SUMMARY FINANCIAL REPORT

2015

Manchester
BUILDING SOCIETY

CONTENTS

PAGES 2 TO 19 CONSTITUTE THE SUMMARY FINANCIAL STATEMENT

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SUMMARY CHAIRMAN'S STATEMENT

In 2015 the Board continued to focus on the prudent management of the Society in line with the strategy adopted in 2013 of reducing the size of the balance sheet in order to preserve 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 Society's reserves following a change in the accounting treatment of certain financial assets.

In the twelve months ended 31 December 2015 the Society and its subsidiaries (the "Group") recorded an operating profit before impairments and provisions of £2.9m compared with £4.7m in the preceding twelve months. The decline in operating profit reflected the reduction in the size of the loan book which fell from £387m to £331m, and also the effect of an increased charge of £1.2m (2014: £0.2m) for regulatory non-compliance on two acquired portfolios, the administration of which was brought in-house in December 2015.

During the year the Board carried out a detailed exercise to evaluate what would be required to re-enter the residential mortgage market from which it withdrew in 2013. This exercise and consequential discussions with the Prudential Regulation Authority ("PRA") confirmed that although the Society has total capital significantly in excess of regulatory requirements, an increase in the Society's Common Equity Tier 1 capital ("CET1", a measure of the quality of capital held) would be necessary before new lending could be resumed. In the absence of this, the Society's balance sheet and scale of operations is likely to continue to decline.

As required by International Financial Reporting Standards ("IFRS"), this prospect required two non-cash accounting adjustments: the carrying value of the head office property has been written down by £2.5m to reflect the forecast under-utilisation of this asset; and the charge for taxation of £4.3m (2014: £0.2m credit) reflects a write-down of the deferred tax asset carried on the balance sheet in line with the lower level of taxable profits now forecast. Other net impairments on the loan books amounted to £0.7m.

After taking account of these charges and the compulsory Financial Services Compensation Scheme ("FSCS") levy of £0.3m, the Group recorded a post-tax loss of £4.9m (2014: £4.5m profit). At 31 December 2015, the Group had negative accounting reserves of £5.6m.

Against this background the Board are currently reviewing the strategic direction of the Society and have set out the uncertainties which exist regarding the longer term prospects of the Society on pages 15 and 16.

Notwithstanding the difficult financial circumstances in which the Group has operated since 2012, the Society has continued to serve its members well. During 2015 the level of complaints remained low and the Society continued to offer competitive retail savings products during the unprecedented period of low interest rates. The Society has also worked closely with the small number of members whose mortgage accounts have moved into arrears in order to find a satisfactory solution to payment problems.

In the best interest of members the Board has continued to take legal advice regarding the Society's claim for damages against the previous external auditors, Grant Thornton UK LLP. The legal claim is ongoing.

Finally, on behalf of the Board, I should like to thank all members of staff for their exceptionally strong contribution during the year. I should also like to thank Mr Joe Smith, a non-executive director, who retired from the Board on 29 April 2015 after nine years' service.

D.A. Harding
Chairman
13 April 2016

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

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 2015, 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 11 May 2016 and at www.themanchester.co.uk.

Approved by the Board of Directors of the Society on 13 April 2016 and signed on its behalf by:

D.A. Harding	A. Hodges	I.A Dewar
Chairman	Chief Executive	Director

SUMMARY DIRECTOR'S 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 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.

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 Society'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 Society's non-strategic UK lifetime mortgage assets. Further reduction has been sought by investigating the potential for 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 risks and higher regulatory capital risk weightings.

Regulatory capital conservation has continued to be a focus, the ongoing reduction in the mortgage book, as a result of the continued curtailment of new mortgage lending during 2015, being central to this. At the same time the Society has continued to explore ways in which the regulatory capital position could be improved. During 2015 this included investigating potential opportunities for further asset disposals, including the sale of the investment in New Life Home Finance Limited which completed in April 2015 at a profit of £0.7m.

In the medium term, however, the regulatory capital position is dependent on profitable and sustainable growth or new sources of capital.

