MANSFIELD

BUILDING SOCIETY

2019

REPORT & ACCOUNTS

For you | With you | Always

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 2019.

BUSINESS OBJECTIVES

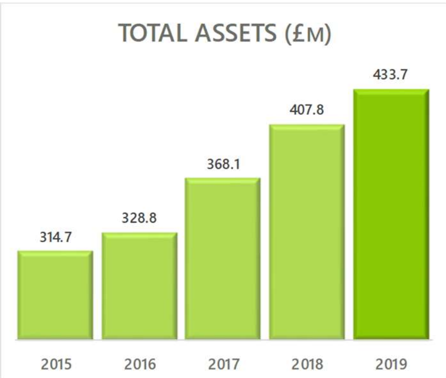
The principal business objective of the Society is to provide a safe and secure haven for members' savings whilst offering secured lending on residential property in order to promote home ownership. This mortgage activity is funded mainly by offering traditional savings products which are competitive,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

The Society is also focused on delivering support to the local community via the Mansfield Building Society Charitable Trust fund which has supported various local projects, as well as smaller donations to a number of local organisations to support specific initiatives. Our staff also supply their time and skills whilst volunteering help to many local organisations.

BUSINESS REVIEW

This has been a strong year for the Society in a climate of significant uncertainty. Demand in the housing market appeared to be impacted by the continued lack of clarity around the future of the UK in the European Union. The lack of any clear Brexit strategy created nervousness for house buyers and this was particularly noticeable in the lengthening of time taken from approving a mortgage case to the funds being drawn down on completion. This was combined with an increase in customers choosing not to proceed with their purchases after a mortgage offer had been made.

Against this backdrop the Board is extremely pleased with the level of mortgage lending with Gross Advances of £89.8m (2018: £94.0m). As expected, the annual growth in the mortgage book dropped back to a more sustainable level of £13m, reflecting a period of normalisation for book growth following the exceptional growth levels achieved in the previous two years (2018: £34m).



Total Assets have grown by £25.9m (2018: £39.7m) reflecting the slower growth in the mortgage book offset by an increase in liquidity of £12.4m (2018: £5.4m).

Looking ahead to 2020, the election of a Government with a strong majority should hopefully reduce some of the uncertainties that impacted the housing market in 2019. Reports indicate that there should be a modest growth in house prices and average earnings are expected to outpace inflation which should boost confidence in the market and lead to an increase in demand for house purchases.

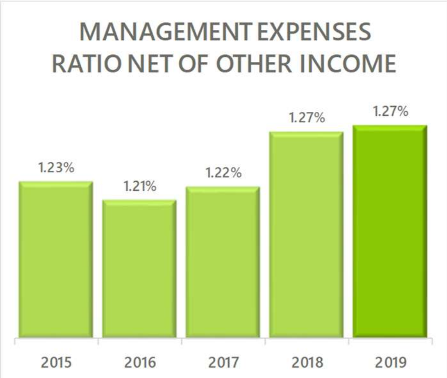
The Society has maintained its focus on building reserves through improved profitability. The strong growth of the mortgage book over the past two years has lifted profit levels to a record £1.89m which has further bolstered our capital reserves to £29.7m (2018: £27.8m). Members should place great assurance 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.

A low Bank of England Base Rate (0.75% throughout 2019) and fierce competition in the mortgage market driving down asset returns, has meant that savings rates have continued to remain subdued.

The Society continually reviews the savings rates that it is offering against the wider market and once again, we regularly appeared in Best Buy tables with our competitive savings products that were on offer during 2019. Our sustained level of competitiveness led to growth in total savings balances of £29.7m. It was particularly pleasing to see a large proportion of this growth coming from our branch network.

DIRECTORS' REPORT (CONTINUED)

The net interest margin has fallen to 1.87% (2018: 1.91%) due to the downward pressure on mortgage rates created by the increase in competition in a market which was impacted by the uncertainty surrounding Brexit. The net interest margin is still very healthy and is being maintained at this level due to the continuing proportion of lending in the underserved mortgage markets e.g. self build. Net interest margin will continue to come under pressure as more lenders enter the market, typically with aggressive product pricing. Competition for retail savings will also increase, as the Bank of England funding schemes are not planned to be extended and new entrants continue to join the market.



Achieving a continued increase in mortgage income has enabled the Society to make further investment in strengthening the people and system resources to deliver future sustained growth. This important investment in resources ensures that the Society will continue to have the people and systems of control, to manage risks and deliver numerous change projects brought about by regulatory requirements and market developments. A significant proportion of the year on year increase in administration costs continues to be invested in developing the systems environment operated by the Society.

During 2019 we went live on our new online savings platform and we will further enhance this during 2020 to provide members with more functionality. We have also continued investing in training and development of staff, community engagement and further strengthening cyber security defences.

The management expenses ratio of 1.27% (2018: 1.27%) reflects this continued investment in the infrastructure of the Society and remains favourably positioned in peer group comparisons.

The Society successfully launched a new Brand during 2019 which we believe gives us a modern, fresh look whilst maintaining the heritage that we are extremely proud of. This modernisation was carried into the newly located branch in Sutton-in-Ashfield, which has been designed to provide members with convenience and comfort in a more modern environment. We also updated the fascia's of our branches in Kirkby-in-Ashfield and Chesterfield as well as that of Head Office and launched a brand new website with improved navigation.

Further branch developments will be made in 2020 as the Society has acquired new premises in the centre of Mansfield and will be relocating the existing branch from the Regent Street Head Office to this new location. This will also give us the opportunity to utilise the existing branch as additional office space as we continue to grow.

One of the key reasons for the Society being so successful over the last few years has been the performance of our staff. In order to support our teams, we took the decision to invest in training and development by delivering additional in house training as well as the continuation of our Management Development Programme. We have also launched a similar programme for future managers. The first of these programmes finished during 2019 and has received excellent feedback from the managers involved. Many of our staff are now progressing their career with the Society by enhancing their professional qualifications and this is further enhancing their skills and knowledge.

During 2020, the management expenses ratio is expected to increase as we make the necessary further investments to ensure we continue to meet both member and regulatory needs. This will include the new branch in Mansfield, the enhanced functionality for online savers and a new internet portal for mortgage customers wishing to renew their mortgage on expiry of their promotional term.

Whilst strong finances are important, as a mutual membership based organisation, the service to our members and our community is paramount. It is therefore pleasing to report that we again won the prestigious Platinum award for Customer Service at the Mansfield Town Centre Customer Service Awards organised by Mansfield BID, and are also finalists in the British Bank Awards for Best Specialist Mortgage Provider.

Members continue to appreciate our service with 97% of savings customers who returned our survey questionnaires in 2019 willing to recommend the Society to a friend or relative. Indeed, our strong service ethic is also reflected in the small number of upheld complaints we receive. These results reinforce our belief 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 Mansfield Building Society remaining an independent mutual building society for the benefit of its members.

KEY PERFORMANCE INDICATORS

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

SIGNIFICANT STATISTICS	2019	2018	2017	2016	2015
Total Assets £m[1]	433.7	407.8	368.1	328.8	314.7
New Mortgage Lending £m	89.8	94.0	93.7	63.8	70.1
Mortgage Assets growth	4.0%	11.7%	12.2%	3.8%	9.5%
Retail Share Balances net increase £m	28.9	20.8	15.8	20.7	14.4
Total Savings Balances net increase £m[2]	29.7	24.9	16.2	18.6	24.0
Management Expenses as a % mean Total Assets	1.27%	1.27%	1.22%	1.21%	1.23%
Cost to Income Ratio	68.21%	66.46%	67.88%	65.16%	62.36%
Profit After Tax £m	1.89	1.75	1.55	1.57	1.57
Liquid Assets as a % of Shares and Borrowings[1]	23.06%	21.23%	22.03%	22.41%	21.87%
Mortgage Arrears on accounts >2 months in arrears £m	0.09	0.06	0.06	0.06	0.06
Gross Capital as a % of Shares and Borrowings	7.38%	7.34%	7.64%	8.07%	7.89%

(1) In 2015, 2016, 2017, 2018 and 2019 respectively the Society held cumulative drawdown balances of £31m, £31m, £15m, £4m and £0m 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 2015, 2016, 2017, 2018 and 2019 the repurchase agreements were for £22m, £23m, Nil, Nil and Nil which brings that funding on to the balance sheet and leaves £9m, £8m, £15m, £4m and £0m off balance sheet in each year.

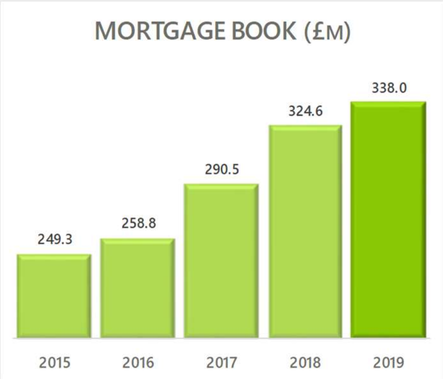
(2) Total savings includes retail share balances and deposits into non-member accounts, for example, Business Deposit and SIPP Cash Deposit.

Various Key Performance Indicators are used to measure and monitor periodic progress and these are shown in the table above. They 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



The Society continues to ensure that mortgage growth is delivered in a controlled and measured way and therefore it was expected that the exceptional (c.12%) annual growth levels of 2017-2018 would reduce to more normalised levels. The Board is therefore pleased to report a 4% growth in the mortgage book, driven by new lending of £89.8m in a market which was subdued by the uncertainty surrounding Brexit and therefore the economy.

All lending decisions continue to receive oversight by experienced underwriters adopting a common-sense and responsible approach to new lending in order to maintain a high quality loan book. The increase in mortgage balances has been funded, in the main, by £29.7m of retail savings inflows from our members, both new and existing.

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. The underwriting process applies a number of checks to ensure 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, Shared Ownership (part-rent/part-buy), Self Build and Lending into Retirement. The Society maintains prudent limits to ensure it does not allow the mortgage book to become over reliant on the performance of any particular lending segment.

