SUMMARY FINANCIAL REPORT

2017

Manchester
BUILDING SOCIETY

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

Member of the Building Societies Association

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DIRECTORS	J.P. Allen (retired 31 December 2017)	ACIB Dip FS
	H.F. Baines	LLB
	I.A. Dewar	FCA
	D.A. Harding	JP BA MPhil FCMA
	P.A. Lynch	
	F.B. Smith	LLB
CHAIRMAN	D.A. Harding	JP BA MPhil FCMA
SECRETARY	C.W. Gee	FCA

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SUMMARY CHAIRMAN'S STATEMENT

In the twelve months ended 31 December 2017 the Society and its subsidiaries (the "Group") recorded an operating profit before impairments and provisions of £1.6m compared with £0.5m in the preceding twelve months. There was a modest increase in net interest income despite the continued reduction in the size of the loan book which fell 13% from £289m to £251m. There was a corresponding reduction in funding from £340m to £265m.

Administrative expenses (including depreciation) of £8.0m were lower than the £8.7m in the previous year. This total included £2.5m (2016: £1.0m) for legal costs associated with the claim against Grant Thornton, the Society's previous auditors, concerning matters which were fully described in the Group's 2012 Annual Report and Accounts. The resulting trial commenced in January 2018; judgment is not expected for some months.

The Society's €58m Spanish Lifetime portfolio originated between 2008 and 2010 required a further provision of £2.8m in the year (2016: £1.6m) owing to adverse external factors, including exchange rates and forecast house prices in Spain. Impairment provisions on the remainder of the portfolio were lower than in the previous year at £0.4m credit (2016: £1.8m charge).

The Group recorded a post-tax loss of £0.8m (2016: loss £3.4m). At 31 December 2017, the Group had negative accounting reserves of £10.0m (2016: negative £9.2m). The Society complied with all regulatory requirements throughout the year in total capital terms but did not meet the qualitative standards for the level of CET 1 regulatory capital. As a result, the Society was prohibited by Capital Requirements Directive IV ("CRD IV") from paying the coupons on Permanent Interest Bearing Shares ("PIBS") in 2017. The Board considers that there continues to be uncertainty over the Society's ability to make coupon payments in the short- to medium-term. In the longer-term, there remains material uncertainty about the Group's prospects as set out in Note 1 to the Group's 2017 Annual Report and Accounts.

The Group continues to hold high levels of liquidity to meet liabilities as they fall due and within the low risk appetite as set by the Board. Of the Group's retail deposits, 99% are covered under the Government's Financial Services Compensation Scheme.

On 31 December 2017, Mr John Allen retired from the Board after 8 years' service and on behalf of the Board I should like to express our thanks for his support and wise counsel and wish him a long and happy retirement.

D.A. Harding
Chairman
12 March 2018

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017, 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 18 April 2018 and at www.themanchester.co.uk.

Approved by the Board of Directors of the Society on 12 March 2018 and signed on its behalf by:

D.A. Harding	P.A. Lynch	I.A Dewar
Chairman	Interim Chief Executive	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 position of NMB Mortgage Acquisition Company Limited (in administration) ("NMB MAC"), where the Group exerts control notwithstanding that it holds no shares in that entity.

The Group's strategy and results for the year are covered 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.

The Group's strategy since 2013 has been to reduce its risks and conserve its regulatory capital. This strategy was necessary because of events, fully disclosed in the Annual Report and Accounts for the year ended 31 December 2012, that led to a material write-down of the Group's reserves following a change in the accounting treatment of certain financial assets.

Risk reduction has been achieved via the disposal of almost all of the Group's non-strategic UK lifetime mortgage assets. Further reduction has been sought by investigating the potential for disposals of other mortgage assets. The Board's strategic aim in this regard has been to move the Group's risk profile away from those legacy asset positions that carried higher risks and higher regulatory capital risk weightings.

