Annual Report and Accounts
for the year ended 31 December 2014

themelton
melton mowbray building society

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Directors' Report

The Directors are pleased to present their Annual Report and Accounts of the Society and its subsidiary undertakings (together the 'Group') for the year ended 31 December 2014.

Business Objectives

The principal business objective is to provide mortgage finance, savings products, personal financial advice and a high level of customer service, within the framework of a strong mutual building society focused on the local communities serviced by its network of high street branches, as well as by telephone and via the internet.

Key Performance Indicators

Group	2014	2013	2012	2011	2010
Loans and advances to customers (£m)	300	296	289	273	281
Retail shares and deposits (£m)	333	325	325	300	330
Total assets (£m)	388	388	394	367	386
Gross capital (£m)	33.0	32.0	31.1	31.2	30.6
Profit before tax (£m)	1.11	1.01	0.39	0.61	0.23
Net interest margin as a % of mean total assets	1.19%	1.04%	0.85%	0.95%	0.86%
Management expenses as a % of mean total assets	1.10%	1.01%	0.98%	0.86%	0.98%
Underlying management expenses as a % of mean total assets	1.10%	1.01%	0.98%	1.03%	0.98%
Gross capital as a % of shares and borrowing	9.33%	9.03%	8.61%	9.32%	8.64%
Liquid assets as a % of shares and borrowing	21.03%	22.20%	25.44%	24.19%	25.97%
Total mortgage arrears (£m)	0.25	0.34	0.41	0.46	0.45

Business Review

Group Overview

The Group has continued to make good progress this year, recording a profit before tax of £1.1m (2013: £1.0m). Key highlights for the year include:

- Group mortgage assets increased by 1.4% to £300m;
- Group retail savings increased by 2.5% to £333m;
- Group net interest margin increased to 1.19% from 1.04%, aided by mortgage growth and the replacement of low yielding assets with new higher yielding mortgages. This has been a key factor in the increase in profitability;
- Grantham Branch refurbished and link established with the Lincolnshire Wildlife Trust;
- Management expenses as a % of mean total assets increased to 1.10% from 1.01%, largely due to an investment in staff both in terms of increasing staff numbers and increased remuneration, with a view to improving customer service and processing capacity;
- Total mortgage arrears reduced by 26% to £0.25m; and
- Gross capital increased by £1.0m to £33.0m.

The Group's financial position and its market competitiveness improved during the year, demonstrated through attractively priced mortgage and savings products offered to Members. Margin returns have improved from new mortgage lending and arrears levels have further reduced. Costs are being closely controlled. However, the Directors judge that the Group is now well placed to make strategic investment in its front line services to improve the overall customer experience, increase growth prospects and deliver operating efficiencies.

The Group grew its loans and advances to customers by £4m to £300m. This was supported by an increase in retail share and deposit balances of £8m to £333m and the drawing of a further £11m of funding from the Bank of England's Funding for Lending Scheme. These actions also enabled the repayment of £9m of other wholesale funding and contributed to the Group maintaining healthy levels of liquidity. Total assets remained at £388m.

Our subsidiaries continue to progress in accordance with our operating objectives and have made a further useful contribution to Group profits. Our investment in an associated undertaking, Sesame Bankhall Specialist Lending Services Limited (now trading as Sesame Bankhall Mortgage Processing) has delivered improved financial results during the year. As a result, the Directors have decided to recognise a deferred tax asset of £0.06m on the balance sheet in respect of previous tax losses which it expects to recover.

The Group's profit after tax was £0.95m which has been transferred to reserves.

Society Operations

The Society's core operations, prior to a significant mortgage loss provision, produced an improved profit before tax of £0.94m (2013: £0.81m). During the course of the year the Directors agreed a re-structuring programme on its largest commercial lending exposure. This exposure is not in arrears but the Directors decided to raise a new loss provision of £0.40m against the risk that the re-structuring arrangement does not lead to an improvement in overall credit quality. The Society no longer undertakes lending secured against commercial property.

The Society advanced £56m (2013: £46m) of new mortgages during the year, with total loans and advances outstanding at the year-end increasing by 3% to £260m (2013: £252m). We consider first time buyer and shared ownership lending an important part of our strategy to promote home ownership, with £7m advanced in the year to these borrower categories. We have also developed expertise in self-build lending related to the provision of advice to consumers and internal credit assessment. This is becoming an important source of new mortgage applications.

Residential mortgage arrears reduced during the year, while provisions for bad and doubtful debts held by the Society at the end of the year to cover expected losses from residential mortgage assets remained low at £0.20m (2013: £0.19m). Provisions against potential losses in the Society's commercial lending portfolio stand at £0.48m (2013: £0.15m). At the end of the year, there was 1 mortgage account (2013: 1 account) in arrears of 12 months or more, with a balance outstanding of £3,000 (2013: £5,000) and arrears of £1,000 (2013: £2,000). In addition, there were 10 mortgage accounts (2013: 8) receiving forbearance, but which were not in arrears, with balances outstanding of £0.60m (2013: £0.49m). In view of the low loan to value ratio of these arrears and forbearance accounts there has been no need to raise specific provisions against them.

The Society continues to target retail savings for the majority of its funding requirements and has increased its retail savings by £8m to £333m in 2014 using a number of branch based and online savings initiatives.

During 2014, the Society entered into a strategic partnership with Lincolnshire Wildlife Trust and Leicestershire & Rutland Wildlife Trust to raise funds to protect wildlife and encourage enjoyment of the natural world. Supporting wildlife and the Trusts ties in with the Society's community ethos and its commitment to providing sustainable mortgages, affordable housing and encouraging responsible living.

The Melton Mowbray Building Society Charitable Foundation received over £15,000 during the year from the Society to support its charitable giving. In 2014 the Society worked in tandem with the Charitable Foundation to support a new Alms House development in Melton Mowbray through the launch of an Alms House Affinity Savings account. Funds raised through this initiative will be matched by the Charitable Foundation to help kick start this project. The Society has three other affinity savings relationships with Hft, LOROS and DLR Air Ambulance, with total affinity savings balances exceeding £12m at the year-end. The Society makes a donation to each charity based on 0.25% of the average savings balances held throughout the year.

Many other good causes are supported by the Charitable Foundation and through our staff and members' donations, with The Melton Project being chosen as the staff nominated charity for 2014. In addition, the staff and members have again shown considerable resourcefulness in raising funds for Children in Need, Marie Curie, Save the Children and Breast Cancer Awareness.

MBS Lending Limited

MBS Lending Limited provides mortgage finance to customers who do not meet the criteria to become Society members. The business has continued to operate satisfactorily producing a profit before tax of £0.45m in 2014 (2013: £0.17m) with increasing credit quality being the principal factor in the improved financial results.

During the year, the business advanced £3m (2013: £4m) of new mortgages, with total loans and advances to customers outstanding at the year-end of £40m (2013: £44m). Asset quality continues to improve with mortgage arrears reducing to £0.23m (2013: £0.32m) and provisions for bad and doubtful debts reducing to £0.91m (2013: £1.04m). At the end of the year, there were 4 mortgage accounts (2013: 6 accounts) in arrears of 12 months or more with balances outstanding of £0.71m (2013: £0.94m) and arrears of £0.06m (2013: £0.08m). Specific provisions of £0.08m (2013: £0.17m) are held against these arrears accounts. In addition, there were 5 mortgage accounts (2013: 2) receiving forbearance, but which were not in arrears, with balances outstanding of £0.35m (2013: £0.15m). In view of the low loan to value ratio of these forbearance accounts there has been no need to raise specific provisions against them.

Financial Risk Management Objectives and Policies

The Group operates in a business environment that contains financial risks. To mitigate these risks, the Board has implemented a clearly defined risk management framework that comprises the following features:

- a risk focused governance structure;
- a risk appetite statement, risk policy statements and risk limits;
- risk identification, monitoring and reporting processes; and
- an effective internal control framework.

The financial instruments used by the Group to mitigate certain risks, particularly interest rate risk, are set out in Note 27 of the accounts.

The Board has established sub-committees to assist in the implementation and monitoring of risk management across the Group, including the Audit & Compliance Committee, the Risk Committee and the Remuneration & Nomination Committee. In addition, the Group operates two executive management committees: the Assets & Liabilities Committee (ALCO) and the Executive Committee (EXCO) which report directly into the Board's Risk Committee. Details of the role and responsibilities of each Committee are set out in the Corporate Governance Report.

The key policies that the Group has implemented to manage the risks that it faces include a Risk Policy, including a Risk Appetite Statement, a Lending Policy, a Conduct Risk Policy and a Financial Risk Management Policy. These are reviewed, amended and approved by the Board on a regular basis.

Principal Risks and Uncertainties

The principal risks to which the Group is exposed, along with the risk management objectives and policies are set out below:

- **Credit risk:** the risk of loss if a customer or counterparty fails to perform its obligations. The risk arises from the Group's loans and advances to customers and the investment of liquid assets with treasury counterparties. Treasury counterparty and sector exposure limits have been established by the Board within the Financial Risk Management Policy and these are monitored by ALCO.

  All mortgage applications are assessed with reference to the credit and underwriting criteria set out in the Group's Lending Policy. Details of the Group's arrears performance are set out in the Business Review section. The Group recognises that the personal and financial circumstances of our borrowers can be affected by deteriorating economic conditions and unplanned events. When this happens, we apply a formal policy directed towards forbearance and fair treatment of customers. The Group uses a number of forbearance measures to assist those borrowers including agreeing a temporary payment concession or a temporary transfer to interest only payments in order to reduce the borrowers' financial pressures. We expect borrowers to resume normal payments once they are able.

- **Operational risk:** the risk of loss arising from inadequate or failed internal processes, the actions of people, the Group's IT systems, and fraud and financial crime. The Group maintains policies and procedures for all key internal processes. The EXCO is the Group's principal forum for monitoring operational risk and ensuring that appropriate actions are taken and internal controls implemented across the business to manage operational risk.

