,754	560,953
Impaired	10,667	64,731
	737,421	625,684

The impaired but not past due category includes cases in forbearance and interest only mortgages where there is potential for the repayment strategy of the loan to fail. Only cases where there is potential for loss have been included, this is an adjustment to prior year's accounts when all up to date loans in these categories were included as impaired but not past due notwithstanding the collateral held.

Individual assessments are made of all mortgage loans where objective evidence indicates that losses are likely (for example when loans are past due) or the property is in possession, or where credit scoring evidence suggests higher likelihood of losses. Further consideration is given in the accounting policies on page 32.

Notes to the Accounts (continued)

The collateral consists of residential and commercial property. Collateral values are adjusted by the price index produced by the Land Registry to derive the indexed valuation at 31 December. This index takes into account regional data from ten different regions within the UK. The Society uses this index to update its mortgage portfolio on a monthly basis.

With collateral capped to the amount of outstanding debt, the value of collateral held against impaired loans at 31 December is £4,146k (2016: £5,152k) against outstanding debt of £4,146k (2016: £5,152k).

Collateral held and other credit enhancements

The Society holds collateral and other credit enhancements against certain of its credit exposures. The table below sets out the principal types of collateral held against different types of financial assets.

	Percentage of exposure that is subject to collateral requirements		Principal type of collateral held
	2017 %	2016 %	
Loans and advances to customers	**100**	100	Property

The table below stratifies exposures from loans and advances to customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan - or the amount committed for loan commitments - to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

	FSRP 2017 £000	**FSOL 2017 £000**	**FSRP 2016 £000**	**FSOL 2016 £000**
LTV ratio				
Less than 50%	96,325	289	88,398	323
51 – 70%	97,798	606	88,172	640
71 – 90%	81,103	-	72,338	-
91 – 100%	15,076	-	9,476	-
More than 100%		-	-	-
	290,302	**895**	258,384	963

The loans included in the 91-100% LTV banding include standard residential mortgages that are insured using High Loan to Value Insurance. There are also Shared Ownership customers in this banding whose loans are shown as the mortgage balance versus the value of the share that the customer has purchased as opposed to the percentage of the loan compared to the value of the property. A Housing Association will own the remaining share and a guarantee exists between the Society and the Housing Association which allows the Society to access the full equity in the property in a default situation.

Notes to the Accounts (continued)

Forbearance

Borrowers experiencing payment difficulties are encouraged to contact the Society as a number of forbearance measures are available to assist them with what, in most cases, are temporary problems. These measures include:

Temporary Concession	-	a temporary transfer to interest only or underpayments on a temporary basis.
Agreed Formal Arrangement	-	includes cases where there is an agreed arrears repayment plan.
Loan Modification	-	includes cases where there is a term extension.

The table below analyses residential mortgage borrowers with renegotiated terms at the yearend date:

	2017 Number	2016 Number
Temporary concession	6	5
Agreed formal arrangements	19	20
Loan modification	16	15
	41	40

At 31 December 2017 £2.25m (2016: £2.40m) of loans are subject to forbearance.

Notes to the Accounts (continued)

27 Liquidity Risk

Liquidity risk is the risk that the Society will not have sufficient financial resources available to meet its obligations as they fall due, under either normal business conditions or a stressed environment. The Society's policy is to maintain sufficient funds in a liquid form at all times to ensure that liabilities can be met as they fall due. The objective of liquidity is to help smooth mismatches between maturing assets and liabilities and to provide a degree of protection against any unexpected event that may arise.

Monitoring of liquidity, in line with the Society's prudential policy framework, is performed daily. Compliance with these policies is reported to the Management Assets and Liabilities Committee monthly and to the Board's Risk Committee quarterly.

The tables below set out the remaining contractual maturities of the Society's financial assets and financial liabilities.

Year end 2017	On Demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
Assets						
Cash in hand	53,602	-	-	-	-	53,602
Loans and advances to credit institutions	8,343	7,112	4,010	-	-	19,465
Debt securities	-	1,007	1,001	-	-	2,008
Derivative financial instruments		139	-	-	-	139
Loans and advances to customers	1	2,126	6,817	43,983	237,574	290,501
Other assets	2,373	-	-	-	-	2,373
Total Assets	64,319	10,384	11,828	43,983	237,574	368,088
Liabilities						
Shares	161,742	62,183	15,289	25,207	397	264,818
Amounts owed to credit institutions	-	3,003	3,003	36,035	-	42,041
Amounts owed to other customers	23,230	10,757	-	-	-	33,987
Derivative financial instruments	51	-	-	-	-	51
Other liabilities	1,151	-	-	-	-	1,151
Reserves	-	-	-	-	26,040	26,040
Total Liabilities	186,174	75,943	18,292	61,242	26,437	368,088
Net liquidity gap	(121,855)	(65,559)	(6,464)	(17,259)	211,137	-