During 2017 the Group concluded a project to ensure regulatory compliance of two acquired second charge loan portfolios, NMB MAC and The Consumer Loans Company Limited ("CLC"), the administration of which is now in house. Discussions with relevant interested parties to acquire these loans in the future will continue.

Regulatory capital conservation has continued to be a priority. The Group continues to have headroom above its Internal Capital Guidance ("ICG") in total capital terms as set by the PRA, but did not meet the qualitative standards for the level of CET1 regulatory capital. Consequently, the Society did not pay

the coupons on PIBS as, in order to conserve capital, such a distribution is prohibited under CRD IV article 141.

The Board continued to take legal advice regarding the Group's claim for damages against the previous external auditors, Grant Thornton UK LLP, and as at the date of signing these financial statements the trial verdict is still awaited.

Against this background the Board is currently reviewing the strategic direction of the Group and continues to hold discussions on a regular basis with the PRA; the uncertainties which exist regarding the longer term prospects of the Group are disclosed on pages 13 and 14.

Business Model

The principal activities of the Group remain the provision of competitive facilities for personal savings and for servicing its existing mortgage finance book, which primarily supports owner occupation of residential property. The Group does not presently engage in further lending.

Key performance indicators

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

- Capital
- Liquid assets
- Retail balances
- Mortgages and other loans
- Administration expenses
- Profit on ordinary activities before tax

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.

Review of business performance

In 2017 the Group reported a loss for the financial year of £0.8m (2016: loss of £3.4m).

In the year the Group reported operating profit before impairments and provisions of £1.6m (2016: profit of £0.5m).

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

A reconciliation of operating profit before impairments and provisions to loss on ordinary activities before taxation and the loss for the financial year is set out below:

The £1.1m increase in operating profit before impairments and provisions from 2016 is a result of:

- Net interest income in the year being £0.5m higher than in 2016. This reflects a £0.5m release of provision for remediation on the NMB MAC & CLC portfolios. Reduced income from loans has been offset by reduced funding costs.
- Lower fee and commission income of £0.1m (2016: £0.2m).
- Administrative expenses decreased by £0.7m. This was a result of £2m cost savings relating to legal fees in 2016 associated with the proposed merger with another mutual society and the preparation of a Capital Conservation Plan. This was offset by a £1.5m increase in professional fees associated with the legal claim against Grant Thornton UK LLP. Further cost reductions were experienced through other business efficiencies following a review of cost areas.

Additional net impairment provisions of £2.4m were incurred, as explained more fully below.

In 2017 management undertook a revaluation exercise of the Group's head office property which is recorded within MBS (Property) Limited and consolidated within the Group. Accordingly the value has been increased by £0.4m to reflect its updated fair value.

The Group did not meet the qualitative standards for the level of CET1 regulatory capital as at 31 December 2017 and, in order to conserve capital, a distribution to PIBS holders in April 2018 may remain prohibited under CRD IV article 141.

PROFITABILITY

Result for the year: The Group reported a loss for the financial year of £0.8m (2016: loss of £3.4m) and a loss on ordinary activities before taxation for the year of £0.8m (2016: loss of £3.0m).

FINANCIAL POSITION

Liquid Assets: The Group's liquid assets are deposited with the Bank of England and with UK clearing bank counterparties in instantly accessible bank accounts. Of the Group's total liquid funds at 31 December 2017, £32.9m was deposited with the Bank of England (2016: £67.4m) following a planned reduction of excess liquidity.

Mortgages and Other Loans: Group mortgage balances, after provisions, were £250.8m (2016: £289.5m), representing a year on year decrease of 13.4% (2016: 12.4% decrease). To improve its regulatory capital position, the Society made no advances during the year (2016: £nil).

