

melton matters

for the members of melton mowbray building society - spring 2014



Inside this issue:
notice of annual general meeting
summary financial statement
mortgage products
NEW Web Site
and NEW Affinity Savings Account



the melton
building society
here to help...

Welcome to the Spring 2014 Melton Matters



I am pleased to report that your Society has made good progress in 2013 and produced a solid set of financial results.

During the course of the year your Directors have formulated a new Mission Statement:

'To be a trusted national provider of savings and mortgage products, with a reputation for meeting niche customer requirements, and having the freedom to reward Members by delivering a strong business performance.'

We are committed to delivering value to our members and to providing the high levels of service you would expect from your Society – a commitment incorporated in our new corporate strapline: The Melton.... 'here to help...'

This edition of Melton Matters includes our 2013 Summary Financial Statement, together with our Notice of Annual General Meeting to be held on Wednesday 23 April 2014 at the Melton Mowbray Baptist Church, Leicester Road, Melton Mowbray, Leicestershire, LE13 0FA at 7.30 pm. Your Directors and I welcome your attendance at this Meeting as this offers you an opportunity to talk directly with ourselves about your Building Society.

If you have any comments or suggestions to make in respect of service, products or our communication with members, please do not hesitate to contact Melanie Swainston, Marketing Manager, at our Principal Office on her direct line 01664 414006 or email m.swainston@mmb.co.uk.

Martin Reason
Chief Executive

Notice of Annual General Meeting

Notice is hereby given that the 138th Annual General Meeting of the Melton Mowbray Building Society will be held on 23 April 2014 at the Baptist Church, Melton Mowbray, Leicestershire, LE13 0FA at 7.30pm for the following purposes:

- 1) To receive the Directors' Report, Annual Accounts and Annual Business Statement for the year ended 31 December 2013.
- 2) To receive the Auditors' Report for the year ended 31 December 2013.
- 3) To receive the Directors' Remuneration Report as set out in the Annual Accounts.
- 4) To appoint KPMG LLP as Auditor.
- 5) Board Candidates:
 - i) To elect Mr Alan Leslie Craft
 - ii) To elect Mr Kenneth Owen Romney
 - iii) To re-elect Mr Martin John Reason
 - iv) To re-elect Mr Richard Hilton Clegg
- 6) To pass a Special Resolution to amend the Society's Rules as detailed in Note 9 of the Notes to the Annual General Meeting.

By order of the Board of Directors

M Paul
Society Secretary

21 March 2014

Notes

- 1) These Notes form part of the Notice of Meeting.
- 2) Under the Society's Rules, a member entitled to attend the Meeting and vote may appoint one proxy to attend and vote on his or her behalf. You may appoint the Chairman of the Meeting or anyone else as your proxy, and your proxy does not have to be a member of the Society. Your proxy may vote for you at the Meeting, but only on a poll. A poll is a formal vote which may take place after an initial vote by show of hands. Your proxy may not speak at the Meeting, except to demand or join in demanding a poll.
- 3) You may instruct your proxy how to vote at the Meeting. Please read these instructions and any on the proxy form itself. If voting by proxy, the voting date is 21 April 2014.
- 4) The voting date is the date of the Meeting – 23 April 2014.
- 5) In order to attend and vote at the Meeting, or appoint a proxy, you must qualify as either a shareholding member or a borrowing member.

Shareholding Members

- (a) To qualify as a shareholding member, you must:
 - (i) if you are an individual, be at least 18 years old on 23 April 2014, and
 - (ii) have held shares to the value of not less than £100 on 31 December 2013, and
 - (iii) not ceased to hold a share or shares at any time between 31 December 2013 and the voting date, and
 - (iv) hold a share or shares on the voting date.
- (b) Where the shares are held jointly by two or more persons, only the first named in the records of the Society in respect of those shares can have any voting rights.

Borrowing Members

- (a) To qualify as a borrowing member, you must:
 - (i) be at least 18 years old on 23 April 2014, and
 - (ii) have owed not less than £100 in respect of a mortgage debt on the voting date.
 - (b) Where a mortgage debt is owed jointly by two or more persons, only the first named in the records of the Society in respect of that mortgage can have any voting rights.
- 6) In addition, you can vote only once as a member, irrespective of:
- (a) the number of accounts you hold and whether you hold accounts in different capacities (for example, on your own behalf and as a trustee), and
 - (b) whether you qualify to vote as both a shareholding member and a borrowing member.
- 7) Members attending the Meeting will be requested to produce their passbooks or other evidence of membership in order to obtain admission. If you are appointing a proxy other than the Chairman of the Meeting to attend the Meeting and vote on your behalf, please ensure that your proxy brings an appropriate form of identification to the Meeting.

