

SUMMARY FINANCIAL  
REPORT

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2014



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Conduct Authority and Prudential Regulation  
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### **PAGES 5-14 CONSTITUTE THE SUMMARY FINANCIAL STATEMENT**

DIRECTORS	J.P. Allen	ACIB Dip FS
	H.F. Baines	LLB
	I.A. Dewar	FCA
	C.W. Gee	FCA
	D.A. Harding	JP BA MPhil FCMA
	P.A. Lynch	
	F.B. Smith	LLB
	J. Smith	FCCA
CHAIRMAN	D.A. Harding	JP BA MPhil FCMA
CHIEF EXECUTIVE	A. Hodges	FCMA GCMA
SECRETARY	G.B. Honeyborne	MBA CA(SA) FCMA

## SUMMARY CHAIRMAN'S STATEMENT

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I am pleased to report that in the twelve months ending 31 December 2014 the Society and its subsidiaries recorded a profit before tax and compulsory FSCS levy of £4.7m compared with a loss of £1.1m in the preceding year. Profit after tax and FSCS levy was £4.5m (2013: £7.1m loss). The Group added £3.9m to its reserves.

The traditional mortgage business performed well with arrears declining by 7%. The Society worked closely with those members with mortgage accounts in arrears and, in the main, was able to reach a satisfactory solution. The Society continued to manage closely the two non-traditional mortgage books, the Spanish Lifetime book and the book where it holds a beneficial interest, that have required significant additional provisions in the past. In 2014, these mortgage books performed in line with expectations and no exceptional provisions were required.

During the period under review the Society invested in improvements to its management information systems, strengthened the finance and compliance areas and saw its level of complaints reduce significantly. As a result of these enhancements, management expenses as a percentage of mean total assets increased from 0.83% to 1.05% but are expected to fall in the forthcoming year as efficiency gains are realised.

The Society's liquidity position remained strong throughout the year. Despite interest rates remaining at unprecedented low levels, the Society successfully maintained savings rates on the majority of its product range, with rates paid on other savings products reducing in line with general market movements. The two main retail product launches during 2014 generated inflows of £29.2m of new funds. Mortgage assets decreased by 14.7% during the year as the Society continued to reduce the scale of its operations to conserve capital.

Looking ahead, the Society is drawing up plans to re-enter the mortgage market in the coming months subject to Board approval. It seems likely that the current low level of interest rates will continue for some time and this, coupled with the ever increasing cost of regulation, will put pressure on the rates which can be offered to savers. Your Board is confident, however, that the Society is well positioned to provide returns offering members fair value.

As reported in the last Annual Report, Mrs Fiona Smith, General Counsel at the National Employment Savings Trust, joined the Board on 1 January 2014. Mr Bob Dyson retired as a non-executive director of the Society on 16 June 2014 after 6 years' service. Mr Joe Smith, non-executive director, will retire from the Board at the conclusion of the 2015 Annual General Meeting, after 9 years' service. I should like to thank them both for their service to the Society. Mr Harry Baines who joined the Board in August 2013 became Vice-Chairman with effect from June 2014.

Finally I should like to thank all members of staff for their continued strong contribution during the year.

**D. A. Harding**

Chairman

5 March 2015

## SUMMARY FINANCIAL STATEMENT

### FOR THE YEAR ENDED 31 DECEMBER 2014

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This financial statement is a summary of information which is contained in the audited Annual Accounts, the Directors' Report and Annual Business Statement for the year ended 31 December 2014, prepared using International Financial Reporting Standards, all of which will be available to members and depositors free of charge on demand at every office and agent of Manchester Building Society from 31 March 2015 and at [www.themanchester.co.uk](http://www.themanchester.co.uk).

Approved by the Board of Directors of the Society on 5 March 2015 and signed on its behalf by:

D.A. Harding  
Chairman

A. Hodges  
Chief Executive

C.W. Gee  
Finance Director

## SUMMARY DIRECTORS' REPORT

### Introduction

The Group consists of the Society and its two wholly owned subsidiaries: MBS (Mortgages) Limited and MBS (Property) Limited; further, under the terms of IFRS 10 Consolidated Financial Statements, this set of Financial Statements includes the consolidated positions of NMB Mortgage Acquisition Company Limited (in administration) and Consumer Loans Company Limited (in administration), where the Group exerts control notwithstanding that it holds no shares in either entity.

The Group's strategy and results for the year are covered in detail in the sections that follow, along with the principal risks and uncertainties that the Group faces.

### Strategy

The Society is owned by its members. The means by which its value is preserved is by providing products that meet the financial needs of both existing and potential members. Offering a safe home for individual and corporate deposits and making mortgage funding available on a cautious, controlled and appropriately remunerated basis allow for a suitable net interest margin to be reported, which in turn funds the increase in reserves.