The Society continues to look for ways to help as many people as possible with their mortgage requirements and to continue this journey, we have launched our range of residential mortgages in Scotland during 2019. We have also launched specific products for the Holiday Let market and a buy to let mortgage for Ex Pats living abroad.

Overall arrears levels have remained at very low levels 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 2019 there was one mortgage where repayments were 12 months or more in arrears (2018: Nil); the amount of those arrears being £12,924 (2018: £Nil) and the mortgage balance £153,686 (2018: £Nil). This mortgage was redeemed in January 2020 as the customer was able to sell the house and clear the debt. The Society always attempts to assist customers in arrears to reach a manageable solution. This is the reason that cases with arrears greater than 12 months are infrequent, as customers are able to find a solution to reduce their arrears. We believe this is 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.

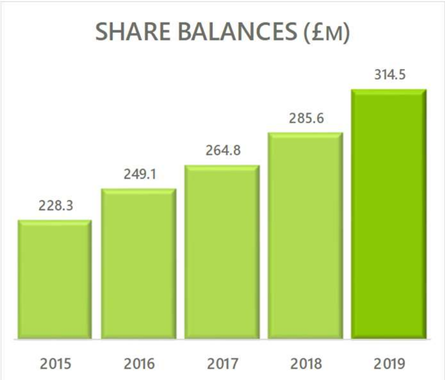
The Society did not take any properties into possession during the year.

Borrowers experiencing payment difficulties are encouraged to contact the Society as a number of forbearance measures are available to assist them with what, in most cases, are temporary problems. These measures could include: a temporary transfer to interest only payments; agreeing an arrears repayment plan; term extensions; or a temporary reduction in payments in order to reduce the financial pressure on the borrower. For all these cases, the intention is that the borrower will resume normal payments as soon as they are able. See note 27 for further detail of the number of loans currently being managed, utilising forbearance measures.

The Board recognises the need to appropriately 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, customers who are more susceptible to a payment shock and those customers with a higher propensity to default has resulted in an increase in the impairment allowance to £723,329 (2018: £708,000).

DIRECTORS' REPORT (CONTINUED)

SAVINGS



Member savings balances increased by £28.9m (2018: £20.8m) through attracting funds into a diverse range of accounts including fixed term bonds, postal accounts, regular savings, and community deposits. Our fixed rate bonds were particularly successful along with our range of notice accounts.

Our range of Community Savings accounts which pay a competitive rate of interest to our members as well as providing a contribution to our Charitable Trust Fund from the Society grew from £6.7m to £13.9m during the year and are proving to be a popular choice with members.

The ongoing low interest rate environment is likely to prevail in the foreseeable future given that the messaging from the Governor of the Bank of England has indicated that any future rate rises will be phased in gradually. Indeed, there remains the possibility that the Bank of England Bank Rate may be reduced before any subsequent increases are introduced.

We constantly monitor the market to ensure our savings products remain competitively priced and ahead of average savings rates in the market. We continue to reserve our better savings rates for local and loyal customers and our 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 Regulation 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 2019, gross capital, which is represented by reserves, amounted to £29.7m (2018: £27.8m), being 7.38% of total shares and borrowings (2018: 7.34%). Free capital, which comprises gross capital, collective loan impairment allowance less tangible and intangible fixed assets, amounted to £27.8m (2018: £26.3m).

The slower rate of asset growth coupled with the high level of post-tax profits made has allowed the Society to strengthen the capital ratio in 2019.

Liquid assets in the form of cash in hand, deposits with credit institutions and debt securities stood at £92.8m representing 23.06% of shares and borrowings as at 31 December 2019. This compares with £80.4m and 21.23% reported at 31 December 2018. The liquid assets figure of £92.8m does not include any Treasury Bills (2018: £4m) we hold as part of the Funding for Lending Scheme as these were fully repaid in 2019. 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, mansfieldbs.co.uk under "Corporate Information".

DIRECTORS' REPORT (CONTINUED)

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 and our Charitable Trust.

CHARITY PARTNER

Our staff chose to support Macmillan Cancer Support for two years as our Society charity. As the fund raising was so successful our staff decided to extend the partnership for a further year. They have continued to show great enthusiasm towards raising funds throughout 2019 and finished the year having raised a grand total of £17,243 over the 3 years. Staff have participated in many events over the 3 years including the Yorkshire 3 Peak Challenge, the London Marathon, Branch to Branch walk, the Mansfield's own 'bake off' and numerous cake sales and raffles. The highlight of 2019 was the 'Executive Leg Waxing' when 3 of our male executives agreed to have their legs waxed in the banking hall of our Mansfield branch. A particular favourite each year has been the Christmas lunch cooked by the charity committee for other members of staff.

WE ARE MACMILLAN. CANCER SUPPORT

We are proud to announce that our staff have voted to support another excellent cause for 2020 and we will be organising events to raise funds for the Lincs and Notts Air Ambulance.

LINCS & NOTTS AIR AMBULANCE SAVING LIVES EVERYDAY

WORK IN THE COMMUNITY SCHEME

We actively encourage staff to participate in the Work in the Community Scheme by granting two days paid leave each year for individuals to assist deserving causes.

In 2019, 56 staff members donated 104 days to the local community by participating in various initiatives. These initiatives included craft projects with local schools, helping to develop interview skills, CV writing and career guidance for local teenagers; delivering financial education in primary schools and painting gates at Millennium Green conservation area.

COMMUNITY SUPPORT SCHEME

The Society's Community Support Scheme contributions totalled £13,045 in 2019 (2018: £14,002) as the Board demonstrated an ongoing commitment to provide support for worthy causes in our local community. We supported a number of local organisations and have received some excellent feedback from them –

"What a wonderful start to the year. Thank you to Mansfield Building Society for this donation. This will make a real positive difference to our local community!"

- Forest Town Nature Conservation Group

"The donation has allowed us to produce a calendar with photographs of local events, many of which provide fond memories for our customers. The sales of this calendar help us keep the centre open for the community to continue to use."

- The Kirkby Heritage Centre

DIRECTORS' REPORT (CONTINUED)

"The Breach House is a free-to-use service, run completely by volunteers. We are passionate about getting the local community involved in DH Lawrence's literature and life. The library is just one project on our list of ideas and it couldn't have been possible without this donation."

- **The Breach House Project**

CHARITABLE TRUST FUND

In addition to these worthy 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. Future funding is received partly via our contribution from the Community Saver Account balances and partly from profits made during the year.

By the start of 2019 the fund had a total balance of £131,900 and the trustees awarded donations to Portland College to finish an exciting new activity trail and zip wire for the benefit of disabled students.

A grant was also awarded to the Inspire and Achieve Foundation to purchase new laptops to be used supporting the Prince's Trust programme for young disadvantaged adults in the Mansfield area.

During the year, the balances on our range of Community Saver Accounts grew to £13.9m - these accounts pay a competitive rate of interest to our saver members and also accrue a 0.1% annual contribution from the Society into the Charitable Trust Fund.

In total, the Society has provided £76,006 into the Charitable Trust Fund during 2019, to enable the fund to support more local charities and initiatives. The balance of the fund at the end of 2019 is £179,018.

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

DIRECTORS' REPORT (CONTINUED)

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 27, 28 and 29.

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:

CONDUCT	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.
STRATEGIC	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	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 and the Risk Committee. Counterparty credit risk is controlled through adherence to the Board approved policies for Liquidity and Financial Risk Management, these include prudent limits on credit exposures to individual and groups of counterparties.
INTEREST RATE	Interest Rate Risk is the risk of 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). This is regularly reviewed by the Management Assets and Liabilities Committee and the Risk Committee. A detailed analysis of the Society's interest rate sensitivity at 31 December 2019 can be found in note 29 on page 65.
LIQUIDITY	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, which ensures sufficient funds in liquid form are available at all times so the Society can meet its liabilities as they fall due. Stress tests are carried out regularly to confirm that the Society can withstand normal and abnormal cash outflows. The policies for Liquidity and Financial Risk Management are regularly reviewed by the Risk Committee and are approved by the Board.
OPERATIONAL	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 our IT systems and security to ensure we are protected from Cyber Risk. The Audit and Compliance Committee is responsible for assessing the effectiveness of the system of inspection and control including cyber protection.
LEGAL & REGULATORY	Legal and Regulatory Risk is the risk of failing to interpret, implement and comply with the array of legal and regulatory requirements. This is regularly reviewed by the Risk Committee.

BREXIT	Brexit Risk arises because a significant amount of uncertainty remains regarding the future relationship between the United Kingdom and the European Union. As a solely UK focused organisation, the Society has no direct exposure to the EU. However, the wider UK economic implications and operational impacts of Brexit have been considered and are summarised below: ▪ The Board believes that the implications of Brexit are difficult to quantify; however, during the transition period, which ends 31 December 2020, uncertainty will remain in the economy as the details of the future trade agreements take time to negotiate. Depending on the negotiations there is a risk of recession leading to unemployment and therefore reduced ability from customers to repay their mortgages. ▪ The Board has focused on this potential downside when performing stress tests on the possible outcome and can reassure members that the Society has sufficient capital buffers to withstand this worst case Brexit fallout. ▪ The Board also considered other implications of Brexit and can confirm that our treasury assets are all invested in the UK and our staff are all UK residents. Although the Society has some exposure to suppliers with EU parent companies the Board considers the risks to be controlled and that the operational resilience of the organisation is not impacted by the UK leaving the EU.
CLIMATE CHANGE	Climate Change Risk is the risk that the effects of climate change will have an impact on the environment to the extent that the residential houses that our mortgages are secured against are put at risk. This risk is particularly prevalent in coastal areas and places prone to flooding.

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.

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.