If you appoint a proxy to vote on your behalf and your proxy does not attend, your vote will not be counted.

8) KPMG LLP

KPMG Audit plc have notified the Society that they are not seeking reappointment. It is proposed that KPMG LLP be appointed auditors of the Society and will hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the members, and that their remuneration be fixed by the Directors.

9) PROPOSED ALTERATION TO RULES

Item 6 in the Notice of the Annual General Meeting is to update the Rules of the Society. This note explains the alterations.

The Society's Rules are based on the Model Rules for Building Societies published by the Building Societies Association (BSA). In October 2013 the BSA updated the Model Rules to cover the issue of new forms of capital instruments by Building Societies. The Society is updating its Rules in line with the updated BSA Model Rules.

This note summarises the main Rule changes. A full copy of the proposed changes is available on the Society's website www.themelton.co.uk, or may be obtained by a member on request to the Society Secretary, Melton Mowbray Building Society, Mutual House, Leicester Road, Melton Mowbray, Leics, LE13 0DB.

It is intended that, if the alterations to the Rules are agreed at the AGM, they will take effect on 1 July 2014 or on the day they are registered by the FCA if later.

The Board believes that these Rule changes will benefit the Society and its members and give the Society updated powers to issue capital instruments if the Board believes that would be in the best interests of members to do so and therefore recommends that members vote for the Rule changes.

Changes regarding Capital Instruments

The Society (like other building societies and banks) has to maintain capital as protection against losses. The Society's capital has to date consisted solely of retained profits. Regulatory changes in the UK and Europe mean that financial institutions are required to hold more Core tier 1 Capital (or 'Common Equity tier 1 Capital' as it is referred to).

New forms of qualifying capital instrument are available to building societies under the new European regulations, including 'Core Capital Deferred Shares' (CCDS), which will count as Common Equity tier 1 Capital, and other forms of capital. The Rule alterations are designed to enable the Society to issue capital instruments of this nature, should the Board believe it is in the interests of members to do so.

Proposed alterations to the Rules include the following:

Rule 1(a) - extending definitions to include 'Deferred Share' (which includes CCDS and, potentially, other forms of capital under the new European regulations); there is also a specific definition of CCDS, and definitions relating to 'Periodic Distributions' i.e. any distributions paid to CCDS holders. In particular there is a definition of 'Periodic Distributions Cap' which, in order to protect the Society's reserves, limits the maximum amount of distributions which the Society may pay on any CCDS initially to £15 per share per year (calculated on an assumed first issue price of £100 per share), adjusted each year by reference to the UK Consumer Price Index. Subject to the cap, the Board will have the discretion to set the actual return in any financial year based on the Society's overall financial performance.

Rule 8(3) - the Society will have the power to issue different types of Deferred Share to satisfy the requirements under the new European regulations for different types of capital instrument.

Rule 12(6) - the Board will have the authority to decide and publish the Society's policy on Periodic Distributions, and (subject to the Periodic Distributions Cap) to decide the amount of Periodic Distributions (if any) to be paid on the CCDS each year. Periodic Distributions will generally be paid from profits earned in the relevant year.

Rule 27(2) - introduces a provision requiring the terms of issue of CCDS to limit the Periodic Distributions in line with the Periodic Distribution Cap.

Rule 28(2) - alters the existing Rules to clarify the order in which any losses of the Society would be met if CCDS are issued. Generally, the reserves continue to take the first loss, and if they are fully depleted then investors in the Society will take losses according to the ranking of their investment in the Society. CCDS (which will absorb losses at the same time as reserves) will be the lowest ranking capital (ranking below creditors and all other members).

Rule 44(1) - altered to clarify that, on a winding-up, a CCDS holder would not receive any payment until all creditors and other members had been repaid. Alterations have also been made to provide that CCDS holders may share in any surplus assets on a winding-up; the terms of issue of CCDS will set out how this share is to be calculated.