Accordingly, in 2015 the Society carried out a detailed evaluation of what would be required to return to growth by resuming residential mortgage lending. This included an assessment of the additional capital that would be required. At present the Society has insufficient CET1 regulatory capital to return to lending and continues to manage a "run-off" of the balance sheet. Against this background the Board is currently reviewing the strategic direction of the Society; the uncertainties which exist regarding the longer term prospects of the Society are disclosed on pages 15 and 16.

Post Balance Sheet Event

After the year end, on 11 April 2016, the Society received new Individual Capital Guidance ("ICG") from the PRA setting out the amount of regulatory capital the Society is required to hold. The Board has reviewed the capital resources following the new guidance from the PRA and has concluded that the ICG and CRD IV buffer requirements are met. The Board also concluded that the Society meets the quantitative aspect of the PRA buffer. As previously, the Society is expected to hold a certain proportion of its capital buffers in CET1 capital; this remains challenging under the new guidance and the Society may not meet these expectations going forward.

Business Model

The principal activities 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
- Retail balances
- Mortgages and other loans
- Administration expenses
- Profit for the year before taxation

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.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

REVIEW OF BUSINESS PERFORMANCE

In 2015 the Group reported a loss for the financial year of £4.9m (2014: profit of £4.5m). This loss is after reflecting write-downs to the carrying value of certain assets, as detailed below, as a consequence of the Group's projected financial performance.

In the year the Group reported operating profit before impairments and provisions of £2.9m (2014: £4.7m).

A reconciliation of operating profit before impairments and provisions to the (loss)/profit for the year before taxation and the (loss)/ profit for the year is set out below:

	Group 2015 £000	**Group 2014 £000**
Operating profit before impairments and provisions	2,917	4,699
Impairment(losses)/gains on loans and advances to customers	(748)	33
Impairment of property, plant and equipment	(2,471)	-
Financial Services Compensation Scheme Levy	(277)	(430)
(Loss)/profit for the year before taxation	(579)	4,302
Taxation	(4,295)	150
(Loss)/profit for the year	(4,874)	4,452

The £1.8m reduction in operating profit before impairments and provisions from 2014 is mainly due to the impact of the smaller balance sheet but also due to an increased charge for customer redress of £1.2m (2014: £0.2m) recorded in the year in relation to potential regulatory non-compliance in two acquired portfolios, the administration of which was brought in-house in December 2015. The reduction has been partially offset by the £0.7m profit on disposal of the minority share in New Life Home Finance Limited.

Net interest income in the year was £2.1m lower than in 2014, with £0.8m of the reduction being due to the increased charge for customer redress in respect of potential refunds of interest and £1.3m being due to the reduced size of the balance sheet. The loan book fell by £56.8m from £387.4m to £330.6m while total assets fell by £92.1m from £508.7m to £416.6m. Furthermore, administrative expenses increased by £0.8m mainly associated with the legal claim against Grant Thornton UK LLP, anticipated costs relating to the forthcoming customer redress exercise and project costs associated with the investigation of a possible return to lending.

Additional net loan impairment provisions of £0.7m were incurred, as explained more fully on page 6.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

Without sufficient capital to return to lending, the financial projections for the Group assume a long term run-off of the balance sheet. Accordingly the carrying value of the head office property has been written down by £2.5m. For further details of the impairment of the property see page 6.

Also as a result of applying the long term run-off financial projections, £4.3m of the deferred tax asset has been de-recognised and an income tax expense has been recognised for this amount. This results in a loss for the financial year of £4.9m (2014: profit £4.5m) being taken to Group consolidated reserves.

After having made the above adjustments the Society has a shortfall against the regulatory capital expectation for Common Equity Tier 1 Capital, with a shortfall of £1.6m as at 31 December 2015. Under the new regulatory capital regime effective 1 January 2016, at that date there is a £2.8m shortfall.

PROFITABILITY

Result for the year: The Group reported a loss for the financial year of £4.9m (2014: profit of £4.5m) and a loss for the year before taxation of £0.6m (2014: profit of £4.3m).