Overall, the performance of the core mortgage book continues to be in line with expectations. The Group has continued in its efforts to minimise mortgage arrears and to help borrowers in difficulties, taking a consultative approach with borrowers who experience payment difficulties and applying forbearance as appropriate. At 31 December 2017, excluding the second charge portfolio, there were 14 mortgage accounts (2016: 19) where payments were 12 or more months in arrears. Outstanding balances on these accounts amounted to £6.2m (2016: £7.3m) representing 2.3% of total gross mortgage balances (2016: 2.3%), with total arrears of £0.9m (2016: £1.0m). The percentage of accounts 12 months or more in arrears remained stable despite the declining level of total mortgage assets in the year and the absence of new lending. The underlying arrears performance has also remained stable.

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FOR THE YEAR ENDED 31 DECEMBER 2017

There were 9 properties in possession at the end of the year (2016: 12). These figures exclude the NMB MAC portfolio, where the Group only has a beneficial interest in the mortgage assets, and CLC portfolio. As insufficient reliable data exists, arrears banding information is not presented for these second charge portfolios.

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, as are impairment provision requirements.

Investment property: At the year end the Group held a small number of residential properties as a result of the settlement of impaired mortgage assets. The properties are being held, pending their eventual sale, and have a fair value of £0.7m (2016: £0.8m).

Other Assets: Included within Other Assets is a sum of £1.4m (2016: £3.1m) relating to collateral deposited in the form of cash under credit support annex agreements (“CSA”) with the Group’s counterparty providers of foreign exchange swaps.

Retail Balances: Retail balances reduced to £247.6m (2016: £315.4m) in line with 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.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

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.

The Board manages capital within the regulatory limits set by the PRA. For regulatory capital purposes the Group is made up of the Society, MBS (Mortgages) Limited and, MBS (Property) Limited, with the regulatory capital positions at 31 December 2017 and 31 December 2016 being:

	Group 31 Dec 16	Movement in 2017	Group 31 Dec 17	Regulatory Movement for 2018	Group 1 Jan 18
Tier 1 Capital	£000	£000	£000	£000	£000
Accumulated losses	(9,243)	(780)	(10,023)	-	(10,023)
Deductions	-	-	-	-	-
Profit Participating Deferred Shares	17,461	-	17,461	-	17,461
Total CET1 Capital	8,218	(780)	7,438	-	7,438
Permanent Interest Bearing Shares					
Nominal balance	14,788	-	14,788	-	14,788
Amortisation	(5,915)	(1,479)	(7,394)	(1,479)	(8,873)
Net Permanent Interest Bearing Shares	8,873	(1,479)	7,394	(1,479)	5,915
Total Tier 1 Capital	**17,091**	**(2,259)**	**14,832**	**(1,479)**	**13,353**
Tier 2 Capital					
Subordinated Debt					
Nominal balance	14,200	-	14,200	-	14,200
Amortisation	(2,000)	(1,399)	(3,399)	(500)	(3,899)
Net Subordinated Debt	12,200	(1,399)	10,801	(500)	10,301
Collective Provisions	1,923	(1,492)	431	-	431
Permanent Interest Bearing Shares	5,915	1,479	7,394	1,479	8,873
Total Tier 2 Capital	**20,038**	**(1,412)**	**18,626**	**979**	**19,605**
Total Regulatory Capital	**37,129**	**(3,671)**	**33,458**	**(500)**	**32,958**

Since the start of 2017 Total Regulatory Capital under CRD IV has decreased by £3,671k made up as follows:

- the retained loss of the regulatory capital group for the year of £780k;
- the continued grandfathering of Subordinated debt out of Tier 2 capital over a 9 year period, amounting to £500k in the year;
- Amortisation of Subordinated debt over a 5 year period, amounting to £899k in the year;
- A reduction in the allowed collectively identified provisions of £1,492k.

Under the CRD IV rules applicable from 1 January 2018, Total Regulatory Capital is reduced by £500k compared to the position at 31 December 2017. This is due to Tier 2 Regulatory Capital being reduced by a further £500k in respect of continuing Subordinated debt grandfathering.