Information on Candidates for Election as a Director



Alan Leslie Craft
MA (D.O.B. 25 September 1947)

I am a career banker with experience in various parts of the world. My specialisation has been risk management in both credit and operational risk. I joined the board of the Melton in June 2013. I am also now a partner in a consultancy that reviews the effectiveness of employee engagement and an advisor to a firm that assesses very long term economic trends and their impact on businesses and governments. I am married with two sons and four grandchildren.



Kenneth Owen Romney
BA, FCA, (D.O.B. 22 March 1951)

I am a Fellow of the Institute of Chartered Accountants in England and Wales. Following 10 years' audit experience in the UK and overseas, I have worked in Financial Services for over 30 years. I have had 10 years' recent experience as Finance Director of Chesnara plc., a successful life and pensions group listed on the London Stock Exchange and intend to continue to work within Financial Services by taking on a small number of Non-Executive Board positions within PRA/FCA regulated companies, where I can utilise my experience in Corporate Governance, Risk and Compliance. I am Chairman of the Audit and Compliance Committee.

Information on Candidates for Re-Election as a Director



Martin John Reason
BSc (Hons) (D.O.B. 11 July 1960)

I joined the Society in March 2006 as Chief Executive and previously worked for HSBC plc. for 26 years. I am a Trustee of both the Melton Mowbray Building Society Charitable Foundation and Staff Pension and Life Assurance Scheme. I serve as Chairman of the Group's Executive Committee.



Richard Hilton Clegg
MBA FCA (D.O.B. 10 September 1949)

I was appointed to the Board of Directors on 20 May 2008. I have extensive financial and business experience and am a former Finance Director of Pedigree Petfoods and Planning Director for Mars, Europe. I currently run my own consultancy advising in the preparation of Business Plans to support the raising of finance.

I am a Non-Executive Director of the Government Procurement Service and Chair of its Audit Committee. I am a Director of the Lincoln Diocesan Board of Finance.

I am the Senior Independent Director of the Society, Chair of its Risk Committee and a member of the Audit and Compliance Committee and Human Resources Committee.

Information on Directors not seeking Re-Election

Mr Roger David Wood has indicated his intention to retire from the Board at this year's Annual General Meeting. The Society and Board of Directors wish to express their appreciation for the considerable contribution David has made to the Society during his service as Director and as Society Chairman.

Summary Financial Statement 2013

This financial statement is a summary of information in the audited annual accounts, the Directors' report and annual business statement, all of which will be available to members and depositors free of charge on demand at every office of Melton Mowbray Building Society from 30 March 2014.

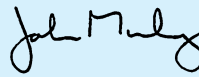
Approved by the Board of Directors on 12 March 2014 and signed on its behalf by:



A L Craft
Chairman



M J Reason
Chief Executive



J P Mulvey
Finance Director

SUMMARY DIRECTORS' REPORT

The Directors are pleased to present their Summary Financial Statement of the Society and its subsidiary and other undertakings (together the 'Group') for the year ended 31 December 2013.

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.

During the year the Directors approved a new mission statement that will underpin the Group's strategy:

"To be a trusted national provider of savings and mortgage products, with a reputation for meeting niche customer requirements, and having the freedom to reward Members by delivering a strong business performance."

Key Performance Indicators

Group	2013	2012	2011	2010	2009
Loans and advances to customers (£m)	296	289	273	281	296
Retail shares and deposits (£m)	325	325	300	330	352
Total assets (£m)	388	394	367	386	410
Gross capital (£m)	32.0	31.1	31.2	30.6	30.4
Profit before tax (£m)	1.01	0.39	0.61	0.23	0.11
Net interest margin as a % of mean total assets	1.04%	0.85%	0.95%	0.86%	1.16%
Management expenses as a % of mean total assets	1.01%	0.98%	0.86%	0.98%	1.07%
Underlying management expenses as a % of mean total assets	1.01%	0.98%	1.03%	0.98%	1.27%
Gross capital as a % of shares and borrowing	9.03%	8.61%	9.32%	8.64%	8.05%
Liquid assets as a % of shares and borrowing	22.20%	25.44%	24.19%	25.97%	26.41%
Mortgage arrears (£m) - total	0.34	0.41	0.46	0.45	0.39