Net interest income: The Group's net interest income was:

	Group 2015 £000	Group 2014 £000
Interest receivable and similar income	14,401	18,609
Interest payable and similar charges	(5,853)	(7,973)
Net interest income	8,548	10,636

The level of interest earned on mortgages and loans was lower at £13.9m (2014: £17.6m) due to the increased charge in the year for customer redress (in respect of potential refunds of interest) debited against interest income and the impact of reducing mortgage balances; interest on investment securities was lower (2015: £0.1m; 2014: £0.4m) owing to a reduction in the level of securities held (2015: £0.1m; 2014: £15.6m). The reduction in the level of investment securities arose through the natural maturity of instruments, with replacement instruments not being sourced.

Interest paid to savings members reduced from £5.8m in 2014 to £4.2m in 2015, reflecting the combined impact of lower interest rates paid on a reducing savings book (2015: £324.6m of balances owed to members compared with £389.5m at 31 December 2014).

Other income and other charges: Other income and charges rose slightly in the year, with exchange gains of £248k (2014: gains of £163k) arising in the year. Also, as investment securities matured, although the Society received the full principal balance and all interest due on maturity, a fair value loss on these instruments was recorded of £56k (2014: £305k loss), since the Group holds its investment securities at their fair value. Finally, the charge recorded in 2015 for the compulsory FSCS levy fell by £153k to £277k.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

Income from investments: During April 2015 the Society completed the sale of its minority share in New Life Home Finance Limited to Legal and General Group plc for consideration of £995k. The profit on sale of £745k is shown under "Income from investments" in the Statements of Comprehensive Income. The shareholding had been held as a trade investment.

Administrative expenses: The Group's administrative activities were broadly unchanged from those of the previous year. Overhead and depreciation expenditure increased from £6.1m to £6.8m. The increase reflects additional activity carried out during the year in relation to the development of plans to return to lending, and anticipated costs provided in relation to the forthcoming customer redress exercise. Legal and professional costs were also incurred in connection with the Society's claim against Grant Thornton UK LLP.

Impairment losses: **:** Impairment losses of £3.2m were recorded in 2015 (2014: credit of £33k), of which £2.5m (2014: nil) related to the impairment of the carrying value of the Group's head office building which is included within property, plant and equipment and which is owned by MBS (Property) Limited. The remaining impairment charge of £0.7m (2014: credit of £33k) was in respect of the Group's mortgage and loan books.

The Group's head office building was tested for impairment on a value in use basis. This indicated that the value in use of the property was lower than both its fair value less estimated costs of disposal and its carrying value. The carrying value of the property exceeded its fair value less estimated cost of disposal, which represented its recoverable amount, by £2.5m, and the property was written down to reflect this. The fair value of the property is based on an independent valuation of the property carried out in December 2015. The open market value of the property based on its current level of occupancy was assessed to be £5.5m.

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 net impairment charge of £0.7m included a charge of £1.3m in respect of the NMB MAC second charge loans where the Group holds a beneficial interest and provisioning of £1.3m in respect of the core mortgage book including one significant new account in arrears. These charges were partially mitigated by a £1.9m reduction in the provision for the Spanish lifetime portfolio following an improvement in the forecast for house prices in Spain.

FINANCIAL POSITION

Liquid Assets: The Group's liquid assets are deposited with the Bank of England and with UK "High Street" banking counterparties in instantly accessible bank accounts. Of the Society's total liquid funds at 31 December 2015, £55.9m was deposited with the Bank of England (2014: £63.1m). Only £0.1m of investment securities were held at 31 December 2015 (2014: £15.6m) as maturing instruments were not reinvested. Within investment securities at 31 December 2015 £nil was held in UK Treasury Bills (2014: £10.0m).

Mortgages and Other Loans: Group mortgage balances, after provisions, were £330.6m (2014: £387.4m), representing a year on year decrease of 14.7% (2014: 14.7% reduction). Further, to seek improvement in its regulatory capital position, the Society made no advances during the year (2014: £nil).