The Group's strategy for 2013 and 2014 has been to reduce its risks and conserve its regulatory capital. Risk reduction has been achieved via the disposal of the Society's non-strategic UK lifetime mortgage assets and the consideration of strategic disposals of other mortgage assets (conditional on suitable offers). The Board's strategic aim in this regard has been to move the Society's risk profile away from those legacy asset-positions that carried higher regulatory capital risk weightings.

Regulatory capital conservation has been achieved through the combined actions of mortgage book shrinkage and seeking improvements in the Society's regulatory capital position. The former has been achieved by the curtailment of new mortgage lending during 2014, whilst the latter has been delivered via the active management of net interest margins and overhead management.

The Society has progressed through a period of transition; it has re-balanced the mortgage book through divestment and no new lending, it has seen improvement in 2014 in its retained reserves and it has streamlined its operational overheads. Accordingly, in consultation with its regulators, it is the Board's strategy to see a return to new lending in 2015, with a slimmed-down, lower cost business focused on serving its core membership through suitably low-risk savings and mortgage products. The Board is mindful of ongoing economic uncertainties, including the potential for interest rate rises, as well as the need to test the developing business model in light of the competitive environment in which the Group operates. The Board is seeking to develop plans that appropriately reflect the Group's ability to meet these challenges.

### Business Model

The principal objectives of the Group remain the provision of competitive facilities for personal savings and for mortgage finance primarily to support owner occupation of residential property.

Emphasis in achieving these principal business objectives is placed on offering a secure home for retail depositors' savings and on high standards of customer services to support the Group's range of products.

### Key performance indicators

Key performance indicators ("KPIs") monitored by the Board include the following:

- Capital
- Liquid assets
- Customer balances
- Mortgages and other loans
- Management expenses
- Profit

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The KPIs are considered in more detail in the sections that follow below, with indications as to why each metric is considered to be of importance in assessing financial performance. Additional commentary on the Group's performance is contained within the Summary Chairman's Statement.

#### Review of the Business

#### PROFITABILITY

**Result for the year:** The Group reported a pre-tax profit for the year of £4.3m (2013: £1.6m loss).

**Net Interest Income:** The Group's net interest income was:

	2014 £000	2013 £000
Interest receivable and similar income	18,609	27,354
Interest payable and similar charges	(7,973)	(12,947)
Net interest income	<u>10,636</u>	<u>14,407</u>

The level of interest earned on mortgages and loans (2014: £17.6m; 2013: £24.0m) was lower in 2014 compared to 2013 due to lower mortgage balances; interest on investment securities was lower (2014: £0.4m; 2013: £1.1m) owing to a reduction in the level of securities held.

Interest paid to savings members reduced from £10.2m in 2013 to £5.8m in 2014, reflecting the combined impact of lower interest rates paid on a reducing savings book (2014: £389.5m of balances owed to members compared with £502.6m at 31 December 2013).

The range of savings and mortgage products was similar to those of previous years, which allows for ready year on year comparison of the net interest income result.

- **Other income and other charges:** A notable element of other income is the return that the Group earns on its investment securities; the income on these securities reduced during 2014 as a result of holding a lower level of such investments (2014: £15.6m; 2013: £23.1m). The reduction in the level of investment securities arose through the natural maturity of instruments, with replacement instruments not being sourced. At the maturity date of each instrument, the Society received the full principal balance and all interest due, but as the Group fair values its investment securities it recorded a fair value loss on these financial instruments during 2014 of £0.3m (2013: £1.1m loss).
- **Administrative expenses:** The Group's administrative activities were broadly unchanged from those of the previous year. Overhead and depreciation expenditure increased from £5.9m to £6.1m.
- **Impairment losses:** Impairment losses in 2014 saw a credit of £33k (2013: cost of £8.7m). All elements of the Group's mortgage and loan books were tested for impairment during the year and all impairment provisions were re-assessed. The level of impairment charge recorded during 2014 was significantly lower than that of 2013, as the comparative year had seen large charges being recorded for assets where the Group held a beneficial interest and also the Society's lifetime mortgage assets; the impairment charges recorded on these books for 2014 were a credit of £1.1m (2013: charge of £6.7m) and a charge of £0.3m (2013: charge of £0.9m) respectively.

#### FINANCIAL POSITION

- **Liquid Assets:** The Group's liquid assets are deposited with the Bank of England and with UK "High Street" banking counterparties in either instantly accessible bank accounts, or in investment securities that can be converted into cash in a very short period of time, notably Certificates of Deposit or Medium Term Notes. Of the Society's total liquid funds at the year end, £63.1m was deposited with the Bank of England (2013: £95.7m) and £10.0m was held in UK Treasury Bills (2013: nil). The liquidity position at December 2013 was inflated as a result of the receipt of the proceeds of the sale of the Society's UK lifetime mortgages which occurred mid-December 2013; the position at December 2014 reflects a more business-as-usual level of deposit with the Bank of England.
- **Mortgages and Other Loans:** Group mortgage balances, after provisions, were £387.4m (2013: £454.0m), representing a year on year decrease of 14.7% (2013: 20.4% reduction). Further, to seek improvement in its regulatory capital position, the Society made no advances during the year (2013: £10.1m).