CORPORATE SOCIAL RESPONSIBILITY

The Society is committed to protecting the environment where possible and uses environmentally friendly stationery and equipment whenever this is appropriate. During 2020 a team of staff members have volunteered to look at ways in which the Society can improve its impact on the environment. We look forward to implementing some of the suggestions that will come from this group. 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 2019 and coped admirably with the challenge of balancing the hard work of bringing in business in an uncertain environment 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 Brand launch in May involved all staff and the Executive team took the opportunity to provide them with a reminder of the strategy and vision for the Society.

The Society has also invested in learning and development resource in 2019 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 the Health and wellbeing programme which continues to provide a much needed balance between work and enjoyment.

DIRECTORS' REPORT (CONTINUED)

2018 saw the launch of our Management Development programme which focusses on the key skills of managing both staff and tasks. This has been made available to all managers and aspiring managers. The first people to complete this course gave very positive feedback and we are now running further training programmes for two more groups of managers and supervisors.

We have also supported one of our aspiring senior managers through the Loughborough University Masters in Building Society Management which has been organised in conjunction with the Building Societies Association. We are pleased to announce that she graduated with a 1st class degree and has continued to progress within the organisation.

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

The Board reviews the Society's strategy each year and in 2019 the Board Planning Day continued to review the longer term plans for the Society and refreshed its perspective on how member and intermediary requirements may change over the next 7 years. The Board also reviewed the expected market and technology change that will be inevitable during this period with support from experts in this field. Over this longer term time horizon, the Board expects that the net interest margin will come under pressure due to fierce competition within the mortgage market and also increasing competition for the retail savings necessary to fund future growth.

Our manual approach to mortgage underwriting using experienced individuals has protected the Society from serious financial losses. This manual and flexible approach allows us to review all the circumstances of a case and 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, lending into retirement and shared ownership are areas in which we are actively increasing our mortgage book in a controlled manner and this will continue into 2020. We have also launched our common sense lending on owner-occupied residential properties into Scotland and expect this to expand our geographical reach during 2020.

We plan to build upon our well-developed strengths in manual underwriting of residential mortgages, coupled with a common sense approach and strong customer service, to continue to deliver profitable growth.

Through ongoing feedback from members, customers and mortgage intermediaries, we will maintain an attractive and competitive product range and ensure our distribution relationships remain strong and productive.

To achieve the above, the Society plans to make further investments in staff, process and system improvements including: - a new branch outlet in our home town of Mansfield (bucking the industry trend of recent branch closures); an enhanced online savings offering, a new mortgage retention online portal and a planned upgrading of the head office building to include additional office space as our growth continues to increase our staff number requirements. All of this will be delivered against a backdrop of further strengthening our cyber security and operational resilience capabilities.

We will also grow our people to ensure we have appropriate resources, skills and experience to deliver significant change and realise the opportunities that lie ahead, for the long term interests of our members. We remain fully committed to further investing in the Society to ensure we can address any future headwinds and continue to deliver value to our members.

The level of mortgage growth achieved in 2017 and 2018 was an exceptional performance in a difficult market. Given the intensification of market competition and the uncertainty of Brexit, the Board was pleased with the growth of 4% in 2019 and expects future 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. Further interest margin pressure will come as the Society starts to repay the Government funding provided by the Term Funding Scheme. This will reduce profits in the short to medium term.

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

DIRECTORS' REPORT (CONTINUED)

DIRECTORS

The following were directors of the Society during the year:

NON-EXECUTIVE DIRECTORS		EXECUTIVE DIRECTORS	
Jeremy Cross, FCA	Chairman	Gev Lynott, FCCA, FCIB	Chief Executive
Rob Clifford, CertPFS	Vice Chairman and Senior Independent Director	Paul Wheeler, ACA	Deputy Chief Executive, Finance Director and Secretary
Robert Hartley, FRICS			
Alison Chmiel, FCMA			
Colin Bradley, ACA, ACIB			
Nick Baxter, DipM, DipMan (Open)			

Paul Wheeler, Nick Baxter and Robert Hartley stand for re-election in accordance with Rule 26 (retirement by rotation).

At 31 December 2019 no director held any interest in the shares or debentures of any connected undertaking.

Robert Hartley will retire from the Board later in 2020. This retirement will be timed to allow a suitable replacement to be appointed. The Board would like to thank Robert for all his valued input and support during his 9 year tenure.

In April 2020, Gev Lynott will be retiring as Chief Executive. Gev is in his 9th year with the Society and has consistently worked in the best interests of both the Society and its members, and leaves the Society in a significantly stronger position than the one that he inherited. The whole Board would like to pass on their sincere thanks for his outstanding contribution and wish him well in his retirement. We are pleased to announce that Paul Wheeler will be taking over the role of leading the Society from April 2020. Paul has been with the Society since 2011 as Finance Director and more recently as Deputy Chief Executive, and we have every confidence that he will be able to lead the Society through the next stage of its strategy.

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 2019 represented 4 days (2018: 4 days).

AUDITOR

The Board was disappointed to be advised that KPMG have made a decision to withdraw from the audits of a number of building societies. For this reason, KPMG will not be standing for re-election at the forthcoming Annual General Meeting (AGM) and after a thorough tender process the Board has selected BDO LLP as their new auditors. The Board will recommend BDO LLP be appointed as auditor and a resolution for their appointment will be proposed to the Society's forthcoming AGM.

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 pages 8 and 9 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 10. 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 of the Board
3 March 2020

CORPORATE GOVERNANCE REPORT

The Society has regard to the principles of the Financial Reporting Council's UK Corporate Governance Code, last updated in July 2018. The following pages outline the key principles of the code and the Board's response.

BOARD LEADERSHIP AND SOCIETY PURPOSE

Code Principle A:

A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

The Board has collective responsibility for safeguarding the interests of members. It operates effectively by directing the business of the Society, by developing and monitoring strategic matters such as the Corporate Plan and business objectives, and reviewing and approving policy.

The Board considers the opportunities and risks to strategy, and the resulting implications on the future success of the Society, through the corporate planning process. This includes assessing how the Society maintains its financial strength in a sustainable way over the long-term within the constraints of operating in a challenging market environment. One element of overall strategy is the continuing investment in people, processes and technology to ensure long-term capability to deliver sustainable balance sheet growth whilst remaining operationally resilient and improving customer access to products and services.

Delivery of strategy is overseen through an established governance framework embedded within a transparent culture where constructive challenge is encouraged with the aim of delivering improvements for the benefit of members. In 2019 the Board met 9 times to closely monitor the Society's business performance. At the meeting in November a detailed review of the Society's strategy took place.

Code Principle B:

The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

The Board is responsible for setting the purpose, values and strategy of the Society and ensuring that these are aligned to the culture of the organisation. In order to achieve these aims the Board consists 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.

Code Principle C:

The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

Through the Corporate Planning process, and ongoing monitoring of performance, the Board ensures that the Society has sufficient resources to enable the Senior Leadership Team to deliver the Corporate Plan objectives and goals. Monitoring of performance and risk is through an established governance framework which includes delegation of certain matters to Board sub-Committees.

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 (Chair), 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 (Chair), Jeremy Cross and Nick Baxter (Appointed 25 April 2019).

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 (Head of HR & Training), 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 21.

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 (Chair), Alison Chmiel and Robert Hartley. Colin Bradley and Alison Chmiel 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 pages 19 and 20.

RISK COMMITTEE

The Committee meets four times a year 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, Financial Risk Management Policies, Liquidity Policy and other key risk documents including Board Risk Policy in detail.

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

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.

	NUMBER OF MEETINGS / NUMBER OF MEETINGS ATTENDED				
	BOARD	NOMINATION COMMITTEE	REMUNERATION COMMITTEE	RISK COMMITTEE	AUDIT AND COMPLIANCE COMMITTEE
Number of Meetings	9	4	3	4	6
NON-EXECUTIVE DIRECTORS					
Jeremy Cross	9	4	3	4*	6*
Alison Chmiel	9	*	*	4	6
Colin Bradley	9	*	*	4	6
Robert Hartley	8	*	3	2*	6
Rob Clifford	8	4	*	4	*
Nick Baxter	9	*	2**	4	*
EXECUTIVE DIRECTORS					
Gev Lynott	9	4	3*	4	6*
Paul Wheeler	9	*	3*	4	6*

* Denotes not a member of the Committee
** Appointed as a Member to the Remuneration Committee in April 2019

Code Principle D:

In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

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.

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.

Code Principle E:

The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

Through its governance structure the Board approves various policy documents which relate to employees, these include matters such as equality and diversity, whistleblowing, and remuneration. The Remuneration Committee receives management information which provides regular insight into employee matters including turnover, sickness and performance. The Society has a clear employee grievance and disciplinary process which includes the ability to whistle-blow and raise matters of concern with the Senior Independent Director.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Society operates a Staff Council which has representatives from across the business and is chaired by a member of staff. The Staff Council meets quarterly and raises any issues or concerns with the Executive Committee.

The Staff Council Chair has access to members of the Remuneration Committee and formally meets with them annually. The Chief Executive leads a culture which also encourages employees to raise matters of concern with their direct line manager and then Senior Manager, and then directly with him where matters have still not been resolved satisfactorily. The Society's purpose, vision and values are shared with employees who also have access to regular Cascade Communications with the Executives and, through a programme of regular business visits, all Non-Executive Directors.

DIVISION OF RESPONSIBILITIES

Code Principle F:

The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

THE CHAIRMAN

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 seven years.

Code Principle G:

The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

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 COMPOSITION OF THE BOARD

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 seven 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.

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.

Code Principle H:

Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

NON-EXECUTIVE DIRECTORS

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.

COMMITMENT

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 14.

Code Principle I:

The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

INFORMATION AND SUPPORT

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.

COMPOSITION, SUCCESSION AND EVALUATION

Code Principle J:

Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

APPOINTMENTS TO THE BOARD

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.

Code Principle K:

The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

RE-ELECTION

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. The Board has considered the Code requirement for annual re-election of all Directors and is concerned that in extreme circumstances this could have immediate implications on the stable governance and management of the Society, which is not in the interests of members. The Board has concluded that the current approach of appointing Directors to the Board for a term not exceeding three years, subject to satisfactory performance, and with typically one third of the Board seeking re-election annually, remains appropriate for a business of this size. This policy still gives members an opportunity to influence the make-up of the Board.