Business Review

Group Overview

The Group has made significant progress this year, recording a profit before tax of £1.01m (2012: £0.39m). Key highlights for the year include:

- Group mortgage assets increased by 2.4% to £296m.
- Group net interest margin increased to 1.04% from 0.85%, aided by mortgage growth and reduced funding costs. This has been a key factor in the increase in profitability.
- Management expenses increased to 1.01% from 0.98%, due to an investment in staff and entry costs incurred in connection with the Bank of England's Funding for Lending Scheme.
- Total mortgage arrears reduced by 17% to £0.34m.
- Interest rates paid to Instant Access ISA and 0216 Young Persons savers increased.
- Gross capital increased by £0.9m to £32.0m.

The core Society, in particular, has produced a strong set of results which has enabled the Directors to improve interest rates on certain savings products. It continues to make good progress in restoring margin returns from its new mortgage lending and further reducing the level of mortgage arrears. Operating costs continue to be closely controlled and, aided by an improving economic outlook for the UK, the Directors expect to build upon this year's solid result in 2014.

The Group grew its loans and advances to customers by £7m to £296m supported by maintaining retail share and deposit balances at £325m and by the drawing of £10m of funding from the Bank of England's Funding for Lending Scheme. This has contributed to the Group maintaining healthy levels of liquidity.

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 (arising from an initiative with Sesame Bankhall reported in last year's accounts), is meeting our financial objectives and helping the Group to achieve mortgage distribution against the backdrop of a highly competitive mortgage market place. The business has developed well during 2013, producing a strong set of results in the second half of the year, with growth in business volumes which we expect to carry through into 2014.

The Group's profit after tax is £0.78m which has been transferred to reserves.

Society Operations

The Society's core operations produced an improved profit before tax of £0.81m (2012: £0.06m). Although the prevailing low interest rate environment continues to present challenges to profitability, margins have steadily improved throughout the year as the Society originated higher margin mortgage products and retail funding costs reduced, partly benefiting from the market wide impact on funding costs of the Funding for Lending Scheme (the FLS). As a result of the good progress made in restoring margin, the Directors were able to raise interest rates for its instant access ISA and 0216 Young Persons savings accounts in October 2013.

The Society advanced £46m (2012: £49m) of new mortgages during the year with total loans and advances outstanding at the year-end increasing by 4% to £252m (2012: £243m). 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 mortgage assets remained low at £0.34m (2012: £0.27m).

At the end of the year, there was 1 mortgage account (2012: 1 account) in arrears of 12 months or more, with balances outstanding of £5,000 (2012: £6,000) and arrears of £2,000 (2012: £3,000). In view of the low loan to value ratio of this account there has been no need to raise a specific provision against it.

The Society continues to target retail savings for the majority of its funding requirements and has maintained its retail savings at a level of £325m in 2013 using a number of branch based and online savings initiatives. During the course of the year the Society removed its online savings accounts from sale to new customers in order to control its level of surplus liquidity. These accounts will be re-introduced as part of a controlled plan to attract branch and online deposits in order to support future mortgage growth and the replacement of the FLS funding obtained from the Bank of England, which is due to be repaid in 2017.

The Melton Mowbray Building Society Charitable Foundation received £15,000 during the year from the Society to support its charitable giving. In 2013 the rollout of 5 defibrillator installations was completed in the local area supported by kick start funding from the Charitable Foundation. Many good causes are also supported by our staff and through members' donations in branches with Self Unlimited being chosen as the staff nominated charity for 2013. In addition, the staff and members have again shown considerable resourcefulness in raising funds for Children in Need, Marie Curie, LOROS, Save the Children, Breast Cancer Awareness and DLR Air Ambulance.

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 £0.17m in 2013 (2012: £0.32m) with reduced profitability reflecting the Board's decision to scale back new advances to maintain the portfolio at its current level.

During the year, the business advanced £4m (2012: £9m) of new mortgages, with total loans and advances to customers outstanding at the year-end of £44m (2012: £47m). Asset quality continues to improve with mortgage arrears reducing to £0.32m (2012: £0.39m) and provisions for bad and doubtful debts reducing to £1.04m (2012: £1.11m). At the end of the year, there were 6 mortgage accounts (2012: 7 accounts) in arrears of 12 months or more with balances outstanding of £0.94m (2012: £0.94m) and arrears of £0.08m (2012: £0.10m). Specific provisions of £0.17m (2012: £0.18m) have been raised against these accounts.