- **Conduct risk:** the risk of loss arising through interaction with the customer throughout the product lifecycle that causes some form of consumer detriment. The Conduct Risk Policy sets out the high level values that staff are expected to demonstrate in all their dealings with consumers and the detailed metrics that are monitored that may indicate consumer detriment to ensure that appropriate and timely action can be taken. As with Operational risk the EXCO is the principal forum for monitoring conduct risk, ensuring there are adequate controls implemented and that these are effective in managing conduct risk and delivering good customer outcomes.
- **Liquidity risk:** the risk that the Group does not have sufficient financial resources to meet its liabilities as they fall due, or can secure them only at an excessive cost. It arises from the maturity mismatch of the Group's assets and liabilities. The Group's policy is to maintain liquid assets at all times which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due both in business-as-usual and stressed scenarios, to smooth out the effect of maturity mismatches between assets and liabilities, and to maintain the highest level of public confidence in the Group. The Financial Risk Management Policy details liquidity risk limits set by the Board and these are reviewed daily by the Group's Finance department and monitored each month by ALCO. Further details of liquidity and funding are set out below.
- **Interest rate risk:** the risk of reductions in net interest margin arising from unfavourable movements in interest rates due to mismatches between the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates or from the re-pricing of assets and liabilities according to different interest bases. This risk is managed within approved limits set by the Board within the Financial Risk Management Policy using a combination of on and off balance sheet financial instruments and is monitored by ALCO. Details of the Group's interest rate sensitivity and the use of derivatives for hedging purposes are set out in Note 27 of the accounts.
- **Concentration risk:** the risk of loss due to either a large individual or connected exposure, or significant exposures to groups of counterparties who could be affected by common factors, including geographical location. The Board has set limits for the geographical concentration of mortgage assets and the maximum value of exposures to single or connected mortgage borrowers and treasury counterparties and these are monitored by ALCO.
- **Business risk:** the risk of loss or reduction in profitability due to failure to achieve business objectives. The Group's Strategic Plan, approved by the Board, sets out the key objectives and how key risks to achieving those objectives will be managed. The Group manages this risk by ensuring that a diverse range of products and services are in place, the setting of detailed plans and the monitoring of actual performance against these plans by the Board. Key business risks include:
    - » Competitive mortgage and retail savings markets. As noted in the Business Review, the Society's net interest margin continues to improve despite the low interest rate environment, through the replacement of lower yielding assets with new higher yielding mortgages and growth in the overall mortgage portfolio. There is a risk that increased competition impacts mortgage yields and the cost paid for retail savings. The Directors continue to closely monitor the economic environment, the mortgage and savings markets, the balance sheet composition of the Group and product pricing to ensure that the Society's product mix remains appropriate and that net interest margin remains in line with the Strategic Plan.
    - » Increasing management expenses. Operating costs are likely to increase in the short-term as investment is made in front line services to improve growth prospects and deliver operating efficiencies. There is a risk that costs continue to increase over and above the growth in interest margin. Costs are being closely controlled and the Directors expect the management expense ratio to reduce in the medium-term towards 1% as growth and efficiencies are achieved.
    - » Financial Services Compensation Scheme (FSCS) levies. FSCS levies are charged to the Society to service interest on loans which are used to provide compensation to savers in the financial institutions which failed during 2008-2009. The FSCS continues to levy an additional amount relating to the current estimated capital shortfall on these loans. As a result, the Group recognised an increased levy charge of £0.25m in the year (2013: £0.23m). It is expected that levy costs will, as a minimum, continue at this level in future years, impacting profitability and the Group's reserves. However, the Group remains well capitalised and the Directors anticipate that expected increases in the levy costs can be absorbed by the Group. Full details of the Group's current provision recognised for FSCS levies are set out in Note 23 of the accounts.
- **Pension obligation risk:** the risk to profit due to the Society, being the funder of last resort, having to make significant contributions to the Society's defined benefit pension scheme. Since 2008, the Group has embarked upon a programme of measures to reduce its pension scheme liabilities and protect the pension surplus for the benefit of pension scheme members and the long-term interests of Society members. Details of the Group's pension scheme including the cost to the Society for the year and the updated scheme valuation at 31 December 2014 are set out in Note 6 of the accounts.

Capital and Reserves

A further feature of the Group's risk management framework is the Internal Capital Adequacy Assessment Process (ICAAP), as required by the EU Capital Requirements Directive (CRD). The ICAAP assesses the level of capital that the Board considers adequate to mitigate the various risks to which the Group is exposed. The Board approves the ICAAP on an annual basis.

Group profit after tax for 2014 of £0.95m was transferred to general reserves and the Group remains well capitalised. As a result of this and other movements in reserves arising from the pension scheme valuation, gross capital at 31 December 2014 increased to £33.0m (2013: £32.0m), being 9.33% of total shares and borrowings (2013: 9.03%). Free capital at 31 December 2014 increased to 7.95% of total shares and borrowings (2013: 7.66%). The Group's risk weighted total capital ratio at 31 December 2014 was 20.19%, against a minimum requirement of 8%, and the leverage ratio was 6.95%, against a minimum requirement of 3%.

Further details of the Group's risk exposures and capital adequacy are contained in the Group's Pillar 3 disclosures that are available from the Society Secretary or on our website www.themelton.co.uk.

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 came into effect on 1 January 2014 and place certain reporting obligations on financial institutions that are within the scope of CRD IV. The purpose of the regulations is to provide clarity on the source of the Society's income and the location of its operations. The annual reporting requirements as at 31 December 2014 will be published on the Society's website in due course at www.themelton.co.uk.

Liquidity and Funding

The Board undertakes a full review of liquidity adequacy each year, referred to as the Individual Liquidity Systems Assessment (ILSA), including an assessment as to the quantity and quality of liquid assets that the Group should hold in order to mitigate the liquidity risks to which it is exposed under both normal and stressed conditions. The Board approves the ILSA on an annual basis and this forms a further component of the Group's risk management framework.

In July 2012 the Bank of England (the Bank) launched the Funding for Lending Scheme (the FLS) to provide banks and building societies access to funding in order to boost their lending to UK households and small businesses. Under the scheme, the Society is able to borrow UK Treasury Bills for a period of 4 years in return for providing security to the Bank in the form of mortgage assets. The Treasury Bills held under the scheme are not recognised on the Society's balance sheet but are available for the Society to utilise as part of its liquidity requirements.

The Society participated in the FLS in order to facilitate mortgage lending during the 4 year term of the scheme and to provide some stable long-term funding. At 31 December 2014, the Society held £21m (2013: £10m) of Treasury Bills on this basis and details of the security provided to the Bank are shown in Notes 11 & 12 of the accounts.

The Group's liquid assets of £74m at the year-end (2013: £79m) represented 21.0% of total shares and borrowings (2013: 22.2%). The Treasury Bills held under the FLS increased available liquidity at the year-end to 27.0% of total shares and borrowings (2013: 25.0%).

Going Concern

The Directors have prepared forecasts of the Group's capital, funding and liquidity positions for the period ending 12 months from the date of approval of these accounts. Forecasts have also been prepared to assess the impact on the Group's business and its capital, funding and liquidity positions of operating under stressed but plausible conditions.

The forecasts have satisfied the Directors that the Group has adequate resources to continue in business for the foreseeable future. Accordingly, the accounts continue to be prepared on a going concern basis.

Creditor Payment Policy

Although the Society does not follow a code or standard on prompt payment practices, it seeks to pay its trade creditors within agreed payment terms for fulfilment by the suppliers of their contractual obligations. The creditor days were 38 days at 31 December 2014 (2013: 22 days).

Directors

Non-Executive Directors:	
A J Capps	
R H Clegg	Vice-Chairman & Senior Independent Director
A L Craft	Chairman
F A Pollard	Appointed 9 October 2014
K O Romney	
D J Wood	
R D Wood	Retired 23 April 2014
Executive Directors:	
M J Reason	Chief Executive
J P Mulvey	Finance Director

John Mulvey was appointed Deputy Chief Executive on 1 January 2015 in addition to his existing appointment as Finance Director.

None of the Directors had any beneficial interest in the shares or debentures of any connected undertaking of the Society at the end of the financial year.

Disclosure of information to the auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Auditor

The External Auditor, KPMG LLP, has indicated its willingness to continue in office and accordingly a resolution for its re-appointment will be proposed at the Annual General Meeting.

Acknowledgements

The Directors wish to record their appreciation of the dedication and commitment of all members of staff during what has proved to be a successful year despite the wider economic challenges for the Group and the Building Society sector.

The Directors would also like to thank all members and suppliers for their continued support.

A L Craft **11 March 2015**
Chairman

Directors' Remuneration Report

This report together with the disclosures in Note 7 of the Annual Report and Accounts is provided to give members an explanation of the policy and application of Directors' remuneration. A resolution will be put to the Annual General Meeting inviting members to receive and accept this report. The vote is advisory, and the Board will consider whether any consequent action is required.

Remuneration Policy

The Remuneration & Nomination Committee, comprising Non-Executive Directors only, has responsibility for determining the Group's Remuneration Policy. The Committee's objectives in setting the Remuneration Policy are to ensure that:

- The Group attracts and retains Directors and senior management possessing the skills and experience to lead the Group and develop it for the long term advantage of members;
- Remuneration decisions are consistent with the Group's long term objectives, business strategy and risk appetite set by the Board of Directors;
- Staff are provided a fair and reasonable reward for their contribution to the business; and
- The Group maintains a sustainable business model and a strong capital base.

In setting remuneration, the Committee takes into account salaries, fees and benefits offered for comparable positions within similar financial services organisations.

Executive Directors

Remuneration of the Group's Executive Directors comprises a number of elements: basic salary, a discretionary bonus scheme, membership of a pension scheme and other taxable benefits.

The discretionary bonus scheme is in place in order to recognise the contribution of individuals to the overall recovery in underlying financial performance and enhancements made to the Group's risk management framework and control environment. All discretionary bonuses are non-contractual and not guaranteed, capped at 10% of basic salary (prior to any salary sacrifice) and are subject to approval by the Committee. Details of discretionary bonuses paid to the Executive Directors are set out in Note 7 of the accounts.

Executive Directors are eligible to be members of the Melton Mowbray Building Society Staff Pension and Life Assurance Scheme (the 'Scheme'). Active members of the Scheme accrue benefits in the defined contribution section of the Scheme. The Scheme also includes financial provision for death in service. Mr Reason has opted out of the Scheme and receives a taxable allowance in lieu of the Society's pension contributions and retains the death in service life assurance cover. The Society contributions for Mr Mulvey were 15%, increasing to 20% from 1 April 2014.

The Group provides other taxable benefits including a car allowance, health care provision and mortgage protection insurance.

The Chief Executive and Deputy Chief Executive & Finance Director each have a service contract with the Society, terminable by the Society giving 12 months' notice or by the Director giving six months' notice.

The level of remuneration of Executive Directors is considered by the Committee. The Chief Executive appraises the individual performance of the Deputy Chief Executive & Finance Director and makes recommendations to the Committee. The Chief Executive is appraised by the Chairman.

Non-Executive Directors

Non-Executive Directors are remunerated by fees. A taxable travel and accomodation allowance is paid where a Director lives a significant distance from the Society's Principal Office. They do not receive any salary, performance incentives or pension. The Society's Rules limit Non-Executive Director remuneration to 2.5 times the annual salary of the lowest paid full-time clerical employee. Each Director's remuneration is considered by the Committee.

A Director who is also a Trustee of the Melton Mowbray Building Society Staff Pension and Life Assurance Scheme is granted a fee of £150 per Trustee meeting attendance.