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FOR THE YEAR ENDED 31 DECEMBER 2017

As at 31 December 2017 the Group continues to have headroom above its ICG in total capital terms as set by the PRA, but did not meet the qualitative standards for the level of CET1 regulatory capital. The Group has continued to explore ways in which the CET1 regulatory capital position could be improved and an updated Capital Conservation Plan was submitted to the PRA in April and September 2017. These options include improving the CET1 regulatory capital position through a capital restructuring exercise. In addition, owing to the financial position and challenges faced by the business there is a risk that the Society will not meet the regulatory requirement to hold 4.5% of CET1 capital against risk weighted assets in the future, though based on present projections this is not the case. This potential risk is monitored and under constant review in ongoing discussions with the PRA.

As a result of the shortfall against qualitative standards for the level of CET1 regulatory capital, under CRD IV article 141, in order to conserve capital, the Society may remain prohibited from making the PIBS coupon payments due in April 2018. The Board considers that there continues to be uncertainty over the Society's ability to make coupon payments thereafter.

The Group's gross capital increased to 13.7% at 31 December 2017 (2016: 10.9%). The free capital at 31 December 2017 was 18.1% (2016: 13.6%). Definitions of gross capital and free capital may be found in the Key Financial Ratios on page 17.

The Group is adopting the requirements of *IFRS 9 – Financial instruments* from 1 January 2018. The capital impact of this adoption will be mitigated by transitional arrangements which the Group has confirmed it will be adopting. The regulatory capital reduction due to adoption of IFRS 9 will be restricted to 5% of the provision increase in 2018, increasing to 15% in 2019, 30% in 2020, 50% in 2021, 75% in 2022 and 100% in 2023.

Financial Risk Management Objectives

The Group offers mortgage and savings products. It undertakes limited interaction with the wholesale money market for cash flow 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 Risk Management and Operational Risk.

Principal Risks and Uncertainties

Given the CET1 regulatory capital shortfall against qualitative standards for the level of CET1, the requirement for an increase in CET1 capital in order to return to lending, and the assessed prospects for the business and its capital position without such a return to lending, there is a material uncertainty as to the Society's profitability and capital position arising from the continued run-off of the balance sheet. The Board is assessing a number of options to secure the long-term future of the Group. The immediate focus is on measures to improve the capital position of the Group in discussion with the PRA.

In June 2016 the UK voted in a referendum to leave the European Union ("EU"). The medium to long-term impact of this on UK government policy, the financial markets and the wider UK economy is unknown. The Group's Spanish lifetime portfolio introduces additional uncertainty and risk which the Board is monitoring; in particular there is added risk and uncertainty in relation to foreign exchange volatility, property values for the Spanish lifetime portfolio and the behavioral impact on Spanish lifetime mortgage borrowers.

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FOR THE YEAR ENDED 31 DECEMBER 2017

During 2017 the Group carried out work to prepare for the implementation of *IFRS 9 – Financial instruments* effective on 1 January 2018. The most significant impact on the Group is in respect of the measurement of impairment of financial assets. Under IFRS 9, impairment will be based on expected credit losses ("ECL") rather than incurred credit losses which is the methodology the Group currently adopts under IAS 39. At initial recognition, an ECL provision is required for default events in the next 12 months, whilst following a significant increase in credit risk, a lifetime ECL is required. The review of credit risk and the calculation of ECL are required to be unbiased and probability weighted, and should include all available relevant information, with assessments of current conditions and forecasts of future economic conditions. As a result the recognition and measurement of impairment is more forward looking than is the case under IAS 39. Consequently, it is likely to lead to an increase in the Group's total level of provision. At present, based on an initial assessment, management estimates that the reduction to reserves in 2018 will be in the range of £0.2m to £0.4m.

Every business faces risks as part of its day-to-day operation. The Society has a low appetite for risk and the Board's risk management objectives are to minimise the risks that the Group faces by deploying a range of risk management policies and procedures within an appropriate control environment.