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;
- 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, HR Management & Selection 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 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, fraud and financial crime, and external physical events. 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 from any interaction with customers through the entire product life cycle, including product design and marketing, the sales process, information provided to customers, and post-sale matters. 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 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 arising from developing a strategy that does not maximise value or failing to deliver new business initiatives due to reduced demand for products and services or changing or flawed assumptions. 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. As noted in the Business Review, the Society's net interest margin continues to be impacted by the low interest rate environment. Margins should further improve when interest rates recover; however, the timing of this recovery is uncertain. The Directors continue to closely monitor the economic environment and the balance sheet composition of the Group to ensure it is well placed to benefit from any increases in interest rates.
- **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 2013 are set out in Note 6 of the accounts.
- **Regulatory risk:** the risk that business activities will be curtailed or constrained by new regulatory policy or tightening of existing policies. Recent new regulatory developments that are applicable to the Group include:
 - » The new Capital Requirements Directive (CRD4), implemented on 1 January 2014, places increased capital requirements on banks and building societies, both in terms of quality and quantity of capital. The new requirements do not have a significant impact on the capital adequacy of the Group; and

- » Reforms introduced under the Mortgage Market Review finalised by the FCA in October 2012. The majority of the reforms, which will impact mortgage lenders and intermediaries, come into effect in April 2014.

The Group's Compliance function ensures new regulations are assessed, with appropriate responses implemented, and undertakes risk-based reviews across the Group to ensure compliance with legal and regulatory requirements.

The principal immediate risk posed in this area emerges from the Financial Services Compensation Scheme (FSCS) levies 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 £0.23m in the year (2012: £0.19m). 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.

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.

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.

Group profit after tax for 2013 of £0.78m was transferred to general reserves and the Group remains well capitalised. As a result of other movements in reserves arising from the pension scheme valuation, gross capital at 31 December 2013 increased to £32.0m (2012: £31.1m), being 9.03% of total shares and borrowings (2012: 8.61%). Free capital at 31 December 2013 increased to 7.66% of total shares and borrowings (2012: 7.18%).

Liquidity and Funding

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 Directors decided to participate in the FLS in order to facilitate mortgage lending during the 4 year term of the scheme and provide the Society with some stable long-term funding. At 31 December 2013, the Society held £10m of Treasury Bills on this basis and details of the security provided to the Bank are shown in Note 12 of the accounts.

The Group's liquid assets of £79m at the year-end represented 22.2% of total shares and borrowings (2012: 25.4%). The Treasury Bills held under the FLS increased available liquidity at the year-end to 25.0% of total shares and borrowings.

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 22 days at 31 December 2013 (2012: 18 days).

Directors

The following persons served as Directors of the Society during the year:

Non-Executive Directors:		
A J Capps	Appointed 18 February 2013	
R H Clegg		
A L Craft	Appointed 21 June 2013	(Appointed Chairman 12 December 2013)
G Dixon	Retired 30 April 2013	
S W Haggerty	Retired 30 April 2013	
K O Romney	Appointed 24 May 2013	
D J Wood		
R D Wood		(Retired as Chairman 12 December 2013)
Executive Directors:		
M J Reason	Chief Executive	
J P Mulvey	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

Following a review of their corporate structure, our auditor, KPMG Audit Plc, has instigated an orderly wind down of business, with future audit work being undertaken by KPMG LLP. The Board has decided to put KPMG LLP forward to be appointed as auditors and a resolution for their appointment will be proposed to the forthcoming Annual General Meeting of the Society. There is no difference in liability terms between KPMG Audit Plc and KPMG LLP.

Acknowledgements

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

As noted above, R David Wood stood down from the position of Chairman on 12 December 2013 and was succeeded by Alan Craft, a career banker and former Building Society Director. David will retire from the Board at this year's AGM on 23 April 2014 and the Directors would like to thank him for twelve years' diligent and committed service to the Society, initially as a Director and latterly as Chairman. He has helped navigate the Society through a difficult period of financial turmoil over the last five years and retires leaving the Society and Group in a strong and stable position.