FCA Remuneration Code

The Group's Remuneration Policy describes how the Group complies with the Remuneration Code. In accordance with the Code, the Society has disclosed certain qualitative and quantitative information relating to remuneration in its Pillar 3 disclosures document which can be found on the Society's website.

A L Craft **11 March 2015**
Chairman

Corporate Governance Report

The Board of Directors (the Board) is committed to best practice in corporate governance. The Financial Reporting Council updated the UK Corporate Governance Code (the Code) in October 2012. Although the Code does not apply directly to building societies, the Board has regard to its principles as they apply to a Building Society. The Board is also mindful of updates to the Code in September 2014 which will apply to subsequent financial reporting periods.

LEADERSHIP

The Role of the Board

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

Board Comment: The terms of reference of the Board and its committees are published on the Society's website. The principal functions of the Board are to determine the strategy and policies of the Group, to establish guidelines within which the business is managed and to review business performance and its management. The Board has a general duty to ensure that the Group operates in accordance with the Memorandum and Rules, complies with relevant legislation and regulation, maintains proper accounting records and adopts effective systems of business control that are documented, followed and audited. The Board has delegated certain powers and responsibilities to the following Committees.

Audit & Compliance Committee: This Committee has responsibility for ensuring that the Group's accounting and reporting systems provide accurate information, ensuring appropriate internal controls reflecting the Group's risk profile are in place and that these are reviewed regularly, and for monitoring the effectiveness of the compliance function, the internal audit function and the external auditors. The Committee membership consists of Non-Executive Directors only.

Risk Committee: This committee is responsible for the oversight of risk management across the Group. The purpose of the Committee is to ensure that the overall approach to the identification and management of risk is adequate and managed cost effectively and in an integrated manner. The Committee membership consists of Non-Executive Directors only.

Remuneration & Nomination Committee: This Committee considers remuneration policy, ensures Directors and senior management have appropriate skills, experience and competencies to perform their roles, develops and considers succession plans for key management roles, and makes recommendations to the Board for the selection of new directors and senior managers. The Committee membership consists of Non-Executive Directors.

Assets & Liabilities Committee: This is an executive committee that reports into the Risk Committee. It is primarily responsible for balance sheet and financial risk management including credit risk, liquidity risk and interest rate risk. The Committee membership consists of Executive Directors and senior management.

Executive Committee: This is an executive committee that reports into the Risk Committee. The Committee assesses and monitors conduct, operational and business risk across the Group. The Committee membership consists of Executive Directors and senior management.

Board and Committee meetings are complemented by an annual strategic planning day attended by Directors when strategy planning is considered in detail, including consideration of key strategic risks to the Group.

The Board meets regularly for the proper conduct of business, and there will be at least 7 formal Board meetings each year. The Non-Executive Directors meet alone when issues relating to the Executive Directors are to be discussed at Board meetings and each time at the conclusion of the Audit & Compliance Committee meetings.

The composition and attendance record of the Board and Committees is shown at the end of this report.

All Directors have the benefit of appropriate liability insurance at the Group's expense. All Board members have access to independent legal advice if required.

Division of Responsibilities

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

Board Comment: The offices of Chairman and Chief Executive are distinct and held by different people. The role of each is set out in their respective job descriptions. The Chairman is responsible for leading the Board, ensuring its effectiveness and communicating with the Society's members on behalf of the Board. The Chief Executive is responsible for managing the Group's business and operations within the parameters set by the Board. Under the Rules of the Society, the Chairman is elected by the Board for a twelve month period.

The Chairman

Code Principle: The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role.

Board Comment: The Chairman sets the direction and culture of the Board, facilitating effective contribution from Directors, maintaining constructive relations between Executive and Non-Executive Directors and ensuring that Directors receive accurate, timely and clear advice and information. The current Chairman, who was appointed in December 2013, has considerable knowledge and experience of the banking and building society sector.

Non-Executive Directors

Code Principle: As part of their role as members of a unitary Board, Non-Executive Directors should constructively challenge and help develop proposals on strategy.

Board Comment: The Society maintains clear division of responsibility between the Non-Executive and Executive Directors and these are outlined in job descriptions. The Non-Executive role at the Society requires an understanding of the risks in the business; commercial leadership within a framework of prudent and effective risk management; provision of an independent perspective when monitoring performance and resources; and developing, scrutinising, and constructively challenging strategic proposals, whilst supporting the Executive management team.

The Board has appointed Mr Clegg as the Senior Independent Director. He is available to members who may have concerns which the Chairman or Chief Executive has failed to resolve or for which contact with them is inappropriate.

EFFECTIVENESS

The Composition of the Board

Code Principle: The Board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

Board Comment: The Board currently comprises six Non-Executive Directors (including the Chairman) and two Executive Directors providing a balance of skills and experience appropriate for the requirements of the business. Committee membership is such that there is appropriate experience and expertise in each Committee to discharge its terms of reference. All Non-Executive Directors are considered by the Board to be independent in character and judgement.

Appointments to the Board

Code Principle: There should be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.

Board Comment: The Group's Remuneration & Nomination Committee ensures that the balance of skills, experience, independence and knowledge of the Board and the requirements of the business are assessed each year, with a view to determining whether there are any skill shortages or succession requirements. The Society values diversity but appointments to the Board are made on merit and against objective criteria, and therefore the Society does not have a measurable diversity objective. All Directors must meet the tests of fitness and propriety laid down by the FCA and PRA and all Directors must be registered with the FCA as an Approved Person in order to fulfil their controlled function as a Director.

During the year, the Society recruited one new Non-Executive Director to fulfil skills gaps and succession requirements. The position was openly advertised both locally and nationally. The new Director has a background in financial services, and offers a broad range of skills and experience, including business development, risk assurance and commercial management.

The service contracts of Executive Directors and the letters of appointment of Non-Executive Directors are available for inspection on request from the Secretary during normal business hours and at the AGM.

Commitment

Code Principle: All Directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.

Board Comment: The Remuneration & Nomination Committee 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 at the end of this report.

Development

Code Principle: All Directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.

Board Comment: All new Directors receive induction training and on-going training is provided by internal briefings and attendance at courses and seminars organised by external bodies, in particular, the Building Societies Association. Training and development needs are identified as part of the annual appraisal assessment of the Board's and individual Director's performance and effectiveness.

Information and Support

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

Board Comment: The Chairman ensures that the Board receives information sufficient to enable it to fulfil its responsibilities. The Group continuously assesses and seeks to improve management information to assist the Committees in discharging their terms of reference. The Board has access to independent advice if required.

Evaluation

Code Principle: The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors.

Board Comment: The performance of each Non-Executive Director is evaluated by the Chairman. The Chairman is appraised by the Non-Executive Directors, facilitated by the Senior Independent Director, and taking into account the views of the Executive Directors. The Chief Executive is appraised by the Chairman and the Deputy Chief Executive & Finance Director is appraised by the Chief Executive. The evaluations are recorded in writing and retained by the Group. The Board has undertaken a formal annual assessment of its performance and effectiveness and the performance and effectiveness of its sub Committees, with actions recorded and placed on the Board's formal action log.

Re-election

Code Principle: All Directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

Board Comment: The Society's Rules require that all Directors are submitted for election at the Annual General Meeting (the AGM) following their first appointment to the Board. Where their appointment occurs in the period between the end of the Society's financial year and the AGM itself, they must seek election at the AGM in the following year. Directors are appointed for a 3 year term, subject to satisfactory performance. All Directors are required to seek re-election if they have not been re-elected at either of the 2 previous AGMs. The Board does not believe it is appropriate for a building society to subject all Directors for annual re-election because of the continuity and succession needs of an effective Board. Directors may submit themselves for re-election voluntarily. The Board's general policy is that Non-Executive Directors offer themselves voluntarily for annual re-election if they have served more than 3 full 3 year terms. Any term lasting beyond the normal maximum will be subject to particularly rigorous review by the Board and to annual re-election by the members.

ACCOUNTABILITY

Financial and Business Reporting

Code Principle: The Board should present a fair, balanced and understandable assessment of the Company's position and prospects.

Board Comment: The Board confirms that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the necessary information for Members to assess performance, strategy and the business model of the Society. The sections on Business Objectives, Key Performance Indicators and Business Review within the Directors' Report provide detailed information in this regard. The responsibilities of the Directors in relation to the preparation of the Group's accounts and the statement that the Group's business is a going concern are contained in the Statement of Directors' Responsibilities.

Risk Management and Internal Control

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

Board Comment: The Board is responsible for determining the risk management and control frameworks as described in the Group's Risk Policy. Senior management are responsible for designing, operating and monitoring risk management and internal control systems across all areas of the organisation. Each Board Committee has oversight responsibility for the risks and controls within its remit. The Risk Committee assesses the adequacy of the overall approach to risk management and risk related outputs from other committees. The Board has reviewed the effectiveness of risk management systems and controls and concluded that the Group has a strong risk management culture and that systems are effective and appropriate to the scale and complexity of the business.

The Group continues to enhance its processes for identifying, evaluating and managing the significant risks faced by the organisation and its internal control environment and documentation across all areas of the business.

Audit Committee and Auditors

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

Board Comment: The Board has an Audit & Compliance Committee comprising Non-Executive Directors. The Directors are independent and have current and relevant financial and risk management experience. The role of the Committee is described in the section of this report relating to Directors and the terms of reference are published on the Society's website.

The Audit & Compliance Committee meets 5 times a year, with one meeting devoted to the review and approval of the Annual Report and Accounts. Executive Directors and senior management, along with representatives of the Group's Compliance function, Internal Auditors and External Auditors, attend by invitation. These meetings conclude with a closed session between the Committee members and the Internal and External Auditors without the Executive Directors and senior management present. Minutes of the Committee's meetings are distributed to all Board members and the Chairman of the Committee reports to the Board at the Board meeting following a meeting of the Committee.

The Committee reviews and monitors the External Auditors' independence, ensuring that if they or their associates are invited to undertake non-audit work it will not compromise auditor objectivity and independence. Details of the fees paid to the External Auditors for audit and non-audit services are set out in Note 4 of the accounts.

REMUNERATION

The Directors' Remuneration Report explains how the Group complies with the Code principles relating to remuneration.

RELATIONS WITH SHAREHOLDERS

Dialogue with Shareholders

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

Board Comment: As a mutual organisation, the Society's membership consists almost entirely of individuals who are also the Society's customers. The Society seeks its members' views through regular newsletters, customer satisfaction surveys and the Annual General Meeting, in order to understand members and better serve their needs.

Constructive use of the Annual General Meeting (AGM)

Code Principle: The Board should use the AGM to communicate with investors and to encourage their participation.