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.

DEVELOPMENT

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.

Code Principle L:

Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

EVALUATION

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 2019 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.

AUDIT, RISK AND INTERNAL CONTROL

Code Principle M:

The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

AUDIT AND COMPLIANCE COMMITTEE AND AUDITORS

The Audit and Compliance Committee Report on pages 19 and 20 explains how the Society applies the Code Principles relating to corporate reporting and internal control.

Code Principle N:

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

FINANCIAL CONTROL

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 24.

The Audit and Compliance Committee Report on pages 19 and 20 describes the main areas of accounting judgement considered by the Audit and Compliance Committee.

Code Principle O:

The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

RISK MANAGEMENT AND INTERNAL CONTROL

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.

REMUNERATION

The Directors' Remuneration Report on page 21 explains how the Society pays regard to the Code Principles relating to remuneration.

Jeremy Cross
Chairman of the Board
3 March 2020

AUDIT AND COMPLIANCE COMMITTEE REPORT

This report explains how the Society applies the principles of the UK Corporate Governance Code July 2018 (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 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 and 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.

All minutes of the Audit and Compliance Committee are made available to all Board members and the Chair of the Audit and Compliance Committee updates the Board after each meeting, prior to the minutes being received.

Throughout the year the Committee has reviewed its own performance and that of the internal and external auditors.

FINANCIAL AND BUSINESS REPORTING

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:

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.

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.

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 hedging 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 2019 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 AND AUDITORS

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 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 2019 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 2019 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 2019, Internal Audit had an appropriate level of resource to deliver its plan of work and that it discharged its responsibilities effectively.

EXTERNAL AUDIT - The Committee is responsible for providing oversight of the external audit process by monitoring the relationship with the external auditor, KPMG, 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, KPMG will highlight any material control weaknesses that come to their attention. The Committee is also responsible for monitoring the performance, objectivity and independence of the external auditor. This is addressed via evidence provided by the external auditor as well as a review performed by each member of the Committee. The Committee is also responsible for ensuring that the policy regarding the external audit firm providing non-audit services is appropriately applied.

During the year KPMG served notice that they will no longer be performing the external audit function for a number of building societies including the Mansfield. The Committee carried out an extensive tender process prior to selecting BDO LLP as the new external audit provider for the Society. They will be proposed to the members at the AGM in April 2020.

OTHER ACTIVITIES – During the year the Committee reassured itself as to the effectiveness of the Society's IT controls. This reassurance was gained via the control self-assessment process in operation at the Society. In addition the external auditors review IT controls relating to the financial reporting.

Colin Bradley
Chair of the Audit and Compliance Committee
3 March 2020

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 was:

Robert Hartley (Chair)
Jeremy Cross
Nick Baxter - Appointed 25 April 2019

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 good performance during 2019, the two executive directors have earned 12.5% 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. The rate of contribution from the Society differs between the executive directors and the rest of the staff which is not in line with the most recent corporate governance guidelines. The contributions paid are regularly benchmarked against other organisations in the local area as part of our review of the total package paid to all staff and the Board is currently satisfied that the total packages are set at a level which allows the Society to attract a high quality of staff at all levels.

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.

The Committee are satisfied that the Remuneration Policy has achieved the desired performance and behavioural outcomes during 2019.

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (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 6 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 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 2019 are shown below:

AUDITED	2019 £000	2018 £000
Non-executive directors' fees	157	153
Executive directors' remuneration	383	389
TOTAL	**540**	542

NON-EXECUTIVE DIRECTORS' FEES	2019 £000	2018 £000
Jeremy Cross (Chairman)	35	34
Rob Clifford	26	25
Alison Chmiel	25	25
Robert Hartley	23	22
Nick Baxter	23	22
Colin Bradley	25	25
TOTAL	**157**	153

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2019 EXECUTIVE DIRECTORS	SALARY £000	SALARY IN LIEU OF PENSION £000	ANNUAL BONUS £000	DEFERRED BONUS £000	BENEFIT £000	PENSION £000	TOTAL £000
Gev Lynott (CEO)[1]	162	8	11	11	20	-	**212**
Paul Wheeler (DCEO)[2]	113	-	8	8	15	27	**171**
TOTAL	**275**	**8**	**19**	**19**	**35**	**27**	**383**

2018 EXECUTIVE DIRECTORS	SALARY £000	SALARY IN LIEU OF PENSION £000	ANNUAL BONUS £000	DEFERRED BONUS £000	BENEFIT £000	PENSION £000	TOTAL £000
Gev Lynott (CEO)[1]	157	5	17	17	18	-	214
Paul Wheeler (DCEO)[2]	110	-	12	12	15	26	175
TOTAL	267	5	29	29	33	26	389

The highest paid Director in the Society is Gev Lynott (CEO).

(1) Gev Lynott has received 5% additional salary in lieu of pension contributions from June 2018.

(2) 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
3 March 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The Building Societies Act 1986 ("the Act") requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Society financial statements in accordance with IFRSs as adopted by the EU and applicable law.

The Society financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Society; the Act provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Society'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 Group or the Society or to cease operations, or have no realistic alternative but to do so.

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

DIRECTORS' RESPONSIBILITIES FOR ACCOUNTING RECORDS AND INTERNAL CONTROLS

The directors are responsible for ensuring that the Society:

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

The directors 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 Society 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 Society'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 of the Board
3 March 2020

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 2019 which comprise the statement of comprehensive income and other 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 2019 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 first appointed as auditor by the members for the year ended 31 December 2008. The period of total uninterrupted engagement is for the 12 financial years ended 31 December 2019. 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.

Overview		
Materiality: annual accounts as a whole		£200k (2018:£72k) 0.67% of Net Assets (2018: 3.3% of Profit Before Tax)
Key audit matters		**vs 2018**
Recurring risks	Impairment of loans and advances to customers	◄►
Event driven	Impact of uncertainties due to the UK exiting the EU on our audit	◄►

2. KEY AUDIT MATTERS: INCLUDING 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 below the key audit matters 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.

THE RISK - THE IMPACT OF UNCERTAINTIES DUE TO THE UK EXITING THE EUROPEAN UNION ON OUR AUDIT

Refer to page 9 (principal risks)

UNPRECEDENTED LEVELS OF UNCERTAINTY:

All audits assess and challenge the reasonableness of estimates, in particular as described in impairment of loans and advances to customers below, and related disclosures and the appropriateness of the going concern basis of preparation of the Annual Accounts (see below). All of these depend on assessments of the future economic environment and the Society's future prospects and performance.

Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.

OUR RESPONSE

We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

- OUR BREXIT KNOWLEDGE: We considered the directors' assessment of Brexit-related sources of risk for the Society's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks;

- SENSITIVITY ANALYSIS: When addressing impairment of loans and advances to customers and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty;

- ASSESSING TRANSPARENCY: As well as assessing individual disclosures as part of our procedures on impairment of loans and advances to customers, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

OUR RESULTS:

As reported under impairment of loans and advances to customers, we found the resulting estimates and related disclosures of impairment of loans and advances to customers and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Society and this is particularly the case in relation to Brexit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE MANSFIELD BUILDING SOCIETY (CONTINUED)

THE RISK - IMPAIRMENT OF LOANS AND ADVANCES TO CUSTOMERS

Allowance for impairment £723,000; (2018: £708,000)
Refer to page 19 (Audit Committee Report),
page 38 (accounting policy);
and page 48 (financial disclosures)

SUBJECTIVE ESTIMATE:
Impairment provisions cover loans specifically identified as impaired and a collective impairment provision for all other loans for those impairments incurred but not yet specifically identified.

The directors judge individual impairments by reference to loans that have objective evidence that the borrower is in significant financial difficulty.

Such evidence includes that the borrower is in possession or arrears and/or are subject to forbearance activities or where an interest only loan has no evidence of a repayment vehicle.

The collective impairment 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 and forced sale discounts against collateral.

There is a risk that the overall provision is not reflective of the incurred losses at the end of the period due to the period of time that it takes for incurred losses to emerge, changes in customer credit quality or other market factors not sufficiently incorporated into the judgement, such as house prices.

The effect of these matters is that, as part of our risk assessment, we determined that the impairment provision has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

OUR RESPONSE

OUR PROCEDURES INCLUDED:

- HISTORICAL COMPARISON: We critically assessed the key assumptions used in the model, being probabilities of default, forced sale discount and selling costs, against the Society's historical experience;
- BENCHMARKING ASSUMPTIONS: We compared the key assumptions used in the model, being probabilities of default, forced sales discount and selling costs with externally available data, and with those of comparable lenders. We also compared the loan portfolio key metrics, including arrears trends and provision coverage, with those of comparable lenders;
- SENSITIVITY ANALYSIS: We critically assessed the collective model for its sensitivity to changes in the key assumptions of probability of default, forced sale discount and selling costs by performing stress testing to help us to assess the reasonableness of the assumptions used and identify areas of potential additional focus;
- TESTS OF DETAIL: We identified a selection of loans using loan book stratification which included specific items identified based on risk characteristics such as arrears status, forbearance flagging and LTV ratios to identify individual loans which may have unidentified impairments. We tested the provision attached to those loans by reference to relevant supporting information such as property type and valuation to challenge the completeness and accuracy of the Society's individual impairment provision estimate. We also inspected correspondence between the Society and the borrower for evidence of customer distress, in order to challenge the completeness and accuracy of individual impairment provision.
- ASSESSING TRANSPARENCY: We evaluated the adequacy of the Society's disclosures in respect of the degree of estimation involved in arriving at the impairment provision and its sensitivity to key assumptions.

OUR RESULTS:

We found the estimate of the impairment provision in respect of loans and advances to customers to be acceptable (2018: acceptable).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE MANSFIELD BUILDING SOCIETY (CONTINUED)

We continue to perform procedures over revenue recognition. However, following our reassessment of the significance of the estimate relating to the behavioural lives in comparison to materiality, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified as a key audit matter in our report this year.

3. OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality for the Society annual accounts as a whole was set at £200,000, determined with reference to a benchmark of net assets (of which it represents 0.67%. In the prior year materiality for the financial statements as a whole was set at £72,000, which was determined with reference to a benchmark of profit before tax of the Society of £2.2m of which it represents 3.3%.

Following a re-assessment in the year, net assets has been determined to be the most appropriate benchmark to use for the Society, given their strategy is not one purely of profit maximisation but instead to provide a secure place for customer deposits, in a mutual environment.

We agreed to report to the Audit and Compliance Committee any corrected or uncorrected identified misstatements exceeding £10,000 (2018: £3,600), in addition to other identified misstatements that warranted reporting on qualitative grounds.

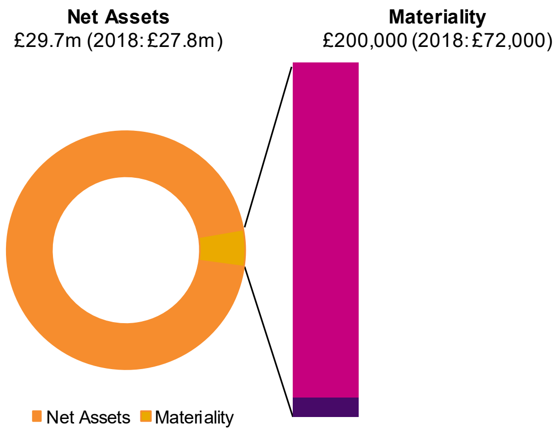
Our audit of the Society was undertaken to the materiality level specified above and was all performed at the Society's head office in Mansfield.

4. WE HAVE NOTHING TO REPORT ON GOING CONCERN

The Directors have prepared the annual accounts on the going concern basis as they do not intend to liquidate the Society or to cease its operations, and as they have concluded that the Society's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the annual accounts ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Society will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Society's business model and analysed how those risks might affect the Society's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Society's available financial resources over this period was the impact of Brexit on the Society's liquidity and capital resources.



As these were risks that could potentially cast significant doubt on the Society's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Society's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise.

Based on this work, 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 a year from the date of approval of the annual accounts.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

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 24, 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 or other irregularities (see below), 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, other irregularities 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.

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

IRREGULARITIES – ABILITY TO DETECT

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts from our general commercial and sector experience, through discussion with the directors (as required by auditing standards), and from inspection of the Society's regulatory and legal correspondence and discussed with the directors the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the annual accounts varies considerably.

Firstly, the Society is subject to laws and regulations that directly affect the annual accounts including financial reporting legislation (including related building society legislation), taxation legislation and pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Society is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the annual accounts, for instance through the imposition of fines or litigation or the loss of the Society's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of building society legislation recognising the financial and regulated nature of the Society's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the annual accounts, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the annual accounts, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, 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. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

3 March 2020

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTE	2019 £000	2018 £000
Interest receivable and similar income	2	12,782	11,476
Interest payable and similar charges	3	(4,905)	(4,083)
Net interest income		**7,877**	7,393
Fees and commissions receivable	4	170	151
Fees and commissions payable	4	(114)	(109)
Finance Charge on Pension Scheme	30	-	(49)
Other operating income		-	1
Net (losses) / gains from derivative financial instruments	5	(72)	19
Total net income		**7,861**	7,406
Administrative expenses	6	(5,039)	(4,651)
Depreciation and amortisation	14 & 15	(324)	(271)
Operating profit before impairment provisions		**2,498**	2,484
Impairment provisions on loans and advances	13	(15)	(87)
Impairment losses on property	14	(13)	(5)
Provisions for liabilities	22	(130)	(214)
Profit before tax		**2,340**	2,178
Tax expense	9	(447)	(424)
Profit for the financial year		**1,893**	1,754

OTHER COMPREHENSIVE INCOME

	2019 £000	2018 £000
Total comprehensive income for the year	**1,893**	1,754

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 35 to 69 form part of these accounts.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	NOTE	2019 £000	2018 £000
ASSETS			
Cash in hand and balances with the Bank of England	10a	70,339	62,974
Loans and advances to credit institutions	10b	22,473	16,452
Debt securities	10c	-	1,008
Derivative financial instrument assets	11	21	232
Loans and advances to customers	12	337,958	324,599
Tangible fixed assets	14	1,985	1,739
Intangible assets	15	512	394
Other debtors	16	422	378
Total assets		**433,710**	407,776
LIABILITIES			
Shares	17	314,510	285,606
Amounts owed to credit institutions	18	50,090	55,106
Amounts owed to other customers	19	37,820	38,075
Derivative financial instrument liabilities	11	411	66
Accruals and deferred Income		395	367
Other liabilities	20	665	533
Provisions for liabilities	22	132	229
Total liabilities		**404,023**	379,982
RESERVES			
General reserves	25	29,687	27,794
Total reserves attributable to members of the Society		**29,687**	27,794
Total reserves and liabilities		**433,710**	407,776

The notes on pages 35 to 69 form part of these accounts.

These accounts were approved by the Board of Directors on 3 March 2020 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 2019 £000	TOTAL 2019 £000	GENERAL RESERVE 2018 £000	TOTAL 2018 £000
Balance at 1 January	27,794	27,794	26,040	26,040
Total comprehensive income for the period				
Profit	1,893	1,893	1,754	1,754
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	1,893	1,893	1,754	1,754
Balance at 31 December	**29,687**	**29,687**	27,794	27,794

The notes on pages 35 to 69 form part of these accounts.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

CASH FLOWS FROM OPERATING ACTIVITIES	NOTE	2019 £000	2018 £000
Profit before tax		2,340	2,178
Adjustment for			
Depreciation and amortisation	14 & 15	324	271
Mortgage interest reduction		-	10
Increase in impairment of property	14	13	10
Increase in impairment provisions on loans and advances	13	15	87
TOTAL		**2,692**	2,556
CHANGES IN OPERATING ASSETS AND LIABILITIES			
(Increase) / Decrease in prepayments, accrued income and other assets		(45)	17
Decrease / (Increase) in fair value of derivatives		211	(93)
Increase in accruals, deferred income and other liabilities		459	127
(Increase) in loans and advances to customers		(13,375)	(34,185)
Increase in shares		28,858	20,637
(Decrease) / Increase in amounts owed to other credit institutions and other customers		(5,250)	17,118
(Increase) / Decrease in loans and advances to credit institutions		(6,070)	3,500
Taxation paid		(474)	(395)
Net cash generated by operating activities		**7,006**	9,282
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of debt securities		-	(2,000)
Maturity of debt securities		1,000	3,000
Purchase of tangible fixed assets		(415)	(278)
Purchase of intangible fixed assets		(286)	(161)
Net cash generated by investing activities		**299**	561
Net increase in cash and cash equivalents		**7,305**	9,843
Cash and cash equivalents at 1 January 2019		71,774	61,931
Cash and cash equivalents at 31 December 2019	10(a)	**79,079**	71,774

The notes on pages 35 to 69 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 11.

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 receivable/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 hedged 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 an effectiveness range of 80-125 percent.

FAIR VALUE HEDGES

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in profit or 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.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's 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 provision 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

Tangible fixed assets are stated at cost less accumulated 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.

An assessment of impairment is made on all property at each year end and any write down is taken to Profit and Loss in that year.

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 generally between 3-6 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 the Trust Deed 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 30 to the Accounts.

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.

The Society makes use of the Bank of England's Sterling Monetary Framework (SMF) as part of its funding strategy. The SMF comprises Funding For Lending (FLS), Term Funding Scheme (TFS) and Indexed Long Term Repo (ILTR). In order for the Society to access funding from the FLS, TFS and ILTR, assets are required to be pledged as collateral. Where the risk and reward of ownership of the 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 PROVISIONS ON LOANS AND ADVANCES TO CUSTOMERS

The Society reviews its mortgage advances portfolio at least every half year, to assess loan impairment. In determining whether an impairment provision 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, an assessment of customers susceptible to payment shock and expected cash flows. 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 £0.18m.

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 3 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 £0.13m, and a corresponding increase 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 30 to the accounts.

NOTES TO THE ACCOUNTS (CONTINUED)

2 INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £000	2018 £000
On loans fully secured on residential property	12,218	11,075
On loans fully secured on land	16	16
Interest and other income on debt securities (all fixed income)	-	17
Interest and other income on other liquid assets	654	457
Net expense on derivatives	(106)	(89)
	12,782	11,476

Included within interest income is £125,487 (2018: £113,174) in respect of interest income accrued on impaired loans, two or more months in arrears.

3 INTEREST PAYABLE AND SIMILAR CHARGES

	2019 £000	2018 £000
On shares held by individuals	4,134	3,408
On deposits and other borrowings	771	675
	4,905	4,083

4 FEES AND COMMISSIONS

A FEES AND COMMISSIONS RECEIVABLE

	2019 £000	2018 £000
Insurance commission	16	15
Other commissions	15	20
Fees receivable	139	116
	170	151

B FEES AND COMMISSIONS PAYABLE

	2019 £000	2018 £000
Bank charges	61	60
Other fees payable	53	49
	114	109

5 NET INCOME FROM OTHER FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2019 £000	2018 £000
Movement in derivatives in designated fair value hedge relationships	(556)	78
Movement in hedged items in fair value hedge accounting relationships	484	(59)
	(72)	19

Included in the above are fair value gains of £21,191 (2018: £232,379) on derivatives held in qualifying fair value hedging relationships and £411,494 (2018: £65,869) representing losses on derivatives in qualifying fair value hedging relationships. Also included are fair value gains of £366,659 (2018: £64,613) in the fair value of the hedged item attributable to the risk hedged and losses of £16,520 (2018: £198,883) in the fair value of the hedged item attributable to the risk hedged.