Overall, the performance of the core mortgage book continues to be in line with expectations. With the exception of one new significant account arising in the second half of the year, arrears levels are stable and the number of properties taken into possession has improved.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

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 2015, excluding the second charge portfolio, there were 15 mortgage accounts (2014: 14) where payments were 12 or more months in arrears. Outstanding balances on these accounts amounted to £5.5m (2014: £5.4m) with total arrears of £0.8m (2014: £0.8m), representing 1.6% of total gross mortgage balances (2014: 1.3%). The percentage of accounts 12 months or more in arrears has increased because of the declining level of total mortgage assets in the year and the absence of new lending. However, the underlying arrears performance has been stable. There were 8 properties in possession at the end of the year (2014: 9). These figures exclude the NMB MAC portfolio, where the Group only has a beneficial interest in the mortgage assets, and The Consumer Loans Company Limited ("CLC") portfolio. Arrears banding information is not presented for these second charge portfolios as there is insufficient reliable data to determine this accurately.

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.

Other Assets: At the year end the Society held a small number of residential properties as investment property, as a result of the settlement of an impaired mortgage asset. The properties are being held, pending their eventual sale, and have a carrying value of £0.8m (2014: £nil).

Also included within other assets is a sum of £1.0m (2014: £0.5m) 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 £324.6m (2014: £389.5m) 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.

The Board manages capital within the regulatory limits set by the PRA. For regulatory capital purposes the Group is made up of the Society and MBS (Mortgages) Limited, with the regulatory capital positions at 31 December 2015 and 31 December 2014 being:

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

Tier 1 Capital	**Group 31 December 2014 £000**	**Movement in 2015 £000**	**Group 31 December 2015 £000**	**Regulatory Movement for 2016 £000**	**Group 1 January 2016 £000**
CET 1 Capital					
Retained Earnings	754	(3,879)	(3,125)	-	(3,125)
Deductions	(3,030)	3,029	(1)	-	(1)
Profit Participating Deferred Shares	17,461	-	17,461	-	17,461
Total CET1 Capital	15,185	(850)	14,335	-	14,335
Permanent Interest Bearing Shares					
- Nominal balance	14,788	-	14,788	-	14,788
- Amortisation	(2,958)	(1,479)	(4,437)	(1,478)	(5,915)
Net Permanent Interest Bearing Shares	11,830	(1,479)	10,351	(1,478)	8,873
Total Tier 1 Capital	27,015	(2,329)	24,686	(1,478)	23,208
Tier 2 Capital					
Subordinated Debt					
- Nominal balance	15,700	(1,500)	14,200	-	14,200
- Amortisation	(2,445)	945	(1,500)	(500)	(2,000)
Net Subordinated Debt	13,255	(555)	12,700	(500)	12,200
Collective Provisions	2,850	(695)	2,155	-	2,155
Permanent Interest Bearing Shares	2,958	1,479	4,437	1,478	5,915
Total Tier 2 Capital	19,063	229	19,292	978	20,270
Total Regulatory Capital	46,078	(2,100)	43,978	(500)	43,478

Since the start of 2015 Total Regulatory Capital under CRD IV has decreased by £2,100k made up as follows:

- the retained loss of the regulatory capital group for the year of £3,879k;
- the scheduled repayment of £1,500k of Subordinated debt, (previously amortised by £1,445k under CRD IV rules);
- the continued amortisation of Subordinated debt out of Tier 2 capital over a 9 year period, amounting to £500k in the year;
- a reduction in the allowed collectively identified provisions of £695k; and
- a partially offsetting £3,029k reduction in required deductions from CET1 Capital. This is primarily in respect of the reduction in the deferred tax asset as a result of the £4,295k deferred tax charge recorded in the year but with £250k of the reduction arising due to the sale of the investment in New Life Home Finance Limited.

Under the CRD IV rules applicable from 1 January 2016, Total Regulatory Capital is reduced by £500k compared to the position at 31 December 2015. This is due to Tier 2 Regulatory Capital being reduced by a further £500k in respect of continuing Subordinated debt amortisation.