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

A L Craft
Chairman

12 March 2014

Summary Financial Statement 2013

	Group 2013 £'000	Group 2012 £'000
Results for the year		
Net interest receivable	4,060	3,229
Other income and charges	1,070	1,132
Administrative expenses	(3,946)	(3,726)
Provisions	(178)	(248)
Profit for the year before taxation	1,006	387
Taxation	(229)	(270)
Profit for the year	777	117
Financial position at end of year		
Assets		
Liquid assets	78,713	91,953
Mortgages	295,676	288,510
Fixed and other assets	8,394	8,613
Pension asset	5,005	4,577
Total Assets	387,788	393,653
Liabilities		
Shares	300,452	311,729
Borrowings	54,182	49,695
Other liabilities	1,138	1,114
Reserves	31,391	30,490
Revaluation reserve	625	625
Total Liabilities	387,788	393,653

	Group 2013	Group 2012
Summary of key financial ratios		
As a percentage of shares and borrowings:		
Gross capital	9.03%	8.61%
Liquid assets	22.20%	25.44%
As a percentage of mean total assets:		
Profit for the year	0.20%	0.03%
Management expenses	1.01%	0.98%

Gross capital comprises the general reserves and revaluation reserve. The gross capital ratio illustrates the extent to which the Group is funded by retained earnings compared with shares and borrowings. It provides a financial buffer against any losses which might arise from the Group's activities and therefore protects investors.

The liquid assets as a percentage of shares and borrowings ratio is a measure of the proportion of the Society's shares and borrowings that are in the form of cash or readily convertible into cash.

Mean total assets are calculated as the mean of the 2013 and 2012 total assets, as shown in the Group's balance sheet. Profit for the year as a percentage of mean total assets can be considered as equivalent to a company's return on assets.

The Group needs to generate sufficient profits each year to maintain a strong gross capital ratio, thereby protecting investors' funds.

Management expenses as a percentage of mean total assets gives a ratio which is a meaningful measure of the cost required to administer the assets of the Society and the Group.

Independent auditor's statement to the members and depositors of Melton Mowbray Building Society

We have examined the summary financial statement of Melton Mowbray Building Society for the year ended 31 December 2013 set out on pages 5 to 8.

This auditor's statement is made solely to the Society's members, as a body, and to the Society's depositors, as a body, in accordance with section 76 of the Building Societies Act 1986. Our work has been undertaken so that we might state to the Society's members and depositors those matters we are required to state to them in such a statement 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 and the Society's depositors as a body, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the summary financial statement within Melton Matters, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within Melton Matters with the full annual accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

We also read the other information contained in Melton Matters and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of opinion

We conducted our work in accordance with Bulletin 2008/3 *The auditor's statement on the summary financial statement in the United Kingdom* issued by the Auditing Practices Board. Our report on the group's full annual accounts describes the basis of our opinions on those annual accounts, the Annual Business Statement and Directors' Report.

Opinion on Summary Financial Statement

In our opinion the summary financial statement is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of Melton Mowbray Building Society for the year ended 31 December 2013 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Simon Clark
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

12 March 2014

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, HR Management & Selection Committee (HR 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 HR 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 12.5%, increasing to 15.0% from 1 April 2013.

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

The Chief Executive and Finance Director each have a service contract with the Society, terminable by either party giving six months' notice. In the event of a transfer of engagement where employment is to be terminated, the Chief Executive's service contract entitles him to elect to receive compensation for loss of office equivalent to twenty-four months' salary.

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

Non-Executive Directors

Non-Executive Directors are remunerated solely by fees. 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 HR 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 FCA 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
Chairman

12 March 2014

Directors' emoluments

Society 2013	Salary / Fees £	Bonus £	Benefits £	Sub Total £	Payments to defined contribution scheme £	2013 Total £	2012 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	18,750
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	18,750
S W Haggerty (retired 30 April 2013)	6,292	-	-	6,292	-	6,292	18,750
K O Romney (appointed 24 May 2013)	12,850	-	-	12,850	-	12,850	-
D J Wood	19,125	-	-	19,125	-	19,125	18,750
R D Wood	26,000	-	600	26,600	-	26,600	26,450
Executive							
M J Reason	134,283	12,133	23,900	170,316	-	170,316	153,615
J P Mulvey	93,392	10,716	11,418	115,526	28,441	143,967	129,130
	350,254	22,849	35,918	409,021	28,441	437,462	384,195

Mutuals come out on top

Mutually owned providers score significantly higher than banks in three key consumer satisfaction indicators – trust, value for money and recommendation - according to a survey commissioned by the Building Societies Association (BSA) recently.