Summarised below are the Group's other key risks and uncertainties:

Credit Risk: The Group is exposed to the risk that it may not receive back in full any sum that has been loaned (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 is more of a consideration in relation to loans and advances than in relation to the Group'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 Group's management of credit risk in respect of loans and advances recognises that as the portfolio runs off it is likely that a greater part of the residual assets will have a higher credit risk profile.

The assessment of credit risk and the related impairment provisioning is a critical accounting estimate, impacted by judgments relating to customer affordability and economic circumstances, including the level of interest rates. Prior to the current strategy of no new lending, credit risk was mitigated by appropriate mortgage underwriting and by limiting the Group's exposure to particular market sectors or loans exhibiting particular attributes. Since the cessation of new lending credit risk has been mitigated through the monitoring of management information, assessment of arrears and forbearance cases, and regular loan provision reviews. The Group holds a beneficial interest in NMB MAC, a portfolio of mortgage assets, some of which are regulated by the Mortgage Conduct of Business regulations ("MCOB"). The legal title of these loans remains with a third party business currently in liquidation, over which the Group exerts control. A further smaller portfolio, CLC, which is now legally owned by the Group, has similarly MCOB regulated mortgage assets. An assessment has been made of the estimated discounted future cash flows expected to arise from both these portfolios of loans which forms the basis for the impairment provision. Sensitivities in respect of the impairment provision required for these portfolios are given in the Group's 2017 Annual Report and Accounts.

Insurance Risk: Impairment assessments incorporate the insurance risk attaching to the Group's lifetime mortgage contracts, which are euro-denominated. The risk arises from a contractual term within the relevant mortgage contracts which in certain circumstances precludes the Group from

pursuing the borrower or his estate for any shortfall on redemption. This risk is managed through oversight of the portfolio, including monitoring valuations, the assessment of redemptions and provisioning policy. 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, expected to be on the death of the borrower, a 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 and market conditions.

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 Treasury Committee each week and considered by the Board each month. During 2017, the Group continued to have a significant proportion of its liquid assets deposited with the Bank of England.

Capital Risk: In order to conserve capital, the Group has continued to curtail new lending. The Group has also continued to explore ways in which the regulatory capital position could be improved, including the sale of assets. As explained on page 3 as at 31 December 2017 the Group continues to have headroom above its ICG in total capital terms as set by the PRA, but did not meet the qualitative standards for the level of CET1 regulatory capital.

Interest Rate Risk: The Group's mortgage and savings products have different interest rate types and differing maturity profiles. 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 Group holds. The Group 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 to mitigate the risk. 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 regulatory capital to mitigate the risk of interest rate movement. The Board has considered this risk by its review of financial projections under differing interest rate scenarios over the long-term. The Group has a natural partial hedge provided by fixed coupons on capital and some savings products.

The Board does not intend to hedge its 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 17% of total mortgage assets as at 31 December 2017. The exchange rate risk arising on these balances is managed and mitigated by transacting foreign exchange forwards. The exchange rate risk position is reported to the Asset and Liability Committee (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 and Term Funding Schemes; however, there is a risk that as repayments

are required under these schemes there may be upward pressure on rates to prevent savings outflows.

The Group is also exposed to movements in the value of residential and commercial property in both its mortgage impairment provision requirements and those property assets held at fair value; the Group's investment property and the Group's head office building.

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. In January 2017 the Risk Committee and Board approved a revised Risk Management Framework ("RMF"), which is designed around the present needs of the Group. The RMF includes the responsibilities of the Board, the Risk Committee, the Conduct Committee and Management as to how the Group meets, monitors and reports on its regulatory requirements. Oversight of Regulatory Risk is the responsibility of the Compliance function and is led by the Compliance Manager.

The majority of the regulatory requirements that the Group faces are laid down by the PRA and the Financial Conduct Authority ("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.

In addition to considering the impact of any non-compliance on the recoverability of loan balances and thus impairment provisioning, the Group considers the conduct risk which arises from having originated regulated loans and having acquired regulated loan portfolios. As is the case for all financial institutions there is a risk that aspects of current or historic business might be considered as not being conducted in accordance with all relevant regulation, or the fair and reasonable treatment of customers.