Notes to the Accounts (continued)

Year end 2016	On Demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
Assets						
Cash in hand	35,970	-	-	-	-	35,970
Loans and advances to credit institutions	5,904	5,018	14,053	1,005	-	25,980
Debt securities	-	1,010	5,033	-	-	6,043
Derivative financial instruments	-	8	-	-	-	8
Loans and advances to customers	48	2,183	7,205	41,057	208,320	258,813
Other assets	1,953	-	-	-	-	1,953
Total Assets	43,875	8,219	26,291	42,062	208,320	328,767
Liabilities						
Shares	165,774	35,414	28,245	19,366	262	249,061
Amounts owed to credit institutions	22,779	2,001	-	-	-	24,780
Amounts owed to other customers	27,899	1,644	-	-	-	29,543
Derivative financial instruments	126	-	-	-	-	126
Other liabilities	763	-	-	-	-	763
Reserves	-	-	-	-	24,494	24,494
Total Liabilities	217,341	39,059	28,245	19,366	24,756	328,767
Net liquidity gap	(173,466)	(30,840)	(1,954)	22,696	183,564	-

Notes to the Accounts (continued)

The table below sets out the maturity analysis for financial liabilities that shows the remaining contractual maturities at undiscounted amounts. The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the statement of financial position date.

Year end 2017	On Demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
Financial liabilities						
Shares	161,343	62,211	15,413	25,906	523	265,396
Amounts owed to credit institutions	1,003	2,006	3,017	36,620	-	42,646
Amounts owed to other customers	27,222	6,757	-	-	-	33,979
Derivative financial instruments	-	3	1	288	-	292
Total financial liabilities	189,568	70,977	18,431	62,814	523	342,313

Year end 2016	On Demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
Financial liabilities						
Shares	165,194	35,434	28,461	19,940	354	249,383
Amounts owed to credit institutions	-	22,771	2,016	-	-	24,787
Amounts owed to other customers	27,913	1,647	-	-	-	29,560
Derivative financial instruments	-	5	75	51	-	131
Total financial liabilities	193,107	59,857	30,552	19,991	354	303,861

We have adjusted the categorisation of a number of our products to reflect their specific terms and conditions. For example an account with a limited number of withdrawals is no longer classified as available on demand.

Notes to the Accounts (continued)

28 Market Risk

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

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Society's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point (bp) parallel fall or rise in the yield curve. The following is an analysis of the Society's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position.

	200bp parallel increase £000	200pb parallel decrease £000
Sensitivity of projected net interest income		
At 31 December 2017		
Average for the period	(616)	672
Maximum for the period	(444)	805
Minimum for the period	(738)	485

	200bp parallel increase £000	200pb parallel decrease £000
At 31 December 2016		
Average for the period	(230)	242
Maximum for the period	(22)	458
Minimum for the period	(426)	19

Notes to the Accounts (continued)

Derivatives held for risk management

The Society uses derivatives to assist in managing interest rate risk. The only derivatives used are interest rate swaps to hedge its exposure to changes in the fair values of its fixed-rate mortgages and its exposure to market interest rates on certain treasury deposits.

The fair values of derivatives designated as fair value hedges are as follows:

	2017		2016	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Interest rate swaps	139	51	8	126

Notes to the Accounts (continued)

29 Pensions

Defined contribution scheme

The Society operates two personal pension plans, The Mansfield Building Society 2007 Group Personal Pension Plan and The Mansfield Building Society 2014 Auto Enrolment Plan. Both schemes are available to all staff. During the year ended 31 December 2017, the Society made contributions of £168,690 (2016: £153,996), which are included in the Statement of Comprehensive Income and shown in Note 6 within staff costs. At 31 December 2017 there were no outstanding contributions. There was a prepaid contribution of £2,215 (2016: £7,619).

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 102 – Retirement Benefits. A professional qualified actuary carries out an actuarial valuation every three years. The latest valuation of the Scheme was undertaken as at 1 March 2016 using the projected unit credit method and both the assets and liabilities include the value of those pensions in payment which are secured with insured annuities. In accordance with FRS102, 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	
	2017	**2016**
Price inflation	3.35%	3.45%
Discount rate	2.50%	2.70%
Pension increase (LPI)	3.25%	3.35%

In valuing the liabilities of the Scheme at 31 December 2017, assumptions have been made as indicated above. If the discount rate were to decrease by 0.10%, the value of the reported liabilities would have increased by approximately £0.13m before adjustment for deferred taxation. Similarly, if the life expectancies shown below increased by one year an increase of £0.13m would be seen in liabilities.