As at 31 December 2015 the Society held sufficient capital in Tier 1 and Tier 2 to meet all of the regulatory capital requirements then in place. However, one regulatory expectation that was not met compares the Society's actual CET1 capital to the level of CET1 capital that the PRA expects the Society to hold.

The Society had also fallen marginally short of this expectation as at 31 December 2014 due to the mix of capital held and during 2015 had continued to focus on rebuilding its capital position. However, the significant write downs in respect of both the intercompany loan with MBS (Property) Limited and the deferred tax asset, combined with increased customer redress provisioning, have depleted CET1 regulatory capital further. As a consequence there is a shortfall of £1.6m against this CET1 expectation as at 31 December 2015. Under the new regulatory capital regime effective 1 January 2016, at that date there is a £2.8m shortfall.

After the year end, on 11 April 2016, the Society received new Individual Capital Guidance ("ICG") from the PRA setting out the amount of regulatory capital the Society is required to hold. The Board has reviewed the capital resources following the new guidance from the PRA and has concluded that the ICG and CRD IV buffer requirements are met. The Board also concluded that the Society meets the quantitative aspect of the PRA buffer. As previously, the Society is expected to hold a certain proportion of its capital buffers in CET1 capital; this remains challenging under the new guidance and the Society may not meet these expectations going forward.

The Group's gross capital improved from 10.4% at 31 December 2014 to 11.0% at 31 December 2015. The free capital at 31 December 2015 was 12.6% (2014: 11.4%). Definitions of gross capital and free capital may be found in the Annual Business Statement.

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 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, there is a material uncertainty arising from the continued run-off of the balance sheet. The Board is assessing a number of options to develop a strategy to secure the long term future of the Group; options include plans to improve the capital position of the Group.

Every business faces risks as part of its day-to-day operation. The Board's risk management objectives are to seek to manage the risks that the Society faces, by articulating that it has a low appetite for risk and by deploying a range of risk management policies and procedures within an appropriate control environment in order to achieve such an outcome.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

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 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 lent (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 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 Society'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 judgements relating to customer affordability and the impact of 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 Consumer Credit Act ("CCA"). The legal title of these loans remains with a third party business currently in administration, over which the Group exerts control. A further smaller portfolio, CLC, which had previously been beneficially owned and which is now legally owned by the Group has similarly CCA 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.

The administration of the NMB MAC and CLC portfolios was brought in-house in December 2015.

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 in certain circumstances precludes the Society from pursuing the borrower or their 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, 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 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 executive directors every week and considered by the Board each month. During 2015, 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: In order to conserve capital, the Society has continued to curtail new lending. The Society has also continued to explore ways in which the regulatory capital position could be improved, including by the sale of assets. The investment in New Life Home Finance Limited was therefore sold in April 2015, at a profit of £0.7m. In the medium term, however, the regulatory capital position is dependent on profitable and sustainable growth or new sources of capital.

Accordingly, the Society carried out a detailed evaluation of what would be required to return to growth by resuming residential mortgage lending. This included an assessment of additional CET1 capital required to resume lending. In the absence of this, the Society's balance sheet and scale of operations is likely to decline in the immediate future. The Board are currently reviewing the long term strategic direction of the Society. This review recognises that there has been and may continue to be a shortfall against the CET1 qualitative regulatory capital expectations, as explained on page 9.

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 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.

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 12% of total mortgage assets as at 31 December 2015. 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; however, there is a risk that as repayments are required under the Funding for Lending Scheme then there may be upward pressure on rates to prevent savings outflows.

The Society 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 Society'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 December 2015, the Risk Committee and Board approved a revised Risk Management Framework ("RMF"), which is designed around the present needs of the Society. The RMF includes the responsibilities of the Board, the Risk Committee, the Conduct Committee and Management as to how the Society meets, monitors and reports on its regulatory requirements. Oversight of Regulatory Risk is the responsibility of the Compliance function and is led by the Interim Chief Risk and Compliance Officer.