Certain activities of the Group, particularly the NMB MAC and CLC second charge loan portfolios carry greater levels of conduct risk. The administration of the NMB MAC and CLC portfolios was brought in-house in December 2015 and following that transfer the historic conduct of these portfolios was reviewed in detail by management.

Following this review, and having incorporated legal advice received during 2017, the Group has remediated those loans identified as impacted with redress being paid where the Group has been able to contact the customer. As at 31 December 2017 the redress provision was £0.1m (2016: £1.7m) to provide for instances of non-compliance with the CCA within the NMB MAC and CLC portfolios. The provision includes an estimate of the potential cost of interest refunds during periods of non-compliance and other costs associated with a customer redress exercise.

Although a detailed review of these portfolios has been carried out, there is no judicial certainty in the legal position and there is a risk that further conduct issues or cases of non-compliance with regulations could be identified in the future. As a result the actual results could differ from our estimates.

Provision has been made where the Group is aware of a specific conduct or regulatory issue and can estimate its impact.

Diversity Matters

Gender Analysis: Below is a table summarising permanent, employed members of staff and directors by gender at 31 December 2017, with comparative positions for the previous year end:

	31 December 2017		31 December 2016	
	Male	Female	Male	Female
Directors	5	1	5	1
Staff	19	29	24	26
Total	24	30	29	27

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

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.

Outlook

The medium to long-term impact of the UK vote to leave the EU on UK government policy, the financial markets and the wider UK economy is unknown and this introduces additional uncertainty and risk which the Board will continue to monitor, in particular with regard to the Group's Spanish lifetime portfolio.

The remediation of the NMB MAC and CLC portfolios in 2017 was completed and provides the Group with a greater understanding of and more information on the loan books to enable the Group to take steps toward either a disposal of those assets or a corporate transaction for the Group.

The Board continued to take legal advice regarding the Group's claim for damages against the previous external auditors; Grant Thornton UK LLP throughout 2017 which they believe is in the best interests of members. At the time of signing these financial statements the hearing has concluded but judgment is awaited.

The Group will continue to be managed in run-off for the foreseeable future pending the trial outcome and will carry on discussions with the PRA with regard to the Capital Conservation Plan and the long-term future of the Group. The capital position of the Group, in particular the shortfall against the qualitative standards for the level of CET1 regulatory capital and the risk of not meeting the regulatory requirement of holding 4.5% CET1 capital against risk weighted assets, will remain a focus for the Board.

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FOR THE YEAR ENDED 31 DECEMBER 2017

Directors

J.P. Allen (retired 31 December 2017)	Non-executive director
H.F. Baines	Vice Chairman
I.A. Dewar	Non-executive director
D.A. Harding	Chairman
P.A. Lynch	Interim Chief Executive
F.B. Smith	Non-executive director

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

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

Other matters

Charitable & political donations

The Society made charitable donations totalling £5k (2016: £1k) during the year. No contributions were made for political purposes.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

Pillar 3 Disclosure

The Society's Pillar 3 disclosure can 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 2017 amounted to 27 days of average supplies (2016: 19 days).

Capital Requirements (Country-by-Country) Reporting

In compliance with the reporting obligations set out in Article 89 of the European Union's Capital Requirements Directive IV (CRD IV), which have been implemented in the UK by the Capital Requirements (Country-by-Country) Reporting Regulations, the Group will publish additional information in respect of the year ended 31 December 2017. This information will be included within the annual report and accounts and will be available on the Society's website: www.themanchester.co.uk.

Going Concern

The directors consider that it is appropriate for the accounts to be prepared on a going concern basis of accounting as fully explained in Note 1 on page 25 of the Group's 2017 annual report and accounts, which sets out the risks and uncertainties assessed as part of the preparation of the accounts.