The Group has continued in its efforts to minimise mortgage arrears and to help borrowers in difficulties to resolve their situations, taking a consultative approach with borrowers who experience payment difficulties and applying forbearance as appropriate. At 31 December 2014 there were 14 mortgage accounts (2013: 18) where payments were 12 or more

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### FOR THE YEAR ENDED 31 DECEMBER 2014

months in arrears, excluding the second charge portfolio. Outstanding balances on these accounts amounted to £5.4m (2013: £6.0m) with total arrears of £0.8m (2013: £0.7m), representing 0.3% of total mortgage balances (2013: 1.3%). There were 9 properties in possession at the end of the year (2013: 18). These figures represent assets where the Group holds legal title.

Provisions for potential mortgage losses have been calculated by assessing impairment indicators, arrears and forbearance positions and historic loss experience. Mortgage accounts in arrears by 3 months or more are reviewed regularly and the impairment provision requirements are reviewed periodically.

- **Other Assets:** Included within Other Assets is a sum of £0.5m (2013: £1.1m) relating to collateral deposited in the form of cash under credit support annex agreements ("CSA") with the Group's counterparty providers of foreign exchange derivative contracts, being FX swaps.
- **Retail Balances:** Retail balances reduced to £389.5m (2013: £502.6m) in proportion to the overall reduction in the balance sheet. The range of savings products available during the year was carefully managed in order to ensure that a suitable level of funding was held and that the rates offered were appropriately competitive.
- **Capital:** The purpose of the Group's capital is to support its mortgage book and to absorb any losses that may arise, thereby offering members protection as a regulated deposit taker. Following the implementation of CRD IV, from 1 January 2014 the extent to which remunerated capital instruments may be included within regulatory capital changed. The Board manages capital within the regulatory limits set by the PRA, with the regulatory capital positions at 31 December 2014 and 31 December 2013 being:

	Group under CRD IV 2014 £000	Group under CRD IV 2013 £000	Group under BASEL II 2013 £000
<b>Tier 1 Capital</b>			
Retained earnings	754	(1,374)	(1,374)
Deductions	(3,030)	(2,867)	-
Profit Participating Deferred Shares	17,461	17,461	17,461
<b>Total CET 1 Capital</b>	<b>15,185</b>	<b>13,220</b>	<b>16,087</b>
Permanent Interest Bearing Shares	11,831	13,309	14,788
<b>Total Tier 1 Capital</b>	<b>27,016</b>	<b>26,529</b>	<b>30,875</b>
<b>Tier 2 Capital</b>			
Collective provisions	2,850	3,327	13,688
Permanent Interest Bearing Shares	2,958	1,479	-
Subordinated Debt	13,255	14,500	14,500
<b>Total Tier 2 Capital</b>	<b>19,063</b>	<b>19,306</b>	<b>28,188</b>
<b>Total Regulatory Capital</b>	<b>46,079</b>	<b>45,835</b>	<b>59,063</b>

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Since the start of 2014, movements in capital have arisen from:

	£000	£000
Position at 31 December 2013		59,063
Adjustments arising from transition from Basel II to CRD IV:		
- Reduction in collectively identified provisions	(10,361)	
- Deductions from CET 1 capital	<u>(2,867)</u>	
		(13,228)
Position at 1 January 2014 assessed under CRD IV		45,835
Amortisation of Subordinated Debt during the year		(1,245)
Movements arising from 2014 trading activities		
- Increase in retained earnings	2,128	
- Movement in collectively identified provisions	(477)	
- Deductions from CET 1 capital	<u>(162)</u>	
		1,489
Position at 31 December 2014 assessed under CRD IV		<u>46,079</u>

The transition from BASEL II to CRD IV has seen a change in the extent to which capital items may be included in the different tiers of regulatory capital, which has reduced the level and changed the mix of the Society's Tier 1 and Tier 2 capital. The following items arose as a result in the CRD IV rules, compared to the BASEL II rules:

- Collectively identified provisions may be included in Tier 2 capital but they are subject to a maxima of 1.25% of Risk Weighted Assets
- Deferred tax assets may be carried subject to a maxima and any on-balance sheet amount greater than this maxima needs to be deducted in determining the CET 1
- Subordinated debt that does not meet certain criteria needs to be amortised out of Tier 2 capital over a 9 year period

Under CRD IV, Common Equity Tier 1 ("CET1") is a newly introduced metric and includes retained earnings, fully loss-absorbing capital instruments and it is subject to certain calculated deductions (for example in relation to deferred tax assets). As PIBS are not classified as fully loss-absorbing under CRD IV, they are amortised out of Tier 1 Capital and into Tier 2 capital over a period of 9 years.