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.

Within the NMB MAC and CLC 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 form the basis for the impairment provision.

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, the Group has increased its customer redress provision to £1.7m (2014: a provision of £0.5m for refunds was included in Creditors) 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 materially from our estimates.

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

Diversity Matters

Gender Analysis: Below is a table summarising permanent, employed members of Staff and Directors by gender at 31 December 2015, with comparative positions for the previous year end:

	31 December 2015		**31 December 2014**	
	Male	**Female**	**Male**	**Female**
Directors	5	1	7	1
Staff	24	25	20	20
Total	29	26	27	21

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.

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.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

Outlook

The Board's view is that the UK mortgage and savings markets will continue to be challenging. In the short term, given uncertainty in the global economy about growth, oil prices and public finances, savings and lending institutions will develop their own responses that reflect their respective market positions. There remains the potential for interest rate rises in the UK in the medium term and the prospect of further regulation.

During 2016 the Society will continue in its claim against Grant Thornton UK LLP, the previous external auditors, taking account of external legal advice.

At present the Society has insufficient CET1 regulatory capital to return to lending and continues to manage a run-off of the balance sheet. The Board are considering a number of options to secure the future of the Society.

Directors

J.P. Allen	Non-executive director
H.F. Baines	Vice Chairman
I.A. Dewar	Non-executive director
C.W. Gee	Finance Director (resigned 31 March 2015)
D.A. Harding	Chairman
P.A. Lynch	Operations Director
F.B. Smith	Non-executive director
J. Smith	Non-executive director (resigned 29 April 2015)

At the Annual General Meeting Mrs Smith and Mr Dewar 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 (2014: £5k) during the year. No contributions were made for political purposes.

Pillar 3 Disclosure

The Society's Pillar 3 disclosure can be located on its website.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

Supplier payment policy & practice

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

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

Trade creditors at 31 December 2015 amounted to 3 days of average supplies (2014: 5 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 2015, by 31 December 2016. This information will be available by that date 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 for the reasons set out below.

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

The Board is developing a number of options which individually or in combination are reasonably expected to secure the future of the Society, enable it to continue to meet capital requirements and improve the quality of its regulatory capital. These options include improving its capital position, including through a capital injection from other parties, or securing its future through merger or alternative means.

The Board expects to develop these plans over the next few months. These plans may involve third parties and as such carry execution risk. Whilst an assessment of the different options has not yet been completed the Board is satisfied that it is reasonable to expect a successful outcome. Although these represent material uncertainties which may cast significant doubt about the Society's 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.

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 Group's profitable financial performance, before the head office property impairment and write-down of the recognised deferred tax asset, for the year ended 31 December 2015;
- The Group's current level of liquidity;

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

- The Group's financial position as at 31 December 2015 after having applied a write-down to the carrying value of the head office property and the recognised deferred tax asset in the light of the medium to long term financial projections;
- The Group's financial projections for the next 2 years, in particular for income, expenditure, assets, liabilities, liquidity and regulatory capital, including sensitivity analysis. These projections, based on a managed run-off of the balance sheet without a return to lending, indicate that the underlying operations of the Group, before costs associated with the development of its capital plans, will remain profitable in the short to medium term. In the medium term it is likely that the net interest margin will be insufficient to cover operating costs and loan impairment charges, resulting in operating losses;
- The ongoing legal claim against and prospects of recovery from Grant Thornton UK LLP, the previous external auditors;
- The planned redress of customers in respect of the acquired NMB MAC and CLC portfolios;
- The challenge of continuing to meet the CET1 qualitative regulatory capital expectation;
- Ongoing discussions with the PRA and other stakeholders regarding the development of a plan to secure the future of the Society and its strategic direction;
- The operational risks faced by the Society to develop and deliver the strategic plans;
- The Group's principal risks and uncertainties as set out on pages 9 to 13.

