ANNUAL REPORT & ACCOUNTS

2014

Manchester
BUILDING SOCIETY

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CHAIRMAN'S STATEMENT

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

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

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

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

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

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

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

D.A. Harding
Chairman
5 March 2015

Introduction

The directors are pleased to present their 92nd Annual Report together with the Accounts and Annual Business Statement for the Group for the year ended 31 December 2014.

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

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

Strategy

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

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

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

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

Business Model

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

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

Key performance indicators

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

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

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 Chairman's Statement.

Review of the Business

PROFITABILITY

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

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

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

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

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

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

Other income and other charges: A notable element of other income is the return that the Group earns on its investment securities; the income on these securities reduced during 2014 as a result of holding a lower level of such investments (2014: £15.6m; 2013: £23.1m). The reduction in the level of investment securities arose through the natural maturity of instruments, with replacement instruments not being sourced. At the maturity date of each instrument, the Society received the full principal balance and all interest due, but as the Group fair values its investment securities it recorded a fair value loss on these financial instruments during 2014 of £0.3m (2013: £1.1m loss).

Administrative expenses: The Group's administrative activities were broadly unchanged from those of the previous year. Overhead and depreciation expenditure increased from £5.9m to £6.1m.

Impairment losses: Impairment losses in 2014 saw a credit of £33k (2013: cost of £8.7m). All elements of the Group's mortgage and loan books were tested for impairment during the year and all impairment provisions were re-assessed. The level of impairment charge recorded during 2014 was significantly lower than that of 2013, as the comparative year had seen large charges being recorded for assets where the Group held a beneficial interest and also the Society's lifetime mortgage assets; the impairment charges recorded on these books for 2014 were a credit of £1.1m (2013: charge of £6.7m) and a charge of £0.3m (2013: charge of £0.9m) respectively.

FINANCIAL POSITION

Liquid Assets: The Group's liquid assets are deposited with the Bank of England and with UK "High Street" banking counterparties in either instantly accessible bank accounts, or in investment securities that can be converted into cash in a very short period of time, notably Certificates of Deposit or Medium Term Notes. Of the Society's total liquid funds at the year end, £63.1m was deposited with the Bank of England (2013: £95.7m) and £10.0m was held in UK Treasury Bills (2013: nil). The liquidity position at December 2013 was inflated as a result of the receipt of the proceeds of the sale of the Society's UK lifetime mortgages which occurred mid-December 2013; the position at December 2014 reflects a more business-as-usual level of deposit with the Bank of England.

Mortgages and Other Loans: Group mortgage balances, after provisions, were £387.4m (2013: £454.0m), representing a year on year decrease of 14.7% (2013: 20.4% reduction). Further, to seek improvement in its regulatory capital position, the Society made no advances during the year (2013: £10.1m).

The Group has continued in its efforts to minimise mortgage arrears and to help borrowers in difficulties to resolve their situations, taking a consultative approach with borrowers who experience payment difficulties and applying forbearance as appropriate. At 31 December 2014 there were 14 mortgage accounts (2013: 18) where payments were 12 or more months in arrears, excluding the second charge portfolio. Outstanding balances on these accounts amounted to £5.4m (2013: £6.0m) with total arrears of £0.8m (2013: £0.7m), representing 0.3% of total mortgage balances (2013: 1.3%). There were 9 properties in possession at the end of the year (2013: 18). These figures represent assets where the Group holds legal title.

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

Further information is given in Note 1.

Other Assets: Included within Other Assets is a sum of £0.5m (2013: £1.1m) relating to collateral deposited in the form of cash under credit support annex agreements ("CSA") with the Group's counterparty providers of foreign exchange derivative contracts, being FX swaps.

Retail Balances: Retail balances reduced to £389.5m (2013: £502.6m) in proportion to the overall reduction in the balance sheet. The range of savings products available during the year was carefully managed in order to ensure that a suitable level of funding was held and that the rates offered were appropriately competitive.

Capital: The purpose of the Group's capital is to support its mortgage book and to absorb any losses that may arise, thereby offering members protection as a regulated deposit taker. Following the implementation of CRD IV, from 1 January 2014 the extent to which remunerated capital instruments may be included within regulatory capital changed.

The Board manages capital within the regulatory limits set by the PRA, with the regulatory capital positions at 31 December 2014 and 31 December 2013 being:

	Group under CRD IV 2014 £000	Group under CRD IV 2013 £000	Group under BASEL II 2013 £000
Tier 1 Capital			
Retained earnings	754	(1,374)	(1,374)
Deductions	(3,030)	(2,867)	-
Profit Participating Deferred Shares	17,461	17,461	17,461
Total CET1 Capital	15,185	13,220	16,087
Permanent Interest Bearing Shares	11,831	13,309	14,788
Total Tier 1 Capital	27,016	26,529	30,875
Tier 2 Capital			
Collective provisions	2,850	3,327	13,688
Permanent Interest Bearing Shares	2,958	1,479	-
Subordinated Debt	13,255	14,500	14,500
Total Tier 2 Capital	19,063	19,306	28,188
Total Regulatory Capital	46,079	45,835	59,063

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

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

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

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

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

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

More information may be found in note 29.