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

Assumed life expectancies on retirement at age 65	**2017**	**2016**
Male retiring immediately	20.5 years	20.5 years
Female retiring immediately	22.4 years	22.5 years

Amounts recognised in the balance sheet:
As at 31 December

	2017 £000	**2016 £000**
Liabilities	-	-
Assets	-	-
Net Liability	-	-

Notes to the Accounts (continued)

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

	2017 £000	2016 £000
Defined benefit obligation		
Fair value of plan assets	8,344	7,937
Present value of defined benefit obligation	6,753	6,757
Surplus in plan	1,591	1,180
Unrecognised surplus	(1,591)	(1,180)
Deferred tax	-	-
Net defined benefit asset/(liability) to be recognised [1]	**-**	-

Notes: (1) Under FRS102, where a scheme is in surplus according to FRS102 assumptions, the surplus may only be recognised if it is available to the Society. A surplus is only deemed available to the extent that the Society can take a contribution holiday or if the trustees have agreed to provide a refund to the Society. The Scheme is now closed and has no active members and no agreement has been made with the Scheme trustees to make any refunds. Accordingly, it has been assumed that none of the surplus is currently available to the Society and therefore no asset was recognised at the balance sheet date.

Reconciliation of opening and closing balances of the defined benefit obligation:

	As at 31 December	
	2017 £000	2016 £000
Defined benefit obligation at start of period	**6,757**	6,490
Expenses	7	10
Interest expense	179	239
Actuarial losses/(gains)	102	256
Benefits paid and expenses	(292)	(238)
Defined benefit obligation at end of period	**6,753**	6,757

Reconciliation of opening and closing balances of the fair value of plan assets:

	As at 31 December	
	2017 £000	2016 £000
Fair value of plan assets at start of period	**7,937**	7,430
Interest income	210	275
Actuarial gains	482	460
Contributions by the Society	7	10
Benefits paid and expenses	(292)	(238)
Fair value of plan assets at end of period	**8,344**	7,937

The actual return on the plan assets over the period ended 31 December 2017 was £692,000.

Notes to the Accounts (continued)

	As at 31 December	
	2017 £000	2016 £000
Defined benefit costs recognised in profit or loss		
Expenses	7	10
Net interest cost	-	-
Defined benefit costs recognised in profit and loss account	**7**	10

Over the year to 31 December 2017 contributions by the Society of £nil were made to the Scheme (Year to 31 December 2016: £nil).

The total amount recognised in other comprehensive income in respect of actuarial gains and losses is £nil (2016: £nil).

	As at 31 December	
	2017 £000	2016 £000
Defined benefit costs recognised in other comprehensive income:		
Return on plan assets (excluding amounts included in net interest cost) - gain	482	460
Experience gains and losses arising on the plan liabilities - gain	-	293
Effect of changes in the demographic and financial assumptions underlying the present value of the plan liabilities - (loss)	(102)	(549)
Effects of changes in the amount of surplus that is not recoverable - (loss)	(380)	(204)
Total amount recognised in other comprehensive income - gain/(loss)	**-**	-

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.

Components	31 December 2017 Fair value £000	31 December 2016 Fair value £000
Equities	3,608	3,244
Bonds	3,721	\z3,298
Property	452	591
Cash	74	287
Other	489	517
Total	**8,344**	7,937

None of the fair values of the assets shown above include any direct investments in the Society's own financial instruments or any property occupied by, or other assets used by, the Society.

Notes to the Accounts (continued)

30 Capital

The Society's policy is to retain a strong capital base to maintain member, creditor and market confidence and to sustain future development of the business. The Board has strategies and controls to ensure that both capital and liquidity are maintained at appropriate levels. The new rules being implemented by world banking authorities (for example, CRDIV) has put a higher emphasis on improving our capital strength and it is therefore important for the Society to return strong levels of profitability in order to organically grow our capital base. Adopting this capital strengthening strategy ensures that we have protection against future risks and that we exceed regulatory capital requirements so that we can continue to offer a wide range of mortgage products to our members.

The Society's capital requirements are set and monitored by the Prudential Regulatory Authority (PRA) following the formal ICAAP process (Internal Capital Adequacy Assessment Process). However, the Society aims to maintain its capital above this requirement, the Individual Capital Guidance (ICG), and it is monitored regularly to ensure that this is the case. There were no reported breaches of capital requirements during the year.

Under Pillar 3 the Society is required to publish further information regarding its capital position and exposures including the ICG and the quality of capital held. The Society's Pillar 3 disclosures are available on our website www.mansfieldbs.co.uk under "Corporate information".