NOTES TO THE ACCOUNTS (CONTINUED)

6 ADMINISTRATIVE EXPENSES

	2019 £000	2018 £000
Wages and salaries	2,510	2,446
Social security costs	299	273
Contributions to defined contribution pension scheme	235	204
Other administrative expenses	1,995	1,728
Total administrative expenses	**5,039**	4,651

Included in other administrative expenses are the following:

Auditor's remuneration (stated exclusive of VAT)

	2019 £000	2018 £000
Payments to the Auditor for:		
Audit of these financial statements	86	68
Amounts receivable by the Society's Auditors and its associates in respect of:		
Audit of Client Assets	5	5
Other audit services	-	7

7 STAFF NUMBERS

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

	2019	2018
FULL TIME		
Principal office	41	43
Branch offices	24	23
	65	66
PART TIME		
Principal office	13	11
Branch offices	12	11
	25	22

8 DIRECTORS' REMUNERATION

REMUNERATION OF DIRECTORS

	2019 £000	2018 £000
For services as non-executive directors	157	153
For services as executives	383	389
	540	542

The highest paid Director in the Society is Gev Lynott (CEO).

Further details of the directors' remuneration are given in the Directors' Remuneration Report on page 21.

A DIRECTORS' LOANS AND TRANSACTIONS

At 31 December 2019, there were no outstanding mortgage loans granted in the ordinary course of business to any directors or their connected persons (2018: £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 2019, 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 2019, there were no amounts outstanding to any connected businesses (2018: £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 2019 a total of £94,862 (2018: £69,365) was held in Society savings by the directors and their connected parties.

The Society offers employment to a number of students during the holiday periods to undertake office administration tasks. One of these students was the daughter of a director who worked for two weeks during July. The total payment was £240.

9 TAX ON PROFIT ON ORDINARY ACTIVITIES

ANALYSIS OF CHARGE IN YEAR	2019 £000	2018 £000
CURRENT TAX		
Corporation tax at 19.00% (2018: 19.00%)	410	422
Adjustments relating to prior year	(3)	(4)
Total current tax	**407**	418
DEFERRED TAX		
Origination and reversal of timing differences	42	7
Adjustment to prior year estimates	(2)	(1)
Total deferred tax	**40**	6
Total tax	**447**	424

FACTORS AFFECTING THE TAX CHARGE FOR THE CURRENT PERIOD	2019 £000	2018 £000
Profit on ordinary activities before tax	2,340	2,178
Current tax at 19.00% (2018: 19.00%)	445	414
Effects of:		
Expenses not deductible for tax purposes	7	15
Impact of different tax rates	(1)	(1)
Adjustments relating to prior year	(4)	(4)
Total tax	**447**	424

	Current tax 2019 £000	Deferred tax 2019 £000	Total tax 2019 £000	Current tax 2018 £000	Deferred tax 2018 £000	Total tax 2018 £000
Recognised in statement of comprehensive income	407	40	447	418	6	424
Recognised in other comprehensive income	-	-	-	-	-	-
Total tax	**407**	**40**	**447**	418	6	424

NOTES TO THE ACCOUNTS (CONTINUED)

10 LIQUID ASSETS

A CASH AND CASH EQUIVALENTS

	2019 £000	2018 £000
Cash in hand and balance with the Bank of England	70,339	62,974
Loans and advances to credit institutions	8,740	8,800
Cash and cash equivalents per Cash Flow Statement	**79,079**	71,774

B LOANS AND ADVANCES TO CREDIT INSTITUTIONS

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

	2019 £000	2018 £000
Repayable on demand	8,760	8,816
In not more than three months	7,690	3,606
In more than three months but not more than one year	6,023	4,030
In more than one year	-	-
	22,473	16,452
Total included within cash and cash equivalents	**8,740**	8,800

NOTES TO THE ACCOUNTS (CONTINUED)

C DEBT SECURITIES

	2019 £000	2018 £000
Certificates of deposit	-	1,008
	-	1,008

Debt securities have remaining maturities as follows:

In not more than one year	-	1,008

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

	2019 £000	2018 £000
At 1 January	1,008	2,008
Additions	-	2,018
Maturities	(1,008)	(3,018)
At 31 December	-	1,008

NOTES TO THE ACCOUNTS (CONTINUED)

11 DERIVATIVE FINANCIAL INSTRUMENTS

	2019 Positive market value £000	2019 Negative market value £000	2018 Positive market value £000	2018 Negative market value £000
Derivatives designated as fair value hedges:				
Interest rate swaps	**21**	**411**	232	66

12 LOANS AND ADVANCES TO CUSTOMERS

	2019 £000	2018 £000
Loans fully secured on residential property	336,891	323,960
Loans fully secured on land	717	773
Fair value of hedged risk	350	(134)
At 31 December	**337,958**	324,599

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

MATURITY ANALYSIS	NOTE	2019 £000	2018 £000
On call and at short notice		27	-
Repayable with remaining maturity:			
In not more than three months		2,560	2,408
In more than three months but not more than one year		7,361	7,132
In more than one year but not more than five years		47,480	48,426
In more than five years		281,253	267,341
		338,681	325,307
Less allowance for impairment for bad and doubtful debts	13	(723)	(708)
		337,958	324,599

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

At 31 December 2019 the Society had pledged £81.9m (2018: £95.3m) of mortgage assets to the Bank of England as collateral under the Bank of England Sterling Monetary Framework.

The Society operates throughout England & Wales and an analysis of the geographical concentration is shown in the table below :

GEOGRAPHICAL ANALYSIS	2019 %	2018 %
North East	2.7	2.4
North West	12.3	11.9
Yorkshire and Humberside	11.9	12.1
East Midlands	16.2	17.0
West Midlands	8.9	8.8
East Anglia	5.2	5.6
South West	11.8	11.3
London	8.7	9.2
South East	17.7	17.5
Wales	4.6	4.2
	100.0	100.0

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	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
AT 1 JANUARY						
Individual impairment	96	114	-	-	96	114
Collective impairment	610	507	2	-	612	507
	706	621	**2**	-	**708**	621
CHARGE / (CREDIT) FOR THE YEAR						
Individual impairment	18	(18)	-	-	18	(18)
Collective impairment	(1)	103	(2)	2	(3)	105
	17	85	**(2)**	2	**15**	87
AT 31 DECEMBER						
Individual impairment	114	96	-	-	114	96
Collective impairment	609	610	-	2	609	612
	723	706	**-**	2	**723**	708

NOTES TO THE ACCOUNTS (CONTINUED)

14 TANGIBLE FIXED ASSETS

	Freehold land and buildings £000	Equipment, fixtures, fittings and vehicles £000	Assets in the Course of Construction £000	Total £000
COST				
At 1 January 2019	1,472	1,361	4	2,837
Additions/Transfers	-	397	209	606
Disposals/Transfers	-	-	(191)	(191)
Impairment	(13)	-	-	(13)
At 31 December 2019	**1,459**	**1,758**	**22**	**3,239**
DEPRECIATION				
At 1 January 2019	(103)	(995)	-	(1,098)
Charge for year	(16)	(141)	-	(157)
Disposals	-	-	-	-
Revaluation	1	-	-	1
At 31 December 2019	**(118)**	**(1,136)**	**-**	**(1,254)**
NET BOOK VALUE				
At 1 January 2019	1,369	366	4	1,739
At 31 December 2019	**1,341**	**622**	**22**	**1,985**

Included within freehold land and buildings above is £532,614 (2018: £532,614) of non-depreciable land.

The net book value of land and buildings occupied by the Society for its own activities is £1,341,163 (2018 £1,369,081).

NOTES TO THE ACCOUNTS (CONTINUED)

15 INTANGIBLE ASSETS

	Software £000	Assets in the course of construction £000	Total £000
COST			
At 1 January 2019	1,280	12	1,292
Additions/Transfers	263	58	321
Disposals/Transfers	-	(35)	(35)
At 31 December 2019	**1,543**	**35**	**1,578**
AMORTISATION			
At 1 January 2019	(898)	-	(898)
Charge for year	(168)	-	(168)
At 31 December 2019	**(1,066)**	**-**	**(1,066)**
NET BOOK VALUE			
At 1 January 2019	382	12	394
At 31 December 2019	**477**	**35**	**512**

16 OTHER DEBTORS

	2019 £000	2018 £000
Prepayments and accrued income	422	378
	422	378

NOTES TO THE ACCOUNTS (CONTINUED)

17 SHARES

	2019 £000	2018 £000
Held by individuals	314,503	285,584
Other shares	7	22
	314,510	285,606
Shares are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	877	832
Repayable on demand	162,024	159,454
Other shares by residual maturity repayment:		
In not more than three months	78,325	64,591
In more than three months but not more than one year	27,579	19,932
In more than one year but not more than five years	45,177	40,337
In more than five years	528	460
	314,510	285,606

18 AMOUNTS OWED TO CREDIT INSTITUTIONS

	2019 £000	2018 £000
Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	90	106
Repayable with agreed maturity dates or period of notice:		
In not more than three months	2,000	6,000
In more than three months but not more than one year	2,000	3,000
In more than one year but not more than five years	46,000	46,000
	50,090	55,106

Included in the amounts above is £46.0m (2018: £46.0m) relating to funds drawn from the Term Funding Scheme.

Included in the amounts above is £0m (2018: £5m) relating to funds accessed via the Bank of England's Indexed Long Term Repo Scheme.

19 AMOUNTS OWED TO OTHER CUSTOMERS

	2019 £000	2018 £000
Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	3	8
On demand	23,265	23,877
With agreed maturity dates or period of notice:		
In not more than three months	11,765	14,190
In more than three months but not more than one year	2,787	-
	37,820	38,075

20 OTHER LIABILITIES

	2019 £000	2018 £000
Falling due within one year:		
Corporation tax	173	239
Deferred Tax	53	13
Other creditors	439	281
	665	533

21 DEFERRED TAX ASSETS AND LIABILITIES

	Assets		Liabilities		Net	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
Accelerated capital allowances	-	-	102	71	102	71
Short term timing differences	(49)	(58)	-	-	(49)	(58)
Tax (assets) / liabilities	**(49)**	(58)	**102**	71	**53**	13

In December 2019 there was a general election, as part of the Government's manifesto it was announced that the corporation tax rate would not reduce to 17% from April 2020 and that the rate would remain at 19% for the foreseeable future. At the balance sheet date however, the rate reduction to 17% was still substantively enacted and therefore we have continued to recognise deferred tax at that rate.