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

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
13 April 2016

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

RESULTS FOR THE YEAR	**Group 2015 £000**	**Group 2014 £000**	**Society 2015 £000**	**Society 2014 £000**
Net interest income	8,548	10,636	8,979	10,247
Other income and charges	521	440	954	994
Income from investments	745	-	745	-
Fair value losses	(56)	(305)	(57)	(305)
Administrative expenses	(6,841)	(6,072)	(5,918)	(5,508)
Operating profit before impairments and provisions	**2,917**	**4,699**	**4,703**	**5,428**
Impairment (losses)/gains	(3,219)	33	(2,258)	(3,750)
Financial Services Compensation Scheme Levy	(277)	(430)	(277)	(430)
(Loss)/profit for the year before taxation	**(579)**	**4,302**	**2,168**	**1,248**
Taxation	(4,295)	150	(4,295)	376
(Loss)/profit for the year	**(4,874)**	**4,452**	**(2,127)**	**1,624**
Payment to equity holders	(675)	(675)	(675)	(675)
Tax credit on payment to equity holders	135	135	135	135
Transfer to reserves	**(5,414)**	**3,912**	**(2,667)**	**1,084**

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

FINANCIAL POSITION AT THE END OF THE YEAR	Group 2015 £000	Group 2014 £000	Society 2015 £000	Society 2014 £000
Assets:				
Liquid assets	76,773	104,820	76,722	104,769
Mortgages	329,243	385,715	322,067	377,150
Other loans	1,375	1,657	1,375	1,657
Derivative financial instruments	403	2,146	403	2,134
Fixed and other assets	8,782	14,409	16,450	22,229
Total assets	**416,576**	**508,747**	**417,017**	**507,939**
Liabilities:				
Shares	324,630	389,475	324,630	389,475
Borrowings	46,959	68,454	46,959	68,454
Other liabilities	3,414	3,010	1,505	2,547
Derivative financial instruments	679	-	627	-
Subordinated capital	14,200	15,700	14,200	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 ##	(5,555)	(141)	(3,153)	(486)
Total equity and liabilities	**416,576**	**508,747**	**417,017**	**507,939**

Classifies as equity

SUMMARY OF KEY FINANCIAL RATIOS	Group 2015 %	Group 2014 %	Society 2015 %	Society 2014 %
Gross capital as a percentage of shares and borrowings	11.01	10.44	11.65	10.36
Liquid assets as a percentage of shares and borrowings	20.66	22.89	20.65	22.88
(Loss)/profit for the year as a percentage of mean total assets	(1.05)	0.77	(0.46)	0.28
Management expenses as a percentage of mean total assets	1.48	1.05	1.28	0.95

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

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)/profit for the year as a percentage of mean total assets measures the proportion that the (loss)/profit 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 2015

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 19, which comprises the Summary Directors' Report, Results for the Year, the Financial Position as at 31 December 2015, 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 2015 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 2015

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 made with regards to going concern 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 with regards to going concern on pages 15 and 16, 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 financial statements do 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
13 April 2016

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.

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

	Salary £000	Pension Contributions £000	Benefits £000	Total £000
2015				
C.W. Gee (resigned 31 March 2015)	29	3	3	35
P.A. Lynch	117	14	11	142
	146	17	14	177
2014				
C.W. Gee	117	14	11	142
P.A. Lynch	117	14	11	142
	234	28	22	284

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 2015 £000	Fees 2014 £000
J.P. Allen	29	29
H.F. Baines	36	32
I.A. Dewar	29	29
R.W. Dyson (resigned 16 June 2014)	-	13
D.A. Harding	72	72
F.B. Smith	29	28
J. Smith (resigned 29 April 2015)	9	32
	204	235

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

	2015 £000	2014 £000
Executive directors	177	284
Non-executive directors	204	235
Total directors' emoluments	381	519

All directors

The Group does not make mortgage loans available to any director. The above arrangements applied throughout 2015.

CONTACT DETAILS

Branch

Queens Court
24 Queens Street
Manchester
M2 5HX

Telephone 0161 923 8065

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

125 Portland Street Manchester M1 4QD
Tel 0161 923 8000
Fax 0161 923 8950
Web www.themanchester.co.uk