When the new CRD IV rules came into effect on 1 January 2015 the Society held sufficient capital in tier 1 and tier 2 to meet all of the requirements, save for one. The requirement that was not met compares the Society's CET 1 capital to overall capital that the PRA requires the Society to hold. As a result of the mix of the Society's capital it fell marginally short of one of the new CRD IV requirements. The Board's financial projections indicate that this position corrects itself during 2015. The Society continues to focus on rebuilding its capital position and is satisfied with the progress that is being made, which is in line with Board forecasts.

The Board is focused on further actions to reduce risk and rebuild reserves, as demonstrated by the reduction in the mortgage asset base and the sale of the UK lifetime mortgage portfolio in December 2013.

The Group's gross capital improved from 7.3% at 31 December 2013 to 10.4% at 31 December 2014. The free capital at 31 December 2014 was 11.4% (2013: 8.2%).

#### Financial Risk Management Objectives

The Group offers mortgage and savings products. It undertakes limited interaction with the wholesale money market for cashflow and liquidity management purposes. There are formal structures in place to monitor, report and manage the risks associated with the Group's operations. The Board seeks to manage the risks that the Group faces through a suite of regularly reviewed and approved policies, covering: Credit, Liquidity, Financial Management Risk and Operational Risk.

#### Principal Risks and Uncertainties

Every business faces risks as part of its day-to-day operation. The Board's risk management objectives are to seek to minimise the risks that the Society faces, by articulating that it has a low appetite for risk and by deploying a range of risk



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### FOR THE YEAR ENDED 31 DECEMBER 2014

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management policies and procedures within an appropriate control environment in order to achieve such an outcome.

It is recognised that there is always a possibility of the non-repayment of sums due to the Group, which could arise from a variety of borrower or counterparty circumstances. In order to ensure that the Group does not expose itself to too great a level of risk, the Group's strategies, policies, procedures and Board approved risk appetites allow all of its directors and staff to focus on those areas that could expose the Group to wider loss.

The principal risks and uncertainties facing the Group are credit risk, insurance risk, liquidity risk, interest rate risk and currency risk. Certain aspects of the macroeconomic environment also influence the risks that the Society faces. The Board believes that the profile of risks that the Society will face in 2015 is similar to those experienced during 2014.

The principal risks that the Group faces are summarised below:

- **Credit Risk:** The Group is exposed to the risk that it may not receive back in full any sum that has been borrowed (in relation to loans and advances) or any sum that it has deposited with a banking counterparty (in relation to liquid assets) when such amounts fall due. The Board monitors credit risk, underlying security values and the level of impairment provisions on a regular basis. Credit risk presents as more of a consideration in relation to loans and advances than in relation to the Society's liquid assets; the former involve relationships with individuals or small businesses, whilst the latter are far fewer in number, being restricted to either the Bank of England or UK High Street banks, where credit risk is assessed as being very low.

The assessment of credit risk and the related impairment provisioning is a critical accounting estimate, impacted by judgments relating to customer affordability and the impact of economic circumstances, including the level of interest rates.

Credit risk is mitigated by appropriate mortgage underwriting and by limiting the Group's exposure to particular market sectors or loans exhibiting particular attributes. Impairment provisions are made when it becomes evident that the Group is likely to incur losses. The Group holds a beneficial interest in a portfolio of mortgage assets, some of which are regulated by the Consumer Credit Act. The legal title of these loans remains with two third party businesses currently in administration, over which the Group exerts control. An assessment has been made of the estimated discounted future cash flows expected to arise from these loans which forms the basis for the impairment provision.

- **Insurance Risk:** Impairment assessments incorporate the insurance risk attaching to the Society's lifetime mortgage contracts, which are euro-denominated. The risk arises from a contractual term within the relevant mortgage contracts which precludes the Society from pursuing the borrower or their estate for any shortfall on redemption, in certain circumstances. The insurance provision is a critical accounting estimate, as its assessment is based on expected future outcomes relating to the date on which an account redeems which is expected to be on the death of the borrower, their move into care or through non-health related voluntary pre-payment. It is also affected by the assumptions made in relation to house price appreciation and depreciation. This means that the insurance risk provision can move by a material amount dependent upon these assumptions.

- **Liquidity Risk:** The Group's strategy is to maintain sufficient funds in unencumbered liquid form at all times to ensure that its liabilities can be met as they fall due. Regular stress testing of liquidity is undertaken by separately using 20 week and 3 month time horizons. The Group operates within closely monitored Board-approved liquidity policy limits, which are reviewed on a daily basis by the Group's Finance and Treasury departments, reported to the executive directors every week and considered by the Board each month. During 2014, the Group continued to have a significant proportion of its liquid assets deposited with the Bank of England. It should be noted that, by holding greater proportions of liquidity in Bank of England deposits (for regulatory purposes) liquidity yields are lower.