“It’s encouraging to see from this research the mutual difference,” says Martin Reason, Chief Executive, the Melton. “Trust, value for money and recommendation are naturally key influencers when choosing which organisations to save and borrow with.”

Trust

Value for money

Recommendation

- 62 per cent of consumers say that they trust their mutual provider to act in their best interests
- 42 per cent of consumers say the same of their bank
- 66 per cent of consumers say that their mutual provider gives them value for money
- 45 per cent say the same of their bank
- 79 per cent of consumers would recommend their mutual financial services provider to a friend
- 60 per cent say the same of their bank

Source: YouGov Plc 7 October 2013.

Moneyfacts
Four Star Rating
Melton Mowbray Building Society
3 Year Discounted Variable rate 4.69%
22031714

Discounted mortgages

You'd be surprised what you can find on your high street

Low deposit 4.69% discounted rate

A variable rate, currently 4.99% with discount of 0.30%, giving current rate of 4.69%, followed by the Society's Standard Variable Rate, currently 4.99%, for the remaining term of the mortgage.

The overall cost for comparison is 5.1% APR.

Build your dream

You'd be surprised what you can find on your high street

The Melton's Self-Build and Renovation Mortgage makes financing your project simple

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE



For further information call in to your local branch, call 01664 414141 or visit www.themelton.co.uk



Looking for home insurance?

We take the leg work out of finding insurance

Our panel of insurers offer the same policy coverage and compete to offer **you** the most competitive quote!

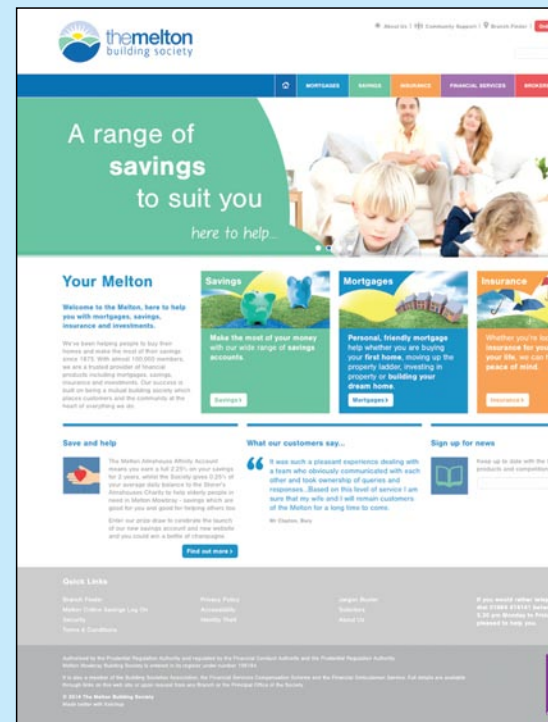
This applies whether you want buildings insurance, contents insurance, or both

the Melton Home Insurance

The selling and administration of the Melton Home Insurance is undertaken by Melton Mowbray Building Society (MMBS) and Heath Lambert Insurance Services (HLIS), which is a trading name of Heath Lambert Limited (HLL). MMBS and all panel insurers are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, MMBS register number 106184. Heath Lambert Limited is authorised and regulated by the Financial Conduct Authority.

New look website.....

Our new look website will be going live early in the Spring. The site has been redeveloped to more accurately reflect our mission statement and make it easier for our customers to use. To mark the launch we will be opening a new savings account – the Melton Almshouse Affinity Account - and to celebrate we're giving away award winning Dickinson & Morris genuine Melton Mowbray Pork Pies in a special prize draw. Visit www.themelton.co.uk early in the Spring to find out more.



Be the first!

Be the first to hear about new products, events and competitions at the Melton by email. To receive emails from us we need your permission. We will only contact you with information we think will be of interest to you, and we will not share your details with other companies.

Sign up today – either hand your email details to a member of staff at your local branch, or visit our new website www.themelton.co.uk early in the Spring and sign up online.