Board comment: Each year the Society issues details of the AGM and offers proxy voting facilities, for members unable to attend, to all members eligible to vote. The AGM notices are distributed with at least 21 clear days' notice. Members are sent voting forms and are encouraged to vote either by post, internet, at a local branch, in person or by proxy at the AGM. All postal and proxy votes are counted under independent scrutiny. A poll is called in relation to each resolution at the AGM and all proxy votes cast are included in the results. The results of the AGM voting are published on the Society's website.

All members of the Board are present at the AGM each year, unless exceptionally their absence is unavoidable, and the Chairmen of the Board and each of its Committees are therefore available to answer questions.

Board and Committee Membership Attendance Record

The number of scheduled Board and Committee meetings attended by each Director, as a member, during the year is shown below. The figures in brackets represent the maximum number of meetings each Director could have attended.

	Board	Audit & Compliance Committee	Risk Committee	Remuneration & Nomination Committee	Assets and Liabilities Committee (ALCO)	Executive Committee (EXCO)
A J Capps	11 (11)	5 (5)	6 (6)	-	-	-
R H Clegg	11 (11)	5 (5)	* 6 (6)	2 (2)	-	-
A L Craft	* 11 (11)	-	6 (6)	2 (2)	-	-
J P Mulvey	11 (11)	-	-	-	* 10 (11)	11 (11)
F A Pollard	3 (3)	-	2 (3)	* 1 (1)	-	-
M J Reason	11 (11)	-	-	-	11 (11)	* 10 (11)
K O Romney	10 (11)	* 5 (5)	-	-	-	-
D J Wood	11 (11)	-	5 (6)	2 (2)	-	-
R D Wood	4 (4)	-	2 (2)	1 (1)	-	-

* Denotes Chairman of the Board or Committee as at 31 December 2014

A L Craft
Chairman

11 March 2015

Statement of Directors' Responsibilities

Directors' responsibilities in respect of the Annual Report and Accounts, incorporating the Directors' Report, the Annual Accounts and the Annual Business Statement

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

The Building Societies Act 1986 ("the Act") requires the Directors to prepare Group and Society annual accounts for each financial year. Under that law they have elected to prepare the Group and Society annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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

In preparing each of the Group and Society annual accounts, the Directors are required to:

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

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

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Group:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Society, in accordance with the Act;
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

A L Craft **11 March 2015**
Chairman

Independent Auditor's Report
to the members of Melton Mowbray Building Society

We have audited the group and society annual accounts of Melton Mowbray Building Society for the year ended 31 December 2014 set out on pages 11 to 31. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the annual accounts

A description of the scope of an audit of annual accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscope/private.

Opinion on annual accounts

In our opinion the annual accounts:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the group and of the society as at 31 December 2014 and of the income and expenditure of the group and of the society for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Opinion on other matters prescribed by the Building Societies Act 1986

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 for which the annual accounts are prepared 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion:

- proper 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.

Simon Clark (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

11 March 2015

Income and Expenditure Account
for the year ended 31 December 2014

	Notes	**Group 2014 £'000**	**Society 2014 £'000**	Group 2013 £'000	Society 2013 £'000
Interest receivable and similar income	2	**9,889**	**9,333**	9,534	8,984
Interest payable and similar charges	3	**(5,282)**	**(5,282)**	(5,474)	(5,474)
Net interest receivable		**4,607**	**4,051**	4,060	3,510
Other finance income	6	**399**	**399**	395	395
Fees and commissions receivable		**876**	**745**	759	640
Fees and commissions payable		**(366)**	**(322)**	(298)	(268)
Other operating income		**422**	**800**	355	846
Total income		**5,938**	**5,673**	5,271	5,123
Administrative expenses	4	**(4,029)**	**(4,047)**	(3,617)	(3,646)
Depreciation and amortisation	15	**(240)**	**(227)**	(329)	(316)
Other operating charges		**(198)**	**(185)**	(155)	(145)
Operating profit before provisions		**1,471**	**1,214**	1,170	1,016
Provisions for bad and doubtful debts	13	**(205)**	**(403)**	(51)	(77)
Provisions for liabilities	23	**(266)**	**(266)**	(127)	(127)
Operating profit		**1,000**	**545**	992	812
Share of associate's operating result		**111**	**-**	14	-
Profit on ordinary activities before tax		**1,111**	**545**	1,006	812
Tax on profit on ordinary activities	8	**(158)**	**(119)**	(229)	(175)
PROFIT FOR THE FINANCIAL YEAR	24	**953**	**426**	777	637

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 December 2014

	Notes	**Group 2014 £'000**	**Society 2014 £'000**	Group 2013 £'000	Society 2013 £'000
Profit for the financial year		**953**	**426**	777	637
Unrealised losses on revaluation of investment properties	16 / 24	**(175)**	**(175)**	-	-
Actuarial gains / (losses) recognised in the pension scheme	6	**318**	**318**	(68)	(68)
Deferred tax arising on (gains) / losses in the pension scheme		**(64)**	**(64)**	192	192
Actuarial gains and losses net of deferred tax	24	**254**	**254**	124	124
TOTAL RECOGNISED GAINS / (LOSSES) IN THE YEAR		**1,032**	**505**	901	761

The notes on pages 14 to 31 form part of these accounts. The above results are all derived from continuing operations.

Balance Sheet
as at 31 December 2014

	Notes	**Group 2014 £'000**	**Society 2014 £'000**	Group 2013 £'000	Society 2013 £'000
ASSETS					
Liquid assets					
Cash in hand and balances with the Bank of England		**15,972**	**15,972**	16,857	16,857
Treasury bills and similar securities	9	**11,119**	**11,119**	7,253	7,253
Loans and advances to credit institutions	10	**16,257**	**16,138**	24,507	24,453
Debt securities	11	**31,120**	**31,120**	30,096	30,096
		74,468	**74,349**	78,713	78,659
Loans and advances to customers					
Loans fully secured on residential property	12	**296,188**	**256,091**	291,252	247,088
Other loans	12	**3,948**	**3,948**	4,424	4,424
		300,136	**260,039**	295,676	251,512
Investment in subsidiaries and other undertakings	14	**189**	**41,144**	31	45,598
Tangible fixed assets	15	**5,231**	**4,269**	5,179	4,204
Investment properties	16	**2,285**	**2,125**	2,460	2,300
Other assets	17	**419**	**357**	527	475
Prepayments and accrued income		**175**	**174**	197	195
Net pension asset	6	**5,571**	**5,571**	5,005	5,005
TOTAL ASSETS		**388,474**	**388,028**	387,788	387,948
LIABILITIES					
Shares	19	**310,624**	**310,624**	300,452	300,452
Amounts owed to credit institutions	20	**3,006**	**3,006**	7,017	7,017
Amounts owed to other customers	21	**40,463**	**40,463**	47,165	47,165
Other liabilities	22	**208**	**111**	183	143
Accruals and deferred income		**656**	**626**	504	496
Provisions for liabilities	23	**469**	**469**	451	451
		355,426	**355,299**	355,772	355,724
Revaluation reserve	24	**450**	**530**	625	705
Reserves					
General reserves	24	**32,598**	**32,199**	31,391	31,519
TOTAL LIABILITIES		**388,474**	**388,028**	387,788	387,948

The notes on pages 14 to 31 form part of these accounts.
These accounts were approved by the Board of Directors on 11 March 2015 and were signed on its behalf by:

A L Craft
Chairman

M J Reason
Chief Executive

J P Mulvey
Deputy Chief Executive
& Finance Director

Cash Flow Statement
for the year ended 31 December 2014

	Group 2014 £'000	Group 2013 £'000
Net cash inflow / (outflow) from operating activities	**1,976**	(11,094)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(299)**	(37)
VAT recovered on fixed assets	**7**	5
Disposal of tangible fixed assets	**-**	3
	(292)	(29)
Management of liquid resources		
Purchase of treasury bills and similar securities	**(4,977)**	(3,109)
Sale and maturity of treasury bills and similar securities	**1,163**	3,077
Purchase of debt securities	**(26,000)**	(23,000)
Sale and maturity of debt securities	**25,003**	23,003
	(4,811)	(29)
Net decrease in cash	**(3,127)**	(11,152)
Reconciliation of operating profit to net cash outflow from operating activities		
Operating profit	**1,000**	992
Net (increase) / decrease in prepayments and accrued income	**(48)**	121
Net increase / (decrease) in accruals and deferred income	**226**	(176)
Net increase in provisions for bad and doubtful debts	**206**	6
Net pension income	**(390)**	(380)
Depreciation and amortisation charge	**240**	329
Net cash inflow from trading activities	**1,234**	892
Net increase in loans and advances to customers	**(4,666)**	(7,172)
Net increase / (decrease) in shares	**10,058**	(11,019)
Net (decrease) / increase in deposits and other borrowings	**(10,673)**	4,434
Net decrease in loans and advances to credit institutions	**6,000**	2,000
Net increase / (decrease) in provisions for liabilities	**18**	(113)
Net (decrease) / increase in other liabilities	**(92)**	14
Net decrease / (increase) in other assets	**97**	(130)
Net cash inflow / (outflow) from operating activities	**1,976**	(11,094)
Analysis of decrease in cash		
Cash in hand and balances with the Bank of England	**15,972**	16,857
Loans and advances to credit institutions repayable on demand	**13,246**	15,488
Balance at 31 December	**29,218**	32,345
Balance at 1 January	**32,345**	43,497
Net decrease in year	**(3,127)**	(11,152)

1. Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's and Society's accounts.

The Directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, the accounts continue to be prepared on a going concern basis.

1.1 Basis of preparation

The accounts are drawn up under the historical cost convention as modified by the revaluation of investment property and in accordance with applicable UK accounting standards, the Building Societies Act 1986 and the Building Societies (Accounts and Related Provisions) Regulations 1998.

1.2 Basis of consolidation

The Group accounts consolidate the state of affairs, income and expenditure and cash flows of the Society and all its subsidiary undertakings, all of which have accounting periods ending 31 December. An associate is an undertaking in which the Group has a long term interest and over which it exercises significant influence. The Group's share of the profits and losses of its associate is included in the consolidated income statement and its interest in its net assets is included in investments in subsidiaries and other undertakings in the consolidated balance sheet.

Transactions and balances between Group companies are eliminated on consolidation. The acquisition method of accounting has been adopted, under which the results of subsidiary undertakings or businesses acquired or disposed of in a year are included in the income and expenditure account from the date of acquisition or up to the date of disposal. Investments in subsidiary and associated undertakings are stated at cost less provisions for impairment in value.

1.3 Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences that have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19, and is calculated at rates expected to be applicable when the liability or asset crystallises.