- **Capital Risk:** The level of capital that the Group is directed to hold by its regulator is driven by the nature of the Group's assets and the regulator's assessment of its risk profile. Regulatory capital includes retained earnings, PPDS, PIBS and subordinated debt. In order to ensure the Group continues to hold more capital than required, it is targeting the holding of assets that do not attract higher capital weightings and the return of post-tax profits to its general reserves. Shrinkage in the size of the mortgage book assists in this risk management process. This has been achieved by both organic reduction in the mortgage book and the sale in December 2013 of the UK lifetime mortgages. Following the implementation of CRD IV, from 1 January 2014 the extent to which remunerated capital instruments may be included within regulatory capital changed. The impact was that certain tranches of subordinated debt previously included within its regulatory capital are now amortised over a 9 year period. The Society has assessed the impact of the ongoing amortisation of these instruments and it is satisfied that, based on current projections, it will be able to meet its regulatory requirements without the need to issue further capital instruments.

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- Interest Rate Risk:** The Group's mortgage and savings products have different interest rate types and different maturities. This means that the Group is exposed to movements in interest rates. A movement in an external interest rate (e.g. Bank of England Base Rate or LIBOR) does not always affect every mortgage and savings product that the Society holds. The Society has more fixed rate mortgage products (notably its lifetime mortgages) than it has fixed rate savings products. Presently, there are no interest rate swaps in place. The interest rate risk position is monitored by the Risk Committee and the Board and is managed via the setting of internal policy limits and through the holding of an ascribed level of capital to mitigate the risk of interest rate movement. The disposal of the Society's UK lifetime mortgage book had a beneficial impact in reducing the overall level of interest rate risk, as it removed from the mortgage book approximately one third of the Group's fixed rate assets. The Board does not intend to hedge its remaining fixed rate mortgages using interest rate swaps at this time; this position is monitored regularly. A rise in interest rates gives rise to a risk of decreasing margins as a greater portion of the mortgage portfolio than the deposit portfolio is based on fixed rates. Liquidity risk can also be managed through changes in the interest rate of the deposit book.
- Currency Risk:** The Group faces currency movement risks on its Euro denominated mortgage balances which represent 11.0% of total mortgage assets as at 31 December 2014. The exchange rate risk arising on these balances is managed and mitigated by transacting exchange rate swaps. The exchange rate risk position is reported to the ALCO and Board each month.
- Economic Risk:** The Group faces the risk that its interest margin can become subjected to the pressure that is brought to bear from being an institution that is primarily funded through retail deposits. Within this market, there is great competition for attracting retail deposits at sustainable rates of interest. Market rates offered by retail institutions reduced following the launch of the Bank of England's Funding for Lending Scheme, but there is a risk that pressure may be applied to these rates as repayments are required under the Funding for Lending Scheme.
- Regulatory Risk:** As a regulated entity, the Group is exposed to risks arising from a failure to adhere to relevant regulation. In order to minimise this risk, the Group has deployed a number of risk management policies and procedures. Management, review and oversight are undertaken via the Board's various committees. The majority of the regulatory requirements that the Group faces are laid down by the PRA and the FCA. The Group monitors developments in all relevant aspects of financial service regulation and undertakes assessments of the present and future impacts of such. Appropriate actions are taken to strengthen controls and amend the Group's strategy to meet changing regulatory requirements.

Within the two third party portfolios instances of non-compliance with the CCA were identified. Legal advice in this regard has been incorporated within the assessment of the estimate of discounted future cash flows expected to arise from these loans which forms the basis for the impairment provision. The requirements of the CCA in respect to these issues have not been subject to significant judicial consideration to date. The Group has considered its legal and regulatory position with respect to these matters and has obtained external legal advice to support the views taken. Provisions of £375k for NMB MAC and £90k for CLC have also been made for potential refunds in respect of loans which have redeemed. It is not clear what regulatory position the FCA will adopt and there is no judicial certainty in the legal position. The actual results could therefore differ materially from our estimates.

## Diversity Matters

### Gender Analysis

Below is a table summarising permanent, employed members of Staff and Directors by gender at 31 December 2014, with comparative positions for the previous year end:

	31 December 2014		31 December 2013	
	Male	Female	Male	Female
Directors	7	1	8	0
Staff	20	20	20	23
Total	27	21	28	23

Given the size and scale of the Society's operations and its head count, it does not have any members of staff that would be considered for separate disclosure as "Senior Managers" in the above table.

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#### Social, Community and Human Rights Issues

**Stakeholders:** The Group's members, staff and other stakeholders are key to its success and it is committed to its policy of ensuring that all are treated fairly and equally at all times.