Community Support

The Melton is dedicated to supporting the communities in which we live and work as we understand the positive effect that comes from people working together. As a local organisation, we believe we have a responsibility towards our community and its economy. Our involvement is not only financial, we also offer our business expertise and the time of our staff who work with various charities and community groups to help make a difference. To support this commitment the Society makes donations to various organisations in the community.

Charity of the Year 2014

Every year, our staff take a vote to select the Society's official charity of the year. This year the Society is pleased to be supporting The Melton Project, a Praxis Care Scheme.

The Melton Project, based on Dalby Road, Melton Mowbray is a four bed short breaks home for children and young people with learning disabilities and challenging behaviours between the ages of six and nineteen years. The Project currently provides a service to approximately twenty-two local families across Leicestershire and Rutland.



Melton Mowbray Swimming Club 50th Anniversary

The Society is proud to be associated with the Melton Mowbray Swimming Club and in January was pleased to help purchase golden swim hats to mark the Club's 50th Anniversary.



Support for Charity

The Society and its staff are constantly raising funds for national charities as well as the more local ones. These include Comic Relief, NSPCC, Macmillan Cancer Support, British Heart Foundation, Marie Curie, Wear it Pink Breast Cancer Campaign and Children In Need. During 2013, the Society made donations totalling over £40,000 in support of local and national charities and community organisations.



Important Information

FINANCIAL SERVICES COMPENSATION SCHEME

Important information about compensation arrangements

We are covered by the Financial Services Compensation Scheme (FSCS). The FSCS can pay compensation to depositors if a building society is unable to meet its financial obligations. Most depositors - including most individuals and small businesses - are covered by the scheme.

In respect of deposits, an eligible depositor is entitled to claim up to £85,000. For joint accounts each account holder is treated as having a claim in respect of their share so, for a joint account held by two eligible depositors, the maximum amount that could be claimed would be £85,000 each making a total of £170,000. The £85,000 limit relates to the combined amount in all the eligible depositor's accounts with the building society, including their share of any joint account, and not to each separate account.

For further information about the scheme (including the amounts covered and eligibility to claim) please ask at your local branch, refer to the FSCS website www.FSCS.org.uk or call 020 7892 7300.

- Please ensure that you keep your personal details held with the Society up to date.

The Society may wish to keep you informed of marketing initiatives from time to time. We will use various marketing methods in this respect, namely, telephone, letter/direct mail, email or third party. If you do not wish to be contacted by any particular method, please let us know. Please note that any instruction received will supersede any existing instruction held in our records.

- The Society's current savings interest rates are available on request from our Principal Office or Branches. They are also shown on our website at www.themelton.co.uk.
- Online Security - For those members who use online facilities, including email, please note that Melton Mowbray Building Society will not issue emails to you requesting personal information or details of passwords and accounts numbers. We would appreciate you letting us know if you ever receive such a request. We would also draw your attention to being vigilant in respect of internet security including identity theft and internet fraud generally. We would draw your attention to the security information in the online savings log in and suggest you read this information on a regular basis.

Your Executive Management Team

Martin Reason - Chief Executive

John Mulvey - Finance Director

Phil Relf - Director of Risk & Compliance

Christopher Rowley - Director of Operations

Siân Gant - Financial Controller

Steve Clayton - Group IT Manager

Debbie Flint - Retail Operations Manager

Marcus Paul - Society Secretary

Melanie Swainston - Marketing Manager

Offices of the Society

Principal Office

Mutual House, Leicester Road, Melton Mowbray, Leics., LE13 0DB

Tel: 01664 414141 Fax: 01664 414040

E-mail: melton@mmbs.co.uk

Branch Offices

Melton Mowbray Branch

18 Nottingham Street, Melton Mowbray, Leics., LE13 1NW.

Tel: 01664 480214

Jonathan Saint - Branch Manager

Grantham Branch

48 High Street, Grantham, Lincs., NG31 6NE.

Tel: 01476 564528

Dawn Wright - Branch Manager

Oakham Branch

23 High Street, Oakham, Rutland, LE15 6AH.

Tel: 01572 757911

Lisa Poyzer - Branch Manager

Office Hours:

9.00 am - 5.00 pm Monday to Friday

9.00 am - 12 noon Saturday (Branches only)

www.themelton.co.uk



themelton
building society
here to help...

The Melton Mowbray Building Society is Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.