22 PROVISIONS

	Bonus Provision > 1 yr £000	Mortgage Interest £000	FSCS Levy £000	Total £000
Balance at 1 January 2019	128	93	8	229
Provisions charged during the year	111	15	6	**132**
Provisions utilised during the year	(128)	(93)	(6)	**(227)**
Provisions released to profit and loss	-	-	(2)	**(2)**
Balance at 31 December 2019	**111**	**15**	**6**	**132**

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 following the year of earning and 25% in the following two years subject to meeting Society medium term and personal targets.

MORTGAGE INTEREST

This provision represents an adjustment to closed customer mortgage accounts to realign their interest calculation to the Society's revised methodology. As at 31 December 2019, the majority of payments for closed customer mortgage accounts had been made. Best endeavours continue to try to locate those customers for whom the Society no longer has up to date contact details.

FINANCIAL SERVICES COMPENSATION SCHEME (FSCS)

In common with all regulated UK deposit takers, the Society had previously paid 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.

The FSCS meets these claims by way of loans received from HM Treasury. In past years loans were made in relation to the failure of Bradford and Bingley plc, Dunfermline Building Society and other casualties of the last financial crisis.

The final instalment of these loans from HM Treasury was made by the FSCS in 2018 and this has subsequently caused the FSCS to realign its methods of levying its payments. Payments are now made to the FSCS in the year in which the payment becomes due, removing the requirement for the Society to calculate a provision for the outstanding charge at the year end.

For this reason, the year end provision contained in these accounts for 2019 relates solely to the expected and outstanding charge for management expenses of the FSCS.

NOTES TO THE ACCOUNTS (CONTINUED)

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 2019 (2018: £nil)

24 OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings £000	Other £000
Less than one year	41	-
Greater than one year less than 5 years	151	-
Greater than 5 years	175	-
	367	**-**

25 GENERAL RESERVES

	2019 £000	2018 £000
At 1 January	27,794	26,040
Profit for the financial year	1,893	1,754
At 31 December	**29,687**	27,794

26 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:

CARRYING VALUES BY CATEGORY 31 DECEMBER 2019		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 and Balances with Bank of England	-	70,339	-	**70,339**
Loans and advances to credit institutions	-	22,473	-	**22,473**
Debt securities	-	-	-	**-**
Derivative financial instruments	-	-	21	**21**
Loans and advances to customers	337,958	-	-	**337,958**
Total financial assets	**337,958**	**92,812**	**21**	**430,791**
Non-financial assets	-	2,919	-	**2,919**
Total assets	**337,958**	**95,731**	**21**	**433,710**
FINANCIAL LIABILITIES				
Shares	-	314,510	-	**314,510**
Amounts owed to credit institutions	-	50,090	-	**50,090**
Amounts owed to other customers	-	37,820	-	**37,820**
Derivative financial instruments	-	-	411	**411**
Other liabilities	-	1,192	-	**1,192**
Total financial liabilities	**-**	**403,612**	**411**	**404,023**
Non-financial liabilities	-	29,687	-	**29,687**
Total liabilities	**-**	**433,299**	**411**	**433,710**

CARRYING VALUES BY CATEGORY
31 DECEMBER 2018

		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 and Balances with Bank of England	-	62,974	-	62,974
Loans and advances to credit institutions	-	16,452	-	16,452
Debt securities	-	1,008	-	1,008
Derivative financial instruments	-	-	232	232
Loans and advances to customers	324,599	-	-	324,599
Total financial assets	324,599	80,434	232	405,265
Non-financial assets	-	2,511	-	2,511
Total assets	324,599	82,945	232	407,776
Financial liabilities				
Shares	-	285,606	-	285,606
Amounts owed to credit institutions	-	55,106	-	55,106
Amounts owed to other customers	-	38,075	-	38,075
Derivative financial instruments	-	-	66	66
Other liabilities	-	1,129	-	1,129
Total financial liabilities	-	379,916	66	379,982
Non-financial liabilities	-	27,794	-	27,794
Total liabilities	-	407,710	66	407,776

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.

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	2019 Level 2 £000	2018 £000
Financial assets		
Interest rate swaps	21	232
Hedged risk	367	65
	388	297
Financial liabilities		
Interest rate swaps	411	66
Hedged risk	17	199
	428	265

In September 2019, the IASB issued amendments to IAS 39, IFRS 9 and IFRS 7 Financial Instruments: Disclosures to address uncertainties related to the market wide reform of interbank offered rates (IBOR reform). The amendments provide targeted relief for financial instruments qualifying for hedge accounting under IAS 39 or IFRS 9. They are effective for periods beginning on or after 1 January 2020. The Society has chosen to adopt the amendments early.

Commencing 1 January 2020, when the Society takes swaps, they will no longer make use of LIBOR, and begin taking SONIA swaps. This will ensure that the exposure the Society has to LIBOR will naturally reduce over 2020 and 2021, as swaps mature. Nonetheless, the Society is holding £36m of LIBOR swaps which do not mature until after 31st December 2021. The Society will monitor the market for opportunities to replace these with SONIA swaps. The Society could also take advantage of other reliefs or transitional arrangements, should they emerge, such as the creation of a formalised relationship aligning LIBOR to SONIA.

The composition of the portfolio of interest rate swaps used in hedges and held at each year end is shown in the table below.

	2019 £000	2018 £000
Notional value of LIBOR swap contracts used in hedges	95,500	90,500
Notional value of SONIA swap contracts used in hedges	-	-
Total notional value of swap contracts used in hedges held at 31 December	**95,500**	90,500
Notional value of LIBOR swap contracts used in hedges which mature before the end of 2021	59,500	71,000
Notional value of LIBOR swap contracts used in hedges which mature after 2021	36,000	19,500
	95,500	90,500

	2019 £000	2018 £000
Carrying value of mortgages hedged by LIBOR swap contracts which mature before the end of 2021	47,839	58,377
Carrying value of mortgages hedged by LIBOR swap contracts which mature after 2021	34,607	18,791
Total carrying value of mortgages hedged by LIBOR swap contacts	**82,446**	77,168

The carrying value of mortgages included in hedge relationships is equal to their amortised cost after hedge accounting adjustments.

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 2019 and 2018 are shown in the following table:

	2019 £000	2018 £000
Loans and advances to customers	81,945	95,278
	81,945	95,278

The mortgage loans are pledged as collateral against any loans received from the Bank of England under the Bank of England Sterling Monetary Framework.

27 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:

	2019 £000	2018 £000
Cash in hand and Balances with Bank of England	70,339	62,974
Loans and advances to credit institutions	22,473	16,452
Debt securities	-	1,008
Derivative financial instruments	21	232
Loans and advances to customers - fully secured on residential property	336,891	323,960
- fully secured on land	717	775
Total statement of financial position exposure	430,441	405,401
Off balance sheet exposure – mortgage commitments	17,599	19,201
	448,040	424,602

NOTES TO THE ACCOUNTS (CONTINUED)

MORTGAGE BOOK CREDIT RISK

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

	NOTE	2019 Loans fully secured on residential property £000	2019 Loans fully secured on land £000	2018 Loans fully secured on residential property £000	2018 Loans fully secured on land £000
Neither past due nor impaired		330,090	717	317,312	775
Individually impaired					
Not past due		323	-	481	-
1-2 months		5,187	-	5,063	-
2-4 months		592	-	809	-
4-6 months		690	-	379	-
6 months +		732	-	622	-
		337,614	**717**	324,666	775
Allowance for impairment					
Individual		(114)	-	(96)	-
Collective		(609)	-	(610)	(2)
		(723)	**-**	(706)	(2)
Loans and advances to customers	12	**336,891**	**717**	323,960	773

	2019 Indexed £000	2018 Indexed £000
Value of collateral held		
Neither past due nor impaired	789,632	774,074
Impaired	13,131	12,463
	802,763	786,537

The allowance for impairment 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.

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 36.

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 £7,525k (2018: £7,354k) against outstanding debt of £7,525k (2018: £7,354k).

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
	2019 %	2018 %	
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 2019 £000	FSOL 2019 £000	FSRP 2018 £000	FSOL 2018 £000
LTV ratio				
Less than 50%	107,611	717	108,142	198
51 – 70%	100,912	-	91,500	-
71 – 90%	100,650	-	102,143	577
91 – 100%	28,300	-	22,881	-
More than 100%	141	-	-	-
	337,614	**717**	324,666	775

The average LTV for the total loan book is 41.5% (2018: 40.3%)

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.

As at 31 December 2019 there was one shared ownership property in rent arrears which has resulted in an LTV of higher than 100%. This mortgage has therefore been provided for within the individual impairment provision.

The above table includes £25.48m (2018: £24.79m) of self-build mortgages where the customer receives their funds in stages. The loan to value for these mortgages is calculated as the value drawn to date as a percentage of the estimated final valuation of the completed property.

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 year end date:

	2019 Number	2018 Number
Temporary concession	10	11
Agreed formal arrangements	10	16
Loan modification	18	20
	38	47

At 31 December 2019 £2.82m (2018: £3.18m) of loans are subject to forbearance.