1.4 Tangible fixed assets and depreciation

Depreciation is provided to write off the cost, less estimated realisable values, of tangible fixed assets over their estimated useful economic lives as follows:

Office equipment - 3 to 8 years straight line basis.
Motor vehicles - 30% per annum reducing balance basis.
Freehold buildings - 50 years straight line basis.

Freehold Land is not depreciated.

1.5 Investment properties

In accordance with Statement of Standard Accounting Practice No 19 investment properties are valued annually at open market value. All surpluses and deficits arising on valuations are taken directly to the revaluation reserve except that any permanent diminution in the value of an investment property is taken to the income and expenditure account.

No depreciation or amortisation is provided in respect of freehold investment properties. This treatment, as regards the Group's investment properties, is a departure from the regulations which require all properties to be depreciated. However, these properties are not held for consumption but for investment and the Directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation or amortisation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

1.6 Liquid assets

Debt securities, treasury bills and similar securities which are intended for use on a continuing basis are stated at cost and classified as financial fixed assets. Premiums and discounts arising from the purchase of such securities are amortised or accreted on a straight line basis over the period to maturity. Any amounts so amortised or accreted are charged or credited to the income and expenditure account for the relevant financial years. Where there is a permanent diminution in the value of a financial fixed asset a provision is made so as to write down the cost of the security to its recoverable amount.

1.7 Funding for Lending Scheme

In order for the Society to access funding from the Bank of England's Funding for Lending Scheme (FLS), mortgage assets are required to be pledged as collateral. Where the risk and reward of ownership of the mortgage assets remains with the Society they are retained on balance sheet. The interest receivable on these assets continues to be the Society's 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 the ownership remain with the lender. The interest cost of borrowing the treasury bills is accrued in the accounts on a straight line basis over the drawdown period.

If treasury bills are lent or sold subject to a commitment to repurchase, the net proceeds received are recognised as cash on the balance sheet together with a corresponding liability. Interest is accrued over the life of the agreement on a straight line basis.

1.8 Provisions for loans and advances

Losses on secured advances are provided based upon a year end appraisal of loans and advances. The amount charged in the income and expenditure account comprises amounts written off during the year, less recoveries, and the net change in the ongoing provision.

No interest is recognised in the income and expenditure account on advances secured on properties taken into possession where a foreseeable loss arises. Specific provisions have been made in respect of the anticipated losses on loans, not only where properties are in the possession of the Group, but also on a case by case basis. The amounts so provided are the amounts needed to reduce the book value of the loans to their expected realisable values.

1. Principal accounting policies (continued)

In addition, general provisions are made to cover losses which, although not yet specifically identified, are anticipated from experience to exist in the Group's portfolio of loans. A provision is also made in the case of accounts, which may not currently be in arrears, where the Group has exercised forbearance in the conduct of the account. The provision is based on the propensity of the account to realise a loss had forbearance not been shown. In all cases account is taken of any amounts recoverable under contracts of indemnity insurance and of anticipated disposal costs. No provision is made against the future carrying costs of impaired loans.

1.9 Hedging contracts and instruments

The Group uses interest rate contracts solely for hedging purposes.

All interest rate related contracts are classified at the balance sheet date as hedging contracts. For an instrument to be classified as a hedge, the transaction should be expected to reduce significantly the risks inherent in the financial assets, liabilities or cash flows being hedged, arising at the outset of the transaction.

Income or expenditure on hedging contracts is recognised on an equivalent basis to the assets, liabilities or positions that are being hedged. If the hedge contract is terminated early the gain or loss is amortised over the remaining life of the item being hedged. If the underlying item is redeemed, the unamortised amounts are recognised immediately. Amounts accrued on hedging instruments are included within prepayments and accrued income or accruals and deferred income.

1.10 Operating leases

Rentals under operating leases are charged to administrative expenses on a straight line basis over the period of the lease.

1.11 Income and cost recognition

Mortgage cashbacks and other non-interest mortgage incentives to borrowers are written off to other operating charges in the year in which they are incurred. Interest discounts reduce interest receivable over the period of the relevant discount. Other fees, commissions and costs are recognised on an accruals basis in the period during which they are earned or incurred.

1.12 Pension costs

The Group operates a pension scheme consisting of a defined benefit section in respect of members service up to its curtailment on 30 September 2008 and a defined contribution section which commenced on 1 October 2008. The assets of the defined benefit section are measured at market value at each balance sheet date and the liabilities are measured using the projected unit valuation method, discounted using a corporate bond rate. The resultant pension scheme surplus is recognised as an asset on the balance sheet, net of associated deferred taxation, up to an amount not exceeding the amount recoverable from reduced contributions in the future. Following the curtailment, any increase in the present value of the liabilities of the defined benefit section is expected to arise only from changes in actuarial assumptions surrounding the existing liabilities which would be charged to the Statement of Total Recognised Gains and Losses.

The expected return on the defined benefit section assets and the increase in the liabilities, arising from the passage of time, are disclosed as pension finance income or charges. Any resulting actuarial gains or losses, that is gains or losses arising from differences in the expected return on assets compared to the actual return and changes in assumptions, or factors which affect those assumptions, used in measuring the liabilities, are recognised immediately in the Statement of Total Recognised Gains and Losses. As noted above, the Group also operates a defined contribution section, contributions to which are charged to the income and expenditure account as they fall due.

2. Interest receivable and similar income

	Group 2014 £'000	**Society 2014 £'000**	Group 2013 £'000	Society 2013 £'000
On loans fully secured on residential property	**9,424**	**7,065**	9,024	6,451
On other loans	**158**	**158**	182	182
On other loans to subsidiaries and other undertakings	**-**	**1,803**	-	2,023
On debt securities:				
Interest and other income	**367**	**367**	366	366
On other liquid assets:				
Interest and other income	**230**	**230**	357	357
Net expense on financial instruments	**(290)**	**(290)**	(395)	(395)
	9,889	**9,333**	9,534	8,984

Interest on debt securities includes £336,235 (2013: £326,962) in respect of income from fixed income securities.

3. Interest payable and similar charges

	Group & Society 2014 £'000	Group & Society 2013 £'000
On shares held by individuals	**4,848**	4,946
On other shares	**89**	105
On deposits and other borrowings	**470**	609
Net income on financial instruments	**(125)**	(186)
	5,282	5,474

4. Administrative expenses

	Group 2014 £'000	**Society 2014 £'000**	Group 2013 £'000	Society 2013 £'000
Staff costs:				
Wages and salaries	**2,118**	**2,118**	1,908	1,908
Social security costs	**187**	**187**	162	162
Other pension costs:				
Defined benefit section	**9**	**9**	15	15
Defined contribution section	**194**	**194**	178	176
Other administrative expenses	**1,521**	**1,539**	1,354	1,385
	4,029	**4,047**	3,617	3,646
Other administrative expenses include:				
Amounts charged under operating leases	**10**	**58**	10	58
Remuneration of the Auditors and their associates (excluding VAT):				
Statutory Audit of the Annual Report & Accounts	**38**	**38**	36	36
Statutory Audit of the financial statements of subsidiaries	**7**	**-**	6	-
Statutary Audit of the financial statements of an associate	**6**	**-**	6	-
Other services relating to taxation	**9**	**9**	12	12
Other services	**-**	**-**	21	21

5. Employees

	Group 2014	**Society 2014**	Group 2013	Society 2013
The average number of persons employed during year was:				
Full time	**55**	**55**	50	50
Part time	**30**	**30**	30	30
	85	**85**	80	80
Building Society				
Central administration	**60**	**60**	54	54
Branches	**25**	**25**	26	26
	85	**85**	80	80

6. Pension scheme

The Melton Mowbray Building Society Staff Pension and Life Assurance Scheme contains a defined benefit section and a defined contribution section.

(a) Defined benefit section

The Group defined benefit section was closed to future accrual with effect from 30 September 2008. The assets of the scheme are held separately from those of the Group in an independently administered fund. The Society does not expect to contribute to its defined benefit section in the next financial year.

A full actuarial valuation of the defined benefit section was carried out by the Scheme Actuary as at 31 December 2011 and updated to 31 December 2014 by an independent actuary, allowing for the actuarial method and assumptions prescribed under Financial Reporting Standard 17 'Retirement Benefits'. The scheme assets include no property occupied by, or other assets used by, the Society.

The major categories of scheme assets as a percentage of total scheme assets are as follows:	**Group & Society 2014**	Group & Society 2013
Equities	**-**	-
Bonds	**39%**	39%
Property	**-**	-
Annuities	**28%**	30%
Gilts	**32%**	28%
Cash	**1%**	3%

During the year the Directors have amended the above asset categories to better reflect the scheme assets held. This has resulted in the re-categorisation of certain assets held in the prior year.

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):	**Group & Society 2014**	Group & Society 2013
Discount rate	**3.50%**	4.70%
Weighted average expected return on scheme assets	**4.40%**	5.10%
Future revaluation of pensions in deferment	**2.20%**	2.25%
Future increases of pensions in payment, split:		
Inflation linked (RPI) up to 5%	**3.10%**	3.25%
Inflation linked (CPI) up to 3%	**2.20%**	2.25%
Mortality:		
Actuarial tables used	**S2PA Year of Birth Projected using CMI 2014 M / F subject to 1.0% / 1.0% minimum improvement rate for males/females**	S1PA Year of Birth Medium Cohort projection from 2002 subject to 1.5% / 1.0% minimum improvement rate for males/females
Male / female life expectancy from age 60	**26.6 / 28.8**	26.8 / 28.7

Where investments are held in bonds and cash, the expected long term rate of return is taken to be the yields generally prevailing on the assets held at the balance sheet date, less an adjustment for default risk and expenses. The overall expected long term rate of return on assets is the average of these rates taking into account the underlying asset portfolio of the pension scheme. The expected returns quoted are net of all scheme expenses. The interest on insured annuities has been included in both the expected return on assets and the interest on liabilities.

The expected returns for each asset class (net of all scheme expenses) at the beginning of each year were:	**Group & Society 2014**	Group & Society 2013
Equities	**n/a**	n/a
Bonds	**6.80%**	7.00%
Property	**n/a**	n/a
Annuities	**3.50%**	4.50%
Gilts	**2.40%**	3.00%
Cash	**2.50%**	3.00%

6. Pension scheme (continued)

	Group & Society 2014 £'000	Group & Society 2013 £'000
The amounts recognised in the balance sheet are as follows:		
Fair value of scheme assets	**26,764**	23,306
Present value of funded obligations	**(19,800)**	(17,050)
Surplus in the scheme	**6,964**	6,256
Related deferred tax liability	**(1,393)**	(1,251)
Net pension asset	**5,571**	5,005
The amounts recognised in the income and expenditure account are as follows:		
Current service cost	**9**	15
Included within administrative expenses	**9**	15
Expected return on scheme assets	**1,189**	1,115
Interest on obligations	**(790)**	(720)
Included within finance income	**399**	395
Total	**390**	380
The amounts recognised in the statement of total recognised gains and losses are as follows:		
Actual return less expected return on scheme assets	**2,827**	401
Actuarial losses on defined benefit obligations	**(2,509)**	(469)
Total	**318**	(68)

Cumulative actuarial losses reported in the statement of total recognised gains and losses for accounting periods ending since 31 December 2003 are £3,035,000 (2013: £3,353,000).