The long-term continuing operation of the Society and the Group is dependent on a successful return to lending to grow the balance sheet in order to maintain profitability and rebuild regulatory capital. At present the Group has insufficient capital to return to lending and continues to manage a long-term run-off of the balance sheet.

The Board continues to develop options which individually or in combination are reasonably expected to secure the future of the Group, enable it to continue to meet capital requirements and improve the quality of its regulatory capital. These options include improving its CET1 capital position including through a restructuring of capital, or securing its future through merger or alternative means.

The Board expects to further develop these plans during 2018. These plans may involve third parties and as such carry execution risk. Although these represent material uncertainties which may cast significant doubt about the Society and Group's ability to continue as a going concern in the longer term, in the Board's opinion the going concern basis is appropriate whilst there are potential options available.

In order to satisfy themselves that the Society and Group have adequate resources to continue to operate for the foreseeable future as a going concern, the directors have taken into account the following:

- The ongoing legal claim against and prospects of recovery from Grant Thornton UK LLP, the previous external auditors;
- The challenge of addressing the shortfall to the qualitative standards for the level of CET 1 regulatory capital and of continuing to meet the regulatory requirement to hold 4.5% CET 1 capital against risk weighted assets;

- The Group’s financial position as at 31 December 2017, including the headroom above the Individual Capital Guidance in total capital terms as set by the PRA;
- The Group's financial position as at 31 December 2017 and it's underlying financial performance for the year then ended, as well as it's financial projections for the next 2 years, in particular for income, expenditure, assets, liabilities, interest rate risk, liquidity and regulatory capital, including sensitivity analysis;
- An initial assessment of the potential impact of adopting IFRS 9 accounting for expected credit losses from 1 January 2018;
- The improved position and redress already completed in respect of the acquired NMB MAC and CLC portfolios;
- Ongoing discussions with the PRA and other stakeholders regarding the development of a plan to secure the future of the Group and its strategic direction;
- The Group's principal risks and uncertainties (as set out on pages 7-10), including the operational risks faced by the Group to develop and deliver the strategic plan.

Should there be a material stress event in the economy or to financial markets that adversely impacts the Group, or the current options available to the Group are shown to not be viable, then there is less certainty as to the going concern position of the Group.

Having due regard to these matters and after taking into consideration the material uncertainties above the Board continues to adopt the going concern basis of accounting in preparing the financial statements.

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
12 March 2018

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

RESULTS FOR THE YEAR	Group 2017 £000	Group 2016 £000	Society 2017 £000	Society 2016 £000
Net interest income	9,019	8,472	8,222	7,987
Other income and charges	560	738	754	1,213
Fair value gains	1	-	1	-
Administrative expenses	(7,955)	(8,663)	(7,588)	(7,539)
Operating profit before impairments and provisions	**1,625**	**547**	**1,389**	**1,661**
Impairment losses	(2,376)	(3,448)	(4,389)	(6,209)
Financial Services Compensation Scheme Levy	(29)	(67)	(29)	(67)
Loss for the year before taxation	**(780)**	**(2,968)**	**(3,029)**	**(4,615)**
Taxation	-	(382)	-	(382)
Loss for the year	**(780)**	**(3,350)**	**(3,029)**	**(4,997)**
Payment to equity holders	-	(338)	-	(338)
Transfer from reserves	**(780)**	**(3,688)**	**(3,029)**	**(5,335)**

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL POSITION AT THE END OF THE YEAR	Group 2017 £000	Group 2016 £000	Society 2017 £000	Society 2016 £000
Assets:				
Liquid assets	43,981	82,120	43,930	81,991
Mortgages	249,759	288,234	244,291	282,123
Other loans	1,062	1,218	1,062	1,218
Derivative financial instruments	280	278	264	199
Fixed and other assets	9,109	10,454	12,717	15,790
Total assets	**304,191**	**382,304**	**302,264**	**381,321**
Liabilities:				
Shares	247,628	315,391	247,628	315,391
Borrowings	17,858	24,753	17,858	24,753
Other liabilities	2,087	3,313	1,657	1,575
Derivative financial instruments	192	1,641	188	1,641
Subordinated capital	14,200	14,200	14,200	14,200
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
Accumulated losses ##	(10,023)	(9,243)	(11,517)	(8,488)
Total equity and liabilities	**304,191**	**382,304**	**302,263**	**381,321**