**Employees:** The Group's policies ensure that discrimination on the grounds of race, colour, religion, belief, nationality, ethnic origin, sex, sexual orientation, marital status, age, part time status and membership (or otherwise) of a trade union is not tolerated. Further, the Group also holds to its policy on disability, which is achieved via a wider policy approach to equal opportunity in the workplace. Training and development opportunities are presented to staff to allow them to acquire relevant professional qualifications, which, in turn, assist the Group in achieving its goals.

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#### Outlook

The Board's view is that the UK mortgage and savings markets will continue to be challenging over the short term as the impact of economic and inflationary pressures come to bear, including the potential for interest rate rises. It is expected that the Bank of England's Funding for Lending Scheme will result in further volatility in retail savings rates and consequently on the short term rates offered on new mortgage lending across the UK.

The continued prudential management of the Group's capital, interest rate risk, interest margin and liquidity will be areas of focus during 2015 and beyond.

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#### Directors

<b>J.P. Allen</b>	Non-executive director
<b>H.F. Baines</b>	Vice Chairman
<b>I.A. Dewar</b>	Non-executive director
<b>R.W. Dyson</b>	Non-executive director (resigned 16 June 2014)
<b>C.W. Gee</b>	Finance Director
<b>D.A. Harding</b>	Chairman
<b>P.A. Lynch</b>	Operations Director
<b>F.B. Smith</b>	Non-executive director (appointed 1 January 2014)
<b>J. Smith</b>	Non-executive director

At the Annual General Meeting Messrs Allen, Baines and Lynch will retire by rotation and being eligible, will offer themselves for re-election.

Joe Smith has indicated that he will step down from the Society's Board at the AGM.

At the year-end no director had an interest in any shares or debentures of the Society or its connected undertakings.

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#### Other matters

##### Charitable & political donations

The Society made charitable donations totalling £5k (2013: £5k) during the year. No contributions were made for political purposes.

##### Pillar 3 Disclosure

The Society's Pillar 3 disclosure, updated from time to time, may be located on its website.

##### Supplier payment policy & practice

The Society's policy concerning the payment of its trade creditors is as follows:

- to agree the terms of payment with a supplier
- to ensure that suppliers are aware of the terms of payment
- to pay invoices in conformity with the Society's contractual and other legal obligations

Trade creditors at 31 December 2014 amounted to 5 days of average supplies (2013: 9 days).

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#### Going concern

The directors must satisfy themselves that it is reasonable to conclude that the financial statements should be prepared on a going concern basis. The Group's business activities require it to manage carefully its liquidity and capital resources. In managing its key resources through the setting of Board policies and operating procedures, the directors are mindful of the principal risks and uncertainties that the Group faces, as summarised in the sections above.

The Board has continued to focus on de-risking the Group's balance sheet and to focus on the uncertainties that the business faces; it produces regular financial forecasts covering profitability, liquidity and regulatory capital ratios. The key areas of judgment in the December 2014 accounts, as reflected in the preceding drafting, relate to the sensitivity of the lifetime mortgage insurance risk provisions to changes in key estimates, the assessment of impairment risk in relation to mortgage assets, including the potential impact of interest rate rises on margins and customer affordability, and any further legal and regulatory risk which may be associated with the small portfolio of CCA regulated loans, over which the Society holds a beneficial interest.

The Board has performed scenario analysis to consider eventualities using more pessimistic business and economic assumptions than those used in its Corporate Plan Financial Forecasts, including stresses applied to the interest margin and the cost base in order to demonstrate that the Group is able to meet its regulatory capital position over the Corporate Planning period.

Based on the output of the Board's projections, strategic review of the business, scenario analysis and through its regular discussions with the PRA (which include dialogue relating to its regulatory capital and corporate planning forecasts), the Board has a reasonable expectation that the Group will continue to operate on a going concern basis.

#### Events since the Year End

During February 2015, the Society exchanged contracts with Legal and General Group plc to sell its 19.9% ordinary shareholding in New Life Home Finance Limited; the Society invested £250k in these ordinary shares in 2005. The transaction is subject to regulatory approval by the FCA. Completion is expected during the first half of 2015, at which point the Society would receive consideration of £995k.

#### Independent Auditors

In accordance with Section 77 of the Building Societies Act 1986 a resolution for the re-appointment of PricewaterhouseCoopers LLP will be proposed at the Annual General Meeting.