	Group & Society 2014 £'000	Group & Society 2013 £'000
Changes in the present value of the defined benefit obligations are as follows:		
Opening defined benefit obligation	**17,050**	16,300
Current service cost	**9**	15
Interest cost	**790**	720
Actuarial losses	**2,509**	469
Benefits paid	**(558)**	(454)
Closing defined benefit obligation	**19,800**	17,050
Changes in the fair value of scheme assets are as follows:		
Opening fair value of scheme assets	**23,306**	22,244
Expected return	**1,189**	1,115
Actuarial gains	**2,827**	401
Benefits paid	**(558)**	(454)
Closing fair value of scheme assets	**26,764**	23,306

6. Pension scheme (continued)

Amounts for the current and previous periods are as follows:

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Scheme assets	**26,764**	23,306	22,244	20,949	19,999
Defined benefit obligation	**(19,800)**	(17,050)	(16,300)	(15,115)	(15,379)
Surplus	**6,964**	6,256	5,944	5,834	4,620
Experience adjustments on scheme liabilities	**310**	(77)	(520)	(112)	(231)
Experience adjustments on scheme assets	**2,827**	401	757	374	(256)

(b) Defined contribution section

The Group operates a defined contribution pension section of the scheme which opened on 1 October 2008. The assets of the scheme are held separately from those of the Group in independently administered funds.

From 1 April 2012, the Group introduced the option for all staff to sacrifice part of their salary in exchange for the Group making additional pension contributions on their behalf. The pension cost for the year, representing contributions payable by the Group including those made under salary sacrifice arrangements, and contributions outstanding at the year end are shown below.

	Group 2014 £'000	Society 2014 £'000	Group 2013 £'000	Society 2013 £'000
Pension cost for the year	**194**	**194**	178	176
Contributions outstanding at the year end	**-**	**-**	-	-

7. Directors' emoluments

Society 2014	Salary / Fees £	Bonus £	Benefits £	Sub Total £	Payments to defined contribution scheme £	Total £
Non-Executive						
A J Capps	21,125	-	-	21,125	-	**21,125**
R H Clegg	19,625	-	-	19,625	-	**19,625**
A L Craft	29,487	-	-	29,487	-	**29,487**
F A Pollard (appointed 9 October 2014)	11,125	-	-	11,125	-	**11,125**
K O Romney	22,125	-	-	22,125	-	**22,125**
D J Wood	19,625	-	-	19,625	-	**19,625**
R D Wood (retired 23 April 2014)	6,099	-	150	6,249	-	**6,249**
Executive						
M J Reason	137,640	10,386	24,938	172,964	-	**172,964**
J P Mulvey	96,039	10,984	11,389	118,412	33,763	**152,175**
	362,890	**21,370**	**36,477**	**420,737**	**33,763**	**454,500**

7. Directors' emoluments (continued)

Society 2013	Salary / Fees £	Bonus £	Benefits £	Sub Total £	Payments to defined contribution scheme £	Total £
Non-Executive						
A J Capps (appointed 18 February 2013)	17,562		-	17,562	-	17,562
R H Clegg	19,125	-	-	19,125	-	19,125
A L Craft (appointed 21 June 2013)	15,333	-	-	15,333	-	15,333
G Dixon (retired 30 April 2013)	6,292	-	-	6,292	-	6,292
S W Haggerty (retired 30 April 2013)	6,292	-	-	6,292	-	6,292
K O Romney (appointed 24 May 2013)	12,850	-	-	12,850	-	12,850
D J Wood	19,125	-	-	19,125	-	19,125
R D Wood	26,000	-	600	26,600	-	26,600
Executive						
M J Reason	134,283	12,133	23,900	170,316	-	170,316
J P Mulvey	93,392	10,716	11,418	115,526	28,441	143,967
	350,254	22,849	35,918	409,021	28,441	437,462

Further details on the components of Directors' emoluments can be found in the Directors' Remuneration Report. The Group provides the option for all staff including Executive Directors to sacrifice part of their salary in exchange for the Group making additional pension contributions on their behalf. During the year 1 (2013: 1) Executive Director took advantage of this option.

Directors' loans and transactions

At 31 December 2014, there were outstanding mortgage loans granted in the ordinary course of business to 1 (2013: 1) Director and 1 (2013: 1) connected person, amounting in aggregate to £532,380 (2013: £535,406). A register is maintained in accordance with the requirements of 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 2014, will be available for inspection at the Society's Principal Office for a period of 15 days up to and including the Annual General Meeting.

8. Tax on profit on ordinary activities

(a) Analysis of charge in year

	Group 2014 £'000	**Society 2014 £'000**	Group 2013 £'000	Society 2013 £'000
Current tax				
UK corporation tax on profits for the year at 21.50% (2013: 23.25%)	**126**	**25**	93	55
Adjustment in respect of prior years	**(9)**	**(4)**	(10)	8
Total current tax	**117**	**21**	83	63
Deferred tax movement (see note 18)	**41**	**98**	146	112
Tax on profit on ordinary activities	**158**	**119**	229	175

Of the tax on profit on ordinary activities of the Group, a credit of £48,000 (2013: charge of £2,000) related to associated undertakings.

8. Tax on profit on ordinary activities (continued)

(b) Factors affecting current tax charge in year

The current tax charge for the year differs to the standard rate of corporation tax in the UK of 21.50% (2013: 23.25%). The differences are explained below:

	Group 2014 £'000	**Society 2014 £'000**	Group 2013 £'000	Society 2013 £'000
Profit on ordinary activities before tax	**1,111**	**545**	1,006	812
Current tax at 21.50% (2013: 23.25%)	**239**	**117**	234	189
Effects of:				
Expenses not deductible for tax purposes	**14**	**11**	18	16
Tax losses utilised	**(19)**	**-**	(43)	(40)
Pension asset movement	**(84)**	**(84)**	(88)	(88)
Capital allowances in excess of depreciation	**(29)**	**(18)**	(3)	1
Movement in short term timing differences	**(1)**	**(2)**	(24)	(24)
Movement in provisions for bad and doubtful debts	**6**	**1**	(1)	1
Adjustment in respect of prior years	**(9)**	**(4)**	(10)	8
Total current tax (see above)	**117**	**21**	83	63

9. Treasury bills and similar securities

	Goup & Society 2014 £'000	Group & Society 2013 £'000
Treasury bills and similar securities	**11,119**	7,253
Treasury bills and similar securities (excluding accrued interest)	**11,007**	7,193

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

Movements during the year of treasury bills and similar securities held as financial fixed assets are analysed as follows:

	Group & Society 2014 £'000
Cost (excluding accrued interest)	
At 1 January 2014	7,193
Acquisitions during the year	4,977
Amortisation of premiums and accretion of discounts	(163)
Disposals and maturities during the year	(1,000)
At 31 December 2014	**11,007**

Included in the balance sheet total is £535,085 (2013: £230,384) of unamortised premiums and £28,361 (2013: £37,344) of unaccreted discounts.

10. Loans and advances to credit institutions

	Group 2014 £'000	Society 2014 £'000	Group 2013 £'000	Society 2013 £'000
Accrued interest	**9**	**9**	19	19
Repayable on demand	**13,248**	**13,129**	15,488	15,434
Other loans and advances by residual maturity, repayable:				
In not more than three months	**-**	**-**	6,000	6,000
In more than three months but not more than one year	**3,000**	**3,000**	3,000	3,000
	16,257	**16,138**	24,507	24,453

11. Debt securities

	Group & Society 2014 £'000	Group & Society 2013 £'000
Debt securities issued by other borrowers have remaining maturities as follows:		
Accrued interest	**120**	93
In not more than one year	**31,000**	25,000
In more than one year	**-**	5,003
	31,120	30,096
Unlisted transferable debt securities (excluding accrued interest)	**31,000**	30,003

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

Movements during the year of debt securities held as financial fixed assets are analysed as follows:

	Group & Society 2014 £'000
Cost (excluding accrued interest)	
At 1 January 2014	30,003
Acquisitions during the year	26,000
Amortisation of premiums and accretion of discounts	(3)
Disposals and maturities during the year	(25,000)
At 31 December 2014	**31,000**

Included in the balance sheet total is £322 (2013: £2,788) of unamortised premiums and £nil (2013: £nil) of unaccreted discounts.

At 31 December 2014 £5,004,187 (2013: £nil) of debt securities held by the Society were pledged to the Bank of England as collateral under the Funding for Lending Scheme.

12. Loans and advances to customers

	Group 2014 £'000	Society 2014 £'000	Group 2013 £'000	Society 2013 £'000
Loans fully secured on residential property	**296,188**	**256,091**	291,252	247,088
Loans fully secured on land	**3,948**	**3,948**	4,424	4,424
	300,136	**260,039**	295,676	251,512

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

	Group 2014 £'000	Society 2014 £'000	Group 2013 £'000	Society 2013 £'000
In not more than three months	**2,684**	**2,424**	2,808	2,531
In more than three months but not more than one year	**8,748**	**7,971**	8,292	7,465
In more than one year but not more than five years	**40,933**	**36,441**	43,765	38,950
In more than five years	**249,358**	**213,876**	242,192	202,910
	301,723	**260,712**	297,057	251,856
Less: Provisions for bad and doubtful debts (see note 13)	**(1,587)**	**(673)**	(1,381)	(344)
	300,136	**260,039**	295,676	251,512

At 31 December 2014 £23,145,475 (2013: £22,627,809) of mortgage assets held by MBS Lending Limited, a subsidiary of the Society, were subject to a fixed charge as security in relation to a customer deposit (see note 21 for further details).

At 31 December 2014 £28,374,166 (2013: £35,328,159) of mortgage assets held by the Society were pledged to the Bank of England as collateral under the Funding for Lending Scheme.