Classifies as equity

SUMMARY OF KEY FINANCIAL RATIOS	Group 2017 %	Group 2016 %	Society 2017 %	Society 2016 %
Gross capital as a percentage of shares and borrowings	13.7	10.9	13.2	11.2
Liquid assets as a percentage of shares and borrowings	16.6	24.1	16.5	24.1
Loss for the year as a percentage of mean total assets	(0.2)	(0.9)	(0.9)	(1.3)
Management expenses as a percentage of mean total assets	2.3	2.2	2.2	1.9

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTES TO THE SUMMARY FINANCIAL STATEMENT

1. The 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 losses, 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 loss for the year as a percentage of mean total assets measures the proportion that the loss after taxation for the year represents in relation to the average of total assets for the year.

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 2017

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 2 to 17, which comprises the Summary Directors' Report, Results for the Year, the Financial Position as at 31 December 2017, Summary of Key Financial Ratios and Notes to the Summary Financial Statement.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Summary Financial Statement, in accordance with the Building Societies Act 1986.

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 2017 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986, and the regulations made under it.

INDEPENDENT AUDITORS' STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures on pages 15 and 16 concerning the Society and Group's ability to continue as a going concern. The directors have set out the risks and uncertainties for the business given its continued run-off and the ongoing development of plans to secure the business. These conditions, along with the other matters explained on pages 13 and 14, indicate the existence of a material uncertainty which may cast significant doubt about the Society and Group's ability to continue as a going concern. The Summary Financial Statement does not include the adjustments that would result if the Society and Group were unable to continue as a going concern.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
12 March 2018

SUMMARY DIRECTORS' REMUNERATION REPORT

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.

The executives' 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.

During 2017 the Remuneration and Nominations committee considered and approved a bonus payment as set out on page 21, to the Interim Chief Executive for his work and diligence in running the Society and ensuring critical projects were delivered within scope and on time.

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

SUMMARY DIRECTORS' REMUNERATION REPORT

Executive directors

	Salary £000	Pension Contributions £000	Bonus £000	Benefits £000	Total £000
2017					
P.A. Lynch	150	18	5	11	184
	150	18	5	11	184
2016					
P.A. Lynch	135	17	-	11	163
	135	17	-	11	163

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 2017 £000	Fees 2016 £000
J.P. Allen (retired 31 December 2017)	33	29
H.F. Baines	40	36
I.A. Dewar	35	29
D.A. Harding	80	72
F.B. Smith	33	29
	221	195

Non-executive directors are not appointed under service contracts. Their appointment is terminable by 1 month's notice on either side. In the event of the Society merging with another society whilst D.A. Harding is the Chairman of the Board, he is entitled to 6 months fees under his letter of appointment.

SUMMARY DIRECTORS' REMUNERATION REPORT

Total directors' emoluments

	2017 £000	2016 £000
Executive directors	184	163
Non-executive directors	221	195
Total directors' emoluments	405	358

All directors

The Group does not make mortgage loans available to any director. The above arrangements applied throughout 2017.

CONTACT DETAILS

Agencies

Please see our website at: www.themanchester.co.uk for the most up to date list of our agencies

Savings Customer Services

Telephone 0161 923 8065
Fax 0161 923 8950

Post Manchester Building Society
125 Portland Street
Manchester
M1 4QD

Mortgage Customer Services

Telephone 0161 923 8030
Fax 0161 923 8951

Post Manchester Building Society
125 Portland Street
Manchester
M1 4QD

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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 UK Finance