On behalf of the Board of Directors

D.A. Harding  
Chairman  
5 March 2015

SUMMARY FINANCIAL STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2014

RESULTS FOR THE YEAR	Group		Society	
	2014	2013	2014	2013
	£000	£000	£000	£000
Net interest income	10,636	14,407	10,247	13,547
Other income and charges	10	93	564	881
Fair value losses	(305)	(1,463)	(305)	(1,463)
Administrative expenses	(6,072)	(5,907)	(5,508)	(5,423)
Impairment losses	33	(8,706)	(3,750)	(7,646)
Profit/(loss) for the year before taxation	4,302	(1,576)	1,248	(104)
Taxation	150	(5,517)	376	(5,645)
<b>Profit/(loss) for the year</b>	<b>4,452</b>	<b>(7,093)</b>	<b>1,624</b>	<b>(5,749)</b>
Payment to equity holders	(675)	(675)	(675)	(675)
Tax credit on payment to equity holders	135	135	135	135
<b>Transfer to reserves</b>	<b>3,912</b>	<b>(7,633)</b>	<b>1,084</b>	<b>(6,289)</b>

FINANCIAL POSITION AT THE END OF THE YEAR	Group		Society	
	2014	2013	2014	2013
	£000	£000	£000	£000
Assets				
Liquid assets	104,820	177,047	104,769	176,997
Mortgages	385,715	451,919	377,150	443,733
Other loans	1,657	2,128	1,657	2,128
Derivative financial instruments	2,146	582	2,134	582
Fixed and other assets	14,409	14,754	22,229	25,159
<b>Total assets</b>	<b>508,747</b>	<b>646,430</b>	<b>507,939</b>	<b>648,599</b>
Liabilities				
Shares	389,475	502,586	389,475	502,586
Borrowings	68,454	96,828	68,454	96,828
Other liabilities	3,010	2,500	2,547	2,186
Derivative Financial Instruments	-	620	-	620
Subordinated capital	15,700	15,700	15,700	15,700
Subscribed capital	5,000	5,000	5,000	5,000
Subscribed capital##	9,788	9,788	9,788	9,788
Profit participating deferred shares##	17,461	17,461	17,461	17,461
Reserves##	(141)	(4,053)	(486)	(1,570)
<b>Total liabilities</b>	<b>508,747</b>	<b>646,430</b>	<b>507,939</b>	<b>648,599</b>
## Classifies as equity				

SUMMARY OF KEY FINANCIAL RATIOS	Group		Society	
	2014	2013	2014	2013
	%	%	%	%
Gross capital as a percentage of shares and borrowings	10.44	7.32	10.36	7.74
Liquid assets as a percentage of shares and borrowings	22.89	29.54	22.88	29.53
Profit/(loss) for the year as a percentage of mean total assets	0.77	(1.00)	0.28	(0.81)
Management expenses as a percentage of mean total assets	1.05	0.83	0.95	0.76

## SUMMARY FINANCIAL STATEMENT

### FOR THE YEAR ENDED 31 DECEMBER 2014

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#### NOTES TO THE SUMMARY FINANCIAL STATEMENT

1. Summary Financial Statement is prepared on both a Group and Society basis.
2. The gross capital ratio measures the proportion by which capital bears to shares and borrowings. Gross capital consists of retained profits, accumulated over many years in the form of reserves, Permanent Interest Bearing Shares, Profit Participating Deferred Shares and qualifying subordinated liabilities.
3. The liquid assets ratio measures the proportion that assets held in the form of cash and short-term deposits bears to shares and borrowings. By their nature, liquid assets are readily realisable into cash and thereby enable the Group and Society to meet requests by its investors for withdrawals on their accounts, to make new mortgage loans to borrowers and to fund its business activities generally.
4. The profit for the year as a percentage of mean total assets measures the proportion that the profit after taxation for the year represents in relation to the average of total assets for the year.  

The Group and Society need to make a reasonable level of profit each year in order to fund the continued development of its business whilst maintaining its capital ratio at a suitable level to protect investors.
5. The management expense ratio measures the proportion that administration expenses bears to the average of total assets during the year.

## INDEPENDENT AUDITORS' STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

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### INDEPENDENT AUDITORS' STATEMENT ON THE SUMMARY FINANCIAL STATEMENT TO THE MEMBERS OF MANCHESTER BUILDING SOCIETY

We have examined the Summary Financial Statement of Manchester Building Society (the 'Society') set out on pages 5 to 14.

#### Respective responsibilities of directors and auditors

The directors are responsible for preparing the Summary Financial Statement, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full Annual Accounts, the Annual Business Statement and the Directors' Report and its compliance with the relevant requirements of Section 76 of the Building Societies Act 1986 and the regulations made under it.

We also read the other information contained in the Summary Financial Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement. The other information comprises only the Summary Chairman's Statement, Summary Directors' Report, Summary Directors' Remuneration Report and the other items listed on the contents page.

This statement, including the opinion, has been prepared for and only for the Society's members as a body in accordance with Section 76 of the Building Societies Act 1986 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### Basis of opinion

Our examination involved agreeing the balances in the Summary Financial Statement to the full Annual Accounts. Our report on the Society's full Annual Accounts describes the basis of our audit opinion on those Annual Accounts, the Annual Business Statement and the Directors' Report.

#### Opinion

In our opinion the Summary Financial Statement is consistent with the full Annual Accounts, the Annual Business Statement and the Directors' Report of Manchester Building Society for the year ended 31 December 2014 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986, and the regulations made under it.