28 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 bi-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 2019	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 and balances with Bank of England	70,339	-	-	-	-	70,339
Loans and advances to credit institutions	8,760	7,690	6,023	-	-	22,473
Debt securities	-	-	-	-	-	-
Derivative financial instruments	-	21	-	-	-	21
Loans and advances to customers	27	2,555	7,345	47,378	280,653	337,958
Other assets	2,919	-	-	-	-	2,919
Total Assets	82,045	10,266	13,368	47,378	280,653	433,710
LIABILITIES						
Shares	162,760	78,416	27,599	45,198	537	314,510
Amounts owed to credit institutions	-	2,002	2,001	46,087	-	50,090
Amounts owed to other customers	23,267	11,765	2,788	-	-	37,820
Derivative financial instruments	411	-	-	-	-	411
Other liabilities	1,192	-	-	-	-	1,192
Reserves	-	-	-	-	29,687	29,687
Total Liabilities	187,630	92,183	32,388	91,285	30,224	433,710
Net liquidity gap	(105,585)	(81,917)	(19,020)	(43,907)	250,429	-

YEAR END 2018

	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 and balances with Bank of England	62,974	-	-	-	-	62,974
Loans and advances to credit institutions	8,816	3,606	4,030	-	-	16,452
Debt securities	-	1,008	-	-	-	1,008
Derivative financial instruments	-	232	-	-	-	232
Loans and advances to customers	-	2,402	7,117	48,321	266,759	324,599
Other assets	2,511	-	-	-	-	2,511
Total Assets	74,301	7,248	11,147	48,321	266,759	407,776
LIABILITIES						
Shares	160,148	64,649	19,981	40,361	467	285,606
Amounts owed to credit institutions	-	6,018	3,001	46,087	-	55,106
Amounts owed to other customers	23,877	14,198	-	-	-	38,075
Derivative financial instruments	66	-	-	-	-	66
Other liabilities	1,129	-	-	-	-	1,129
Reserves	-	-	-	-	27,794	27,794
Total Liabilities	185,220	84,865	22,982	86,448	28,261	407,776
Net liquidity gap	(110,919)	(77,617)	(11,835)	(38,127)	238,498	-

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 2019	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	162,794	78,701	27,875	46,960	678	317,008
Amounts owed to credit Institutions	-	2,005	2,011	46,746	-	50,762
Amounts owed to other customers	23,288	11,793	2,803	-	-	37,884
Derivative financial instruments	-	-	13	302	-	315
Total financial liabilities	186,082	92,499	32,702	94,008	678	405,969

YEAR END 2018	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	160,165	64,918	20,186	41,853	618	287,740
Amounts owed to credit institutions	-	6,024	3,027	47,381	-	56,432
Amounts owed to other customers	23,892	14,228	-	-	-	38,120
Derivative financial instruments	-	(3)	(22)	307	-	282
Total financial liabilities	184,057	85,167	23,191	89,541	618	382,574

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)

29 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.

SENSITIVITY OF PROJECTED NET INTEREST INCOME AT 31 DECEMBER

	2019		2018	
	200bp parallel increase £000	200pb parallel decrease £000	200bp parallel increase £000	200pb parallel decrease £000
Average for the period	(667)	667	(659)	699
Maximum for the period	(885)	885	(733)	796
Minimum for the period	(563)	563	(516)	560

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:

	2019		2018	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Interest rate swaps	21	411	232	66

NOTES TO THE ACCOUNTS (CONTINUED)

30 PENSIONS

DEFINED CONTRIBUTION SCHEMES

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 2019, the Society made contributions of £235,420 (2018: £203,778), which are included in the Statement of Comprehensive Income and shown in Note 6 within staff costs. At 31 December 2019, 12 months of contributions, paid in arrears, had been made for the year.

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 Benefit Plans. 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	
	2019	2018
Price inflation	2.85%	3.35%
Discount rate	2.00%	2.80%
Pension increase (LPI)	2.75%	3.25%

In valuing the liabilities of the Scheme at 31 December 2019, 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	2019	2018
Male retiring immediately	20.2 years	20.4 years
Female retiring immediately	22.1 years	22.3 years

Amounts recognised in the balance sheet:
As at 31 December

	2019 £000	2018 £000
Liabilities	-	-
Assets	-	-
Net Asset/(Liability)	-	-

NOTES TO THE ACCOUNTS (CONTINUED)

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

DEFINED BENEFIT OBLIGATION	2019 £000	2018 £000
Fair value of plan assets	9,154	8,623
Present value of defined benefit obligation	(6,776)	(6,375)
Surplus in plan	2,378	2,248
Unrecognised surplus	(2,378)	(2,248)
Deferred tax	-	-
Net defined benefit asset/(liability) to be recognised[1]	-	-

(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	
	2019 £000	2018 £000
Defined benefit obligation at start of period	6,375	6,753
Expenses	7	7
Interest expense	175	166
Actuarial losses/(gains)	457	(355)
Benefits paid and expenses	(238)	(245)
Losses due to benefit changes	-	49
Defined benefit obligation at end of period	**6,776**	6,375

RECONCILIATION OF OPENING AND CLOSING BALANCES OF THE FAIR VALUE OF PLAN ASSETS:

	As at 31 December	
	2019 £000	2018 £000
Fair value of plan assets at start of period	8,623	8,344
Interest income	238	206
Actuarial gains	524	311
Contributions by the Society	7	7
Benefits paid and expenses	(238)	(245)
Fair value of plan assets at end of period	**9,154**	8,623

The actual return on the plan assets over the period ended 31 December 2019 was £762,000 (2018: £517,000)

	As at 31 December	
	2019 £000	2018 £000
Defined benefit costs recognised in profit or loss		
Expenses	7	7
Net interest cost	-	-
Losses due to benefit changes	-	49
Defined benefit costs recognised in profit and loss account	**7**	56

Over the year to 31 December 2019, contributions by the Society of £7,000 were made to the Scheme (Year to 31 December 2018: £7,000).

The total amount recognised in other comprehensive income in respect of actuarial gains and losses is £nil (2018: £nil).

The English High Court ruling in Lloyds Banking Group Pension Trustees Limited vs Lloyds Bank PLC and others was published on 26 October 2018 and held that UK Pension schemes with Guaranteed Minimum Pensions (GMPs) accrued from 17 May 1990 must equalise for the different effects of these GMPs between men and women. The impact of this adjustment was a £49k increase to the liabilities of the scheme, which was taken through profit and loss in 2018.

	As at 31 December	
	2019 £000	2018 £000
Defined benefit costs recognised in other comprehensive income:		
Return on plan assets (excluding amounts included in net interest cost) – gain	524	311
Experience gains and losses arising on the plan liabilities – gain	1	-
Effect of changes in the demographic and financial assumptions underlying the present value of the plan liabilities – (loss)/ gain	(458)	355
Effects of changes in the amount of surplus that is not recoverable - (loss)	(67)	(666)
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.

	31 December 2019 Fair value £000	31 December 2018 Fair value £000
Components		
Equities	3,629	3,185
Bonds	4,180	4,008
Property	803	910
Cash	119	75
Other	423	445
Total	**9,154**	8,623

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)

31 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) have 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 Regulation Authority (PRA) following the formal ICAAP process (Internal Capital Adequacy Assessment Process). However, the Society aims to maintain its capital above this requirement, the Total Capital Required (TCR) 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 TCR and the quality of capital held. The Society's Pillar 3 disclosures are available on our website mansfieldbs.co.uk under "Corporate Information".

32 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 2019:

- The Society's principal activities are mortgage lending and the provision of savings accounts;
- The Society's turnover (defined as net interest receivable) was £7.9m (2018: £7.4m) and profit before tax was £2.34m (2018: £2.18m), all of which arose from UK based activity;
- The average number of Society full time equivalent employees was 82 (2018: 81), all of whom were employed in the UK;
- Corporation tax of £474k (2018: £395k) 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 2019

1 STATUTORY PERCENTAGES

	As at 31 December 2019 %	Statutory Limit %
Proportion of business assets other than in the form of loans fully secured on residential property – 'Lending limit'	0.17	25.00
Proportion of shares and borrowings other than in the form of shares held by individuals – 'Funding limit'	21.85	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 2019 %	As at 31 December 2018 %
As a percentage of shares and borrowings:		
Gross capital	7.38	7.34
Free capital	6.91	6.94
Liquid assets	23.06	21.23
Profit after taxation as a percentage of mean total assets	0.45	0.45
Management expenses as a percentage of mean total assets	1.27	1.27

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 2019 and 2018 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 2019 (CONTINUED)

3 INFORMATION RELATING TO THE DIRECTORS AT 31 DECEMBER 2019

NON-EXECUTIVE DIRECTORS

NAME	YEAR OF BIRTH	DATE OF APPOINTMENT AS DIRECTOR	BUSINESS OCCUPATION	OTHER DIRECTORSHIPS
Jeremy Cross FCA *Chairman*	1967	21.02.2013	Management Consultant	Cross Consulting Ltd Airedale NHS Foundation Trust GSAL Transport Ltd AGH Solutions Ltd Forget me not Children's Hospice, Huddersfield Headrow Money Line Limited
Colin Bradley ACA ACIB	1952	28.05.2015	Building Society Director	
Alison Chmiel FCMA	1964	21.02.2013	Building Society Director	The Alexander Workshop Ltd The Two Counties Trust
Rob Clifford Cert PFS	1968	19.01.2012	Commercial Director Financial & Property Services	Stonebridge Mortgage Solutions Ltd Zenith Freehold Ltd SDL Lettings Management Ltd Maurice MacNeill Iona Ltd Pure Financial Advisory Ltd SDL Property Services Group Ltd MoneyQuest Mortgage Brokers Ltd Revolution Company (Essex) Ltd Stonebridge Genus Ltd
Robert Hartley FRICS	1951	19.05.2011	Building Society Director	
Nick Baxter DipMan (Open) DipM	1956	23.01.2017	Business Consultant	Mortgage Promotions Ltd Rockstead Ltd 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	
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 2019 (CONTINUED)

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 2019 (CONTINUED)

Chairman
Jeremy Cross, FCA

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

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

Commercial Development Executive
Richard Crisp

Head of Products & Savings
Mike Taylor, LLB, ACIB

Mortgage Executive
David Newby

Head of HR & Training
Vickie Preston

Chief Executive
Gev Lynott, FCCA, FCIB

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

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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