13. Provisions for bad and doubtful debts

Provision against loans and advances has been made as follows:

	Loans Fully Secured on Residential Property		Loans Fully Secured on Land		Total
	Specific £'000	**General £'000**	**Specific £'000**	**General £'000**	**2014 £'000**
Group					
At 1 January 2014	915	314	150	2	1,381
Net (credit) / charge to income and expenditure account	(148)	30	399	(1)	280
Provision utilised	-	-	(74)	-	(74)
At 31 December 2014	**767**	**344**	**475**	**1**	**1,587**
Society					
At 1 January 2014	70	122	150	2	344
Net (credit) / charge to income and expenditure account	(1)	6	399	(1)	403
Provision utilised	-	-	(74)	-	(74)
At 31 December 2014	**69**	**128**	**475**	**1**	**673**

The charge shown in the Income and Expenditure account for provisions for bad and doubtful debts is made up as follows:

	Group 2014 £'000	Society 2014 £'000
Movement in loss provision (above)	**280**	**403**
Impairment recovery	**(75)**	**-**
Provisions for bad and doubtful debts	**205**	**403**

14. Investments

(a) Investments at cost and net book value

	Society 2014 £'000	Society 2013 £'000
Investment in subsidiary undertakings - shares	**110**	110
Investment in associated undertakings - shares	**30**	30
Investment in subsidiary undertakings - loans	**41,004**	45,458
	41,144	45,598
Movement in subsidiary undertakings - loans		
At 1 January 2014	45,458	
Net repayment of loans	(4,454)	
At 31 December 2014	**41,004**	

(b) Subsidiary undertakings

Entity	Principal Activity	Place of Incorporation	Class of Share Held	Cost of Investment £'000	Society's Interest
MBS Lending Limited	Mortgage Lending	England	Ordinary	110	100%
MMBS Trading Limited	Property Management	England	Ordinary	-	100%
				110	

(c) Associated undertakings

Entity	Principal Activity	Place of Incorporation	Class of Share Held	Cost of Investment £'000	Society's Interest
Sesame Bankhall Specialist Lending Services Limited	Mortgage Packaging	England	Ordinary	30	100%

In September 2012, Sesame Bankhall Specialist Lending Services Limited (SBSLS) entered into an arrangement with Sesame Bankhall Group (SBG). The arrangement incorporated an option (exercisable before 1 September 2020) for SBG to acquire 74.9% of the Society's shares in SBSLS. Following the granting of the option, the Directors consider that the entity is controlled by SBG and it has therefore been accounted for as an associated undertaking from the date of the arrangement.

	Group 2014 £'000
Movement in investment in associated undertakings	
At 1 January 2014	**31**
Increase in share of associate's net assets	**158**
At 31 December 2014	**189**

15. Tangible fixed assets

Group	Freehold Land & Buildings £'000	Office Equipment £'000	Motor Vehicles £'000	Total £'000
Cost				
At 1 January 2014	5,780	2,230	24	8,034
Additions	-	299	-	299
Disposals	-	(97)	-	(97)
VAT recovered	(7)	-	-	(7)
At 31 December 2014	**5,773**	**2,432**	**24**	**8,229**
Depreciation				
At 1 January 2014	780	2,051	24	2,855
Charged in year	93	147	-	240
Disposals	-	(97)	-	(97)
At 31 December 2014	**873**	**2,101**	**24**	**2,998**
Net book value				
At 31 December 2014	**4,900**	**331**	**-**	**5,231**
At 31 December 2013	5,000	179	-	5,179

Society	Freehold Land & Buildings £'000	Office Equipment £'000	Motor Vehicles £'000	Total £'000
Cost				
At 1 January 2014	4,712	2,201	24	6,937
Additions	-	299	-	299
Disposals	-	(97)	-	(97)
VAT recovered	(7)	-	-	(7)
At 31 December 2014	**4,705**	**2,403**	**24**	**7,132**
Depreciation				
At 1 January 2014	687	2,022	24	2,733
Charged in year	80	147	-	227
Disposals	-	(97)	-	(97)
At 31 December 2014	**767**	**2,072**	**24**	**2,863**
Net book value				
At 31 December 2014	**3,938**	**331**	**-**	**4,269**
At 31 December 2013	4,025	179	-	4,204

VAT recovered represents cash received from HM Revenue & Customs in respect of the VAT Capital Goods Scheme

	Group 2014 £'000	Society 2014 £'000	Group 2013 £'000	Society 2013 £'000
Net book value of land and buildings occupied by the Group and Society for its own activities	**4,900**	**3,938**	5,000	4,025

16. Investment properties

	Group 2014 £'000	Society 2014 £'000	Group 2013 £'000	Society 2013 £'000
Cost or valuation				
At 1 January	**2,460**	**2,300**	2,460	2,300
Revaluation - unrealised loss	**(175)**	**(175)**	-	-
At 31 December, at valuation	**2,285**	**2,125**	2,460	2,300

The last formal valuation of the investment properties was performed as at 31 December 2014. The valuations were performed by Mr Graham S. Parkinson BSc (Hons) MRICS IRRV (Hons) of Musson Liggins on the basis of open market value.

17. Other assets

	Group 2014 £'000	Society 2014 £'000	Group 2013 £'000	Society 2013 £'000
Deferred tax asset (see note 18)	**208**	**146**	219	166
Other assets	**211**	**211**	308	309
	419	**357**	527	475

18. Deferred tax

	Group 2014 £'000	Society 2014 £'000	Group 2013 £'000	Society 2013 £'000
At 1 January	**219**	**166**	276	202
Charge to the income and expenditure account (see note 8)	**(41)**	**(98)**	(146)	(112)
Offset against pension asset	**78**	**78**	76	76
Deferred tax relating to Associate	**(48)**	**-**	13	-
At 31 December (see note 17)	**208**	**146**	219	166

The amounts provided for deferred taxation are set out below:

Capital allowances	**28**	**10**	50	35
Timing differences related to general provisions	**70**	**26**	65	27
Tax losses	**110**	**110**	104	104
	208	**146**	219	166

Deferred tax is recognised at 20% (2013: 20%).

A reduction in the UK corporation tax rate from 24% to 23% (effective 1 April 2013) was substantively enacted on 3 July 2012. Reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2014 has been calculated at 20% being the rate substantively enacted at the balance sheet date.

During the year, a deferred tax asset of £56,000 was recognised in Sesame Bankhall Specialist Lending Services Limited (SBSLS) in respect of tax losses following an assessment by the Directors of its recoverability. SBSLS is accounted for as an associated undertaking of the Group and the deferred tax asset is recognised within the Investment in associated undertakings caption (see note 14(c)). A deferred tax asset in respect of tax losses amounting to £169,000 has not been recognised because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

In accordance with FRS 19 (Deferred Tax) the potential deferred tax liability arising on property gains rolled over and on the surplus on revaluation of an investment property have not been provided. At 31 December 2014 this amounted to £217,000 (2013: £252,000).

19. Shares

	Group & Society 2014 £'000	Group & Society 2013 £'000
Held by individuals	**306,373**	295,193
Other shares	**4,251**	5,259
	310,624	300,452

Shares are repayable from the balance sheet date in the ordinary course of business as follows:

Accrued interest	**830**	716
Repayable on demand	**183,915**	186,053
In not more than three months	**26,706**	27,565
In more than three months but not more than one year	**60,778**	71,173
In more than one year but not more than five years	**38,395**	14,945
	310,624	300,452

20. Amounts owed to credit institutions

Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:

	Group & Society 2014 £'000	Group & Society 2013 £'000
Accrued interest	**6**	17
In not more than three months	**1,000**	3,500
In more than three months but not more than one year	**2,000**	3,500
	3,006	7,017

21. Amounts owed to other customers

Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:

	Group & Society 2014 £'000	Group & Society 2013 £'000
Accrued interest	**226**	255
Repayable on demand	**5,139**	5,135
In not more than three months	**5,734**	7,935
In more than three months but not more than one year	**20,833**	22,418
In more than one year but not more than five years	**8,531**	11,422
	40,463	47,165

Included within amounts owed to other customers are the following amounts that are secured against mortgage assets held by MBS Lending Limited (see note 12). The interest rate payable on these deposits is linked to the Bank of England base rate plus a margin.

	Group & Society 2014 £'000	Group & Society 2013 £'000
In not more than three months	**2,000**	4,000
In more than three months but not more than one year	**5,000**	-
In more than one year but not more than five years	**8,000**	11,000
	15,000	15,000

22. Other liabilities

Amounts falling due within one year:

	Group 2014 £'000	**Society 2014 £'000**	Group 2013 £'000	Society 2013 £'000
Income tax	**66**	**66**	53	53
Corporation tax	**117**	**21**	94	55
Other creditors	**25**	**24**	36	35
	208	**111**	183	143

23. Provisions for liabilities

	Group & Society 2014 £'000	Group & Society 2013 £'000
FSCS levy	**413**	399
Regulatory compensation	**56**	8
Affordable housing	**-**	44
	469	451

Group & Society	**FSCS Levy £'000**	**Regulatory Compensation £'000**	**Affordable Housing £'000**	**Total £'000**
At 1 January 2014	399	8	44	451
Charge / (release) to the income and expenditure account	264	48	(44)	268
Payments made in the year	(250)	-	-	(250)
At 31 December 2014	**413**	**56**	**-**	**469**
Movement in provisions for liabilities (above)	264	48	(44)	268
Recoveries	-	-	(2)	(2)
Provisions for liabilities	**264**	**48**	**(46)**	**266**

Financial Services Compensation Scheme

In common with all regulated UK deposit takers, the Society pays levies to the FSCS to enable the scheme to meet claims against it. The FSCS has met recent claims by way of loans received from HM Treasury (HMT). The FSCS levy consists of two parts: a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme, including the interest cost of the loans, 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, spread over a number of years.

The Society's FSCS provision reflects market participation up to the reporting date and includes the estimated management expenses levy for the scheme years 2014/15 and 2015/16 and the compensation levy for scheme year 2015/16. The amounts were calculated on the basis of the Society's current share of UK protected deposits taking into account the FSCS's latest estimates of total management expenses levies and compensation levies for each scheme year.

Other provisions

The regulatory compensation provision is in respect of claims relating to the historic sale of endowment policies and pensions to customers.

The affordable housing provision is held in respect of potential equity shortfalls within the Society's shared equity mortgage portfolio. During the year, this provision has been transferred to the specific provision for bad and doubtful debts.

24. Reserves

	Group 2014 £'000	**Society 2014 £'000**	Group 2013 £'000	Society 2013 £'000
General Reserves				
At 1 January	**31,391**	**31,519**	30,490	30,758
Profit for the year	**953**	**426**	777	637
Actuarial gains and losses net of deferred tax	**254**	**254**	124	124
As at 31 December	**32,598**	**32,199**	31,391	31,519
General reserves (excluding pension asset)	**27,027**	**26,628**	26,386	26,514
Pension asset	**5,571**	**5,571**	5,005	5,005
General reserves	**32,598**	**32,199**	31,391	31,519
Revaluation Reserve: Investment properties				
At 1 January	**625**	**705**	625	705
Deficit on revaluation (see note 16)	**(175)**	**(175)**	-	-
At 31 December	**450**	**530**	625	705

25. Related parties

Sesame Bankhall Specialist Lending Services Limited (SBSLS) (formerly MMBS Services Limited) has been accounted for as an associated undertaking from September 2012 (see note 14(c)). During the year, the following transactions were entered into:

1) The Society paid £11,088 (2013: £8,223) in fees and commissions to SBSLS. SBSLS incurred administrative expenses of £161,711 (2013: £68,788) from the Society. At 31 December 2014, SBSLS owed £nil (2013: £nil) to the Society.