31 Country by Country Reporting

The regulations under Article 89 of the CRDIV require the Society to disclose the following information about the source of the Society's income and the location of its operations:

For the year ended 31 December 2017:

- The Society's principal activities are mortgage lending and a provider of savings accounts;
- The Society's turnover (defined as net interest receivable) was £6.2m (2016: £5.9m), profit before tax £1.91m (2016: £1.98m), all of which arose from UK based activity;
- The average number of Society full time equivalent employees was 75 (2016: 67) all of whom were employed in the UK;
- Corporation tax of £329k was paid in the year and is all within the UK tax jurisdiction; and
- No public subsidies were received in the year

Annual Business Statement for the year ended 31 December 2017

1 Statutory Percentages

	As at 31 December 2017 %	Statutory Limit %
Proportion of business assets other than in the form of loans fully secured on residential property – 'Lending limit'	0.47	25.00
Proportion of shares and borrowings other than in the form of shares held by individuals – 'Funding limit'	22.31	50.00

Explanation

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

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

Business assets are the total assets of the Society as shown in the statement of financial position plus provisions for impaired 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 statement of financial position plus provisions for impaired debts.

2 Other Percentages

	As at 31 December 2017 %	As at 31 December 2016 %
As a percentage of shares and borrowings:		
Gross capital	7.64	8.07
Free capital	7.21	7.70
Liquid assets	22.03	22.41
Profit after taxation as a percentage of mean total assets	0.44	0.49
Management expenses as a percentage of mean total assets	1.22	1.21

Explanation

The above percentages have been calculated from the Society statement of financial position and statement of comprehensive income. 'Gross capital' represents the general reserves as shown in the statement of financial position.

'Free capital' represents gross capital and collective provisions for impaired debts less tangible and intangible fixed assets as shown in the statement of financial position.

'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 2017 and 2016 total assets.

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

'Management expenses' represent the aggregate of administrative expenses and depreciation in the statement of comprehensive income.

Annual Business Statement for the year ended 31 December 2017

3 Information Relating To The Directors At 31 December 2017

Non-Executive Directors

Name	Year of Birth	Date of Appointment As Director	Business occupation	Other directorships
Jeremy Cross ACA *Chairman of the Board*	1967	21.02.13	Management Consultant	Cross Consulting Ltd Airedale NHS Foundation Trust GSAL Transport Ltd
Colin Bradley ACA ACIB	1952	28.05.15	Building Society Director	
Alison Chmiel FCMA	1964	21.02.13	Building Society Director	The Alexander Workshop Ltd Channelling Positivity The Two Counties Trust
Rob Clifford Cert PFS	1968	19.01.12	Commercial Director Financial & Property Services	Stonebridge Mortgage Solutions Ltd Zenith Freehold Ltd SDL Property Services Group Ltd SDL Lettings Management Ltd Maurice MacNeill Iona Ltd Pure Financial Advisory Ltd SDL Estate Agency Corporate Ltd If I Were You Ltd
Robert Hartley FRICS	1951	19.05.11	Chairman Commercial Property Consultants	Innes England Ltd
Nick Baxter DipMan (Open) DipM	1956	23.01.17	Business Consultant	Portfolio Mortgages Ltd Mortgage Promotions Ltd Rockstead Ltd Professional Financial Claims Association Rockstead Group Ltd

Executive Directors

Name	Year of Birth	Date of Appointment As Director	Business occupation	Other directorships
Gev Lynott FCCA FCIB	1963	15.09.11	Building Society Chief Executive	Mansfield Homes Ltd
Paul Wheeler ACA	1967	21.07.11	Building Society Deputy Chief Executive, Finance Director and Secretary	

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

Annual Business Statement for the year ended 31 December 2017

Directors' Service Contracts

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

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

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

Annual Business Statement for the year ended 31 December 2017

Chairman
Jeremy Cross, ACA

Senior Independent Director & Vice Chairman
Rob Clifford, CertPFS

Non-Executive Directors
Colin Bradley, ACA, ACIB
Alison Chmiel, FCMA
Robert Hartley, FRICS
Nick Baxter, DipMan (Open) DipM

Chief Executive
Gev Lynott, FCCA, FCIB

Deputy Chief Executive, Finance Director and Secretary
Paul Wheeler, ACA

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

Commercial Development Executive
Richard Crisp

Mortgage Executive
David Newby

Information Systems Manager
Brian Seddons

Product and Savings Manager
Mike Taylor, LLB, ACIB

HR Manager
Vickie Preston

Auditor
KPMG LLP

Bankers
Barclays Bank Plc

Solicitors
Harrop White, Vallance & Dawson

Established 1870

Member of the Building Societies Association with Trustee status

Member of the Financial Ombudsman Service Scheme

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

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the mansfield building society