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Manchester

5 March 2015

### Introduction

The purpose of this report is to provide details of the Group's policy on the remuneration of its executive and non-executive directors and to explain the process for setting the level of directors' remuneration.

### Remuneration and Nominations Committee

The Remuneration and Nominations Committee is responsible for the remuneration policy for all of the directors; it also reviews the remuneration of certain managers. All recommendations made by the Remuneration and Nominations Committee are considered by the full Board. The Committee has regard to best practice as set out in the UK Corporate Governance Code and with the PRA Remuneration Code to the extent that it is relevant to the Society, given that the Society is a mutual institution.

### Executive directors

Remuneration levels are set for executive directors so as to reward and retain the skills and commitment necessary to manage the development of the Group within a competitive and challenging business sector. In accordance with best practice, the Remuneration and Nominations Committee reviews the remuneration arrangements for the executive directors on a periodic basis and compares their range of benefits to those available within similar organisations. The Committee's objective is to promote suitable risk management arrangements, avoiding remuneration structures that promote excessive risk taking.

Their remuneration arrangements include:

- salaries, reviewed by the Committee on an annual basis
- membership of the Group personal pension scheme, on the same terms as other eligible employees of the Group
- taxable benefits which include a car allowance and private health care

Since 1 January 2011 there have been no bonus arrangements in place for any executive director.

No executive director holds a contract with a notice period of more than 12 months.



## SUMMARY DIRECTORS' REMUNERATION REPORT

Executive directors 2014	Salary	Pension Contributions	Benefits	Total
	£000	£000	£000	£000
C.W. Gee	117	14	11	142
P.A. Lynch	117	14	11	142
	<b>234</b>	<b>28</b>	<b>22</b>	<b>284</b>

2013	Salary	Pension Contributions	Benefits	Total
	£000	£000	£000	£000
D.E. Cowie (retired 5 June 2013)	143	43	7	193
C.W. Gee	117	14	11	142
P.A. Lynch	117	14	11	142
I.M. Richardson (resigned 28 June 2013)	208*	7	5	220
	<b>585</b>	<b>78</b>	<b>34</b>	<b>697</b>

\* Includes £149k for compensation for loss of office.

The role of Chief Executive officer is held by Allan Hodges on an interim basis. Allan Hodges is not a director of the Society and his services are provided by Lamjam Ltd. The Society entered into a service agreement with Lamjam Ltd on 29 April 2013 and paid £280k inclusive of VAT during 2014 (2013: £175k).

### Non-executive directors

Non-executive directors are remunerated by way of fees, which are recommended by the Remuneration and Nominations Committee to the Board on an annual basis. The level of fees is assessed on the basis of responsibility, experience, skill and time commitment and by comparison with other building societies and regional financial institutions.

Non-executive directors do not receive any other benefits; they do not have any pension arrangements through the Group.

A summary of the non-executive directors' remuneration is shown below:

	Fees 2014 £000	Fees 2013 £000
J.P. Allen	29	29
H.F. Baines (appointed 30 August 2013)	32	10
I.A. Dewar (appointed 30 August 2013)	29	10
R.W. Dyson (resigned 16 June 2014)	13	29
A. Finch (resigned 31 December 2013)	-	29
D.A. Harding (appointed 17 April 2013)	72	51
S.M. Molloy (resigned 12 June 2013)	-	13
M.J. Prior (resigned 17 April 2013)	-	17
F.B. Smith (appointed 1 January 2014)	28	-
J. Smith	32	36
	<b>235</b>	<b>224</b>
<b>Total directors' emoluments</b>	<b>2014</b> £000	<b>2013</b> £000
Executive directors	284	697
Non-executive directors	235	224
<b>Total directors' emoluments</b>	<b>519</b>	<b>921</b>

The Group does not make mortgage loans available to any director.

## CONTACT DETAILS

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### Branch

Queens Court  
24 Queen Street  
Manchester  
M2 5HX

Telephone: 0161 923 8065

### Agencies

Please see our website at: [www.themanchester.co.uk](http://www.themanchester.co.uk) for the most up to date list of our agencies.

### Savings Customer Services

Telephone 0161 923 8065  
Fax 0161 923 8954

Post Manchester Building Society  
Savings  
PO Box 4256  
Manchester  
M60 3AX

### Mortgage Customer Services

Telephone 0161 923 8030  
Fax 0161 923 8951

Post Manchester Building Society  
125 Portland Street  
Manchester  
M1 4QD





125 Portland Street  
Manchester M1 4QD  
Tel 0161 923 8000  
Fax 0161 923 8950  
Web [www.themanchester.co.uk](http://www.themanchester.co.uk)

*Authorised by the Prudential Regulation  
Authority and regulated by the Financial  
Conduct Authority and Prudential Regulation  
Authority*

*Member of the Building Societies Association*

*Member of the Council of Mortgage Lenders*