2) MBS Lending Limited paid £6,595 (2013: £12,566) in fees and commissions to SBSLS. At 31 December 2014 MBS Lending Limited owed £nil (2013: £2,870) to SBSLS.

3) At 31 December 2014 MMBS Trading Limited owed £nil (2013: £8,091) to SBSLS relating to group relief received.

26. Guarantees and other financial commitments

Capital commitments

At 31 December 2014 neither the Group nor Society had any capital commitments or contracted capital expenditure (2013: £nil).

Lease commitments

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

	Group 2014 £'000	**Society 2014 £'000**	Group 2013 £'000	Society 2013 £'000
In respect of land and buildings:				
Operating leases expiring within two to five years inclusive	**8**	**56**	9	57
In respect of other leases:				
Operating leases expiring in less than one year	**1**	**1**	1	1

Subsidiary undertakings

It is the intention of the Society to continue to support fully its subsidiary undertakings.

27. Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability of another entity. The Society is a retailer of financial instruments in the form of mortgage and savings products, and also uses wholesale financial instruments to invest liquid asset balances, raise wholesale funding and to manage risks arising from its operations.

Interest rate risk

The Group is exposed to movements in interest rates in relation to fixed rate mortgage and savings products. This risk is managed, within limits set by ALCO, using off balance sheet financial instruments, specifically interest rate cap and swap contracts. No transactions of a speculative nature are undertaken. After taking into account the interest rate cap and swap contracts entered into by the Group, the interest rate sensitivity exposures of the Group at 31 December 2014 and 31 December 2013 were as follows:

Group 31 December 2014	**Not more than three months £'000**	**More than three months but not more than six months £'000**	**More than six months but not more than one year £'000**	**More than one year but not more than five years £'000**	**Non interest bearing £'000**	**Total £'000**
Assets						
Liquid assets	41,713	7,000	15,000	10,507	247	**74,467**
Loans and advances to customers	264,545	2,790	5,413	27,389	-	**300,137**
Investments in subsidiaries and other undertakings	-	-	-	-	189	**189**
Tangible fixed assets	-	-	-	-	5,231	**5,231**
Investment properties	-	-	-	-	2,285	**2,285**
Pension asset	-	-	-	-	5,571	**5,571**
Other assets	-	-	-	-	594	**594**
Total assets	**306,258**	**9,790**	**20,413**	**37,896**	**14,117**	**388,474**
Liabilities						
Shares	266,802	3,478	4,720	34,794	830	**310,624**
Amounts owed to credit institutions	1,000	1,000	1,000	-	6	**3,006**
Amounts owed to other customers	24,485	5,221	2,000	8,531	226	**40,463**
Other liabilities	-	-	-	-	1,333	**1,333**
Reserves	-	-	-	-	33,048	**33,048**
Total liabilities	**292,287**	**9,699**	**7,720**	**43,325**	**35,443**	**388,474**
Off balance sheet items	6,250	(1,500)	(6,000)	1,250	-	**-**
Interest rate sensitivity gap	**20,221**	**(1,409)**	**6,693**	**(4,179)**	**(21,326)**	**-**
Group 31 December 2013						
Total assets	313,583	9,345	25,100	27,489	12,271	387,788
Total liabilities	310,855	21,500	5,925	15,366	34,142	387,788
Off balance sheet items	15,750	7,000	(11,500)	(11,250)	-	-
Interest rate sensitivity gap	18,478	(5,155)	7,675	873	(21,871)	-

Liquid assets include cash in hand and balances with the Bank of England, treasury bills and similar securities, loans and advances to credit institutions and debt securities.
Other assets include prepayments and accrued income, and other assets.
Other liabilities include accruals and deferred income, provisions for liabilities and other liabilities.

27. Financial instruments (continued)

Off balance sheet financial instruments

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

	Group 2014 £'000	Group 2013 £'000
Interest rate contracts		
Underlying principal amount	**26,750**	47,250
Credit risk weighted amount	**79**	82
Replacement cost	**131**	180

The underlying principal amount indicates the volume of business outstanding at the balance sheet date and does not represent amounts at risk. The credit risk weighted amount of interest rate contracts has been calculated according to rules specified by the Prudential Regulation Authority, and is based on the replacement cost but also takes into account measures of the extent of potential future exposure and nature of the counterparty. The replacement cost represents the cost of replacing contracts with a positive value, calculated at market rates at the balance sheet date, and reflects the Society's maximum exposure should all counterparties default.

Hedges

Hedges which comprise the off balance sheet financial instruments referred to above are used to reduce the risk of loss arising from changes in interest rates. Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

Group Year to 31 December 2014	Unrecognised Gains £'000	Unrecognised Losses £'000	Net Gain / (Loss) £'000
Unrecognised gains and losses on hedges at 1 January 2014	180	(339)	(159)
Gains and losses unrecognised at 1 January recognised in 2014	(108)	290	182
Gains and losses arising before 1 January and not recognised in 2014	72	(49)	23
Gains and losses arising in 2014 and not recognised in 2014	59	(50)	9
Unrecognised gains and losses on hedges at 31 December 2014	**131**	**(99)**	**32**
Of which:			
Expected to be recognised in the year to 31 December 2015	101	(77)	24
Expected to be recognised after 31 December 2015	30	(22)	8

Fair values of financial instruments

Set out below is a comparison of book and fair values of some of the Group's and Society's financial instruments. The Group does not undertake transactions for trading or speculative purposes. The table excludes certain financial instruments which are not listed or publicly traded, or for which a liquid and active market does not exist. It therefore excludes items such as mortgages, share accounts and deposits with other credit institutions All fair values have been calculated using market rates.

Financial assets and liabilities for which active financial markets exist:

	Group 2014 Book Value £'000	Group 2014 Fair Value £'000	Group 2013 Book Value £'000	Group 2013 Fair Value £'000
Treasury bills and similar securities	**11,007**	**11,186**	7,193	7,251
Debt securities	**31,000**	**31,124**	30,003	30,084
Off balance sheet instruments - interest rate contracts	**-**	**32**	-	(159)

Annual Business Statement
for the year ended 31 December 2014

1. Statutory percentages

	Group 2014	Statutory Limit
Lending Limit	**4.21%**	25.00%
Funding Limit	**13.48%**	50.00%

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986.

The Lending Limit measures the proportion of business assets not in the form of loans fully secured on residential property. Business assets are the total assets of the Group as shown on the balance sheet plus provisions for bad and doubtful debts, less fixed assets and liquid assets. Loans fully secured on residential property are the amount of principal owed by borrowers and interest accrued not yet payable. This is the amount shown in the balance sheet plus provisions for bad and doubtful debts.

The Funding Limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

The statutory limits are as laid down under the Building Societies Act 1986 and ensure that the principal purpose of the Group is that of making loans which are secured on residential property and are funded substantially by its members.

2. Other percentages

	Group 2014	Group 2013
As a percentage of shares and borrowings:		
Gross capital	**9.33%**	9.03%
Free capital	**7.95%**	7.66%
Liquid assets	**21.03%**	22.20%
As a percentage of mean total assets:		
Profit for the financial year	**0.25%**	0.20%
Management expenses	**1.10%**	1.01%

The above percentages have been prepared from the Group's accounts and in particular:

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

'Gross capital' represents the general reserves and revaluation reserve.

'Free capital' represents the aggregate of gross capital and general provisions for bad and doubtful debts less tangible fixed assets.

'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.

'Liquid assets' represent the total of cash in hand and balances with the Bank of England, treasury bills and similar securities, loans and advances to credit institutions and debt securities.

'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

3. Information Relating to Directors and Other Officers at 31 December 2014

Directors

Name	Date Of Appointment	Business Occupation	Date Of Birth	Other Directorships
Andrew John CAPPS MBA DipM AMCT	18 Feb 2013	Risk & Regulatory Consultant	1 Oct 1956	Andrew Capps Consulting Ltd
Richard Hilton CLEGG MBA, FCA	20 May 2008	Business Consultant	10 Sep 1949	Lincoln Diocesan Trust and Board of Finance Ltd
Alan Leslie CRAFT MA	21 Jun 2013	Building Society Director	25 Sep 1947	
John Philip MULVEY BSocSc (Hons), ACA	19 May 2010	Building Society Finance Director	15 Jan 1975	MBS Lending Ltd MMBS Trading Ltd Sesame Bankhall Specialist Lending Services Ltd
Fiona Ann Pollard MA	9 Oct 2014	Building Society Director	6 Jul 1965	Heritage Events Ltd, UK New Perth Ports PTY Ltd, Australia Honey Real Estate Ltd, Australia
Martin John REASON BSc (Hons)	1 May 2006	Building Society Chief Executive	11 Jul 1960	Sesame Bankhall Specialist Lending Services Ltd
Kenneth Owen ROMNEY BA, FCA	24 May 2013	Building Society Director	22 Mar 1951	
David James WOOD ACIB, MCIM, DMS	1 May 2007	Managing Director	6 Feb 1957	Yardstick Contracts Ltd

Documents may be served on any of the Directors at the offices of Latham & Co., Solicitors, 15 High Street, Melton Mowbray, Leicestershire.

Mr Mulvey was appointed Deputy Chief Executive on 1 January 2015 in addition to his existing appointment as Financial Director.

Directors' Service Contracts

Mr Reason, Chief Executive, and Mr Mulvey, Finance Director, each have a service contract with the Society, terminable by the Society giving 12 months' notice or the Director giving six months' notice. The contracts were entered into on 17 January 2006 and 16 February 2010 respectively.

Officers

Name	Business Occupation	Other Directorships
Philip Martin RELF BA (Hons), CeMAP, ACIS	Director of Risk & Compliance	None
Christopher Paul ROWLEY FCIB, CeMAP, MCMI	Director of Operations	None
Siân Elizabeth GANT BSc (Hons), ACA	Financial Controller	MBS Lending Ltd MMBS Trading Ltd
Marcus John PAUL BSc/BA, CeMAP	Society Secretary	None

From 1 January 2015, Christopher Rowley was appointed Commercial Director, Debbie Flint was appointed Director of Operations and Nicola Alvarez was appointed Director of Sales & Marketing.

No Director or other Officer of the Society, or any member of their immediate families, at the end of the year was entitled to any right to subscribe for shares in, or debentures of, any connected undertaking of the Society and no such right was granted to, or exercised during the year.

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melton mowbray building society

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