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

The Group's gross capital improved from 7.3% at 31 December 2013 to 10.4% at 31 December 2014. The free capital at 31 December 2014 was 11.4% (2013: 8.2%). 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 cashflow and liquidity management purposes. There are formal structures in place to monitor, report and manage the risks associated with the Group's operations. The Board seeks to manage the risks that the Group faces through a suite of regularly reviewed and approved policies, covering: Credit, Liquidity, Financial Management Risk and Operational Risk.

Principal Risks and Uncertainties

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

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

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

The principal risks that the Group faces are summarised below:

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

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

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

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

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

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

Interest Rate Risk: The Group's mortgage and savings products have different interest rate types and different maturities. This means that the Group is exposed to movements in interest rates. A movement in an external interest rate (e.g. Bank of England Base Rate or LIBOR) does not always affect every mortgage and savings product that the Society holds. The Society has more fixed rate mortgage products (notably its lifetime mortgages) than it has fixed rate savings products. Presently, there are no interest rate swaps in place. The interest rate risk position is monitored by the Risk Committee and the Board and is managed via the setting of internal policy limits and through the holding of an ascribed level of capital to mitigate the risk of interest rate movement. The disposal of the Society's UK lifetime mortgage book had a beneficial impact in reducing the overall level of interest rate risk, as it removed from the mortgage book approximately one third of the Group's fixed rate assets. The Board does not intend to hedge its remaining fixed rate mortgages using interest rate swaps at this time; this position is monitored regularly. A rise in interest rates gives rise to a risk of decreasing margins as a greater portion of the mortgage portfolio than the deposit portfolio is based on fixed rates. Liquidity risk can also be managed through changes in the interest rate of the deposit book.

Currency Risk: The Group faces currency movement risks on its Euro denominated mortgage balances which represent 11.0% of total mortgage assets as at 31 December 2014. The exchange rate risk arising on these balances is managed and mitigated by transacting exchange rate swaps. The exchange rate risk position is reported to the ALCO and Board each month.

Economic Risk: The Group faces the risk that its interest margin can become subjected to the pressure that is brought to bear from being an institution that is primarily funded through retail deposits. Within this market, there is great competition for attracting retail deposits at sustainable rates of interest. Market rates offered by retail institutions reduced following the launch of the Bank of England's Funding for Lending Scheme, but there is a risk that pressure may be applied to these rates as repayments are required under the Funding for Lending Scheme.

Regulatory Risk: As a regulated entity, the Group is exposed to risks arising from a failure to adhere to relevant regulation. In order to minimise this risk, the Group has deployed a number of risk management policies and procedures. Management, review and oversight are undertaken via the Board's various committees. The majority of the regulatory requirements that the Group faces are laid down by the PRA and the FCA. The Group monitors developments in all relevant aspects of financial service regulation and undertakes assessments of the present and future impacts of such. Appropriate actions are taken to strengthen controls and amend the Group's strategy to meet changing regulatory requirements.

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

Diversity Matters

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

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

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

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

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

D.A. Harding
Chairman
5 March 2015

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

Information presented in other sections of the Annual Report and Accounts

This year for the first time the Society has presented a separate Strategic Review. Certain information which is required to be included in the Directors' Report has been included in the Strategic Report. This information is deemed to form part of the Directors' Report:

- The Group's profitability and financial position
- The principal risks and uncertainties facing the business
- Outlook for the business

Directors

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

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

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

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

Other matters

Charitable & political donations

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

Pillar 3 Disclosure

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

Supplier payment policy & practice

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

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 2014 amounted to 5 days of average supplies (2013: 9 days).

Going concern

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

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

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

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

Events since the Year End

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

Independent Auditors

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

On behalf of the Board of Directors
D.A. Harding
Chairman
5 March 2015

CORPORATE GOVERNANCE

The Board is responsible for setting strategy and providing leadership within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board is mindful that ownership of the Society rests with its members and that the provision of appropriate savings and mortgage products is its key aim.

In order to ensure that, as a mutual organisation, it is appropriately governed, the Society has regard to the principles of the UK Corporate Governance Code ("the Code"), which is issued by the Financial Reporting Council (located at: www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx). Whilst the Code is more directly relevant to listed companies, its provisions can be adopted by a mutual organisation. The Code has been applied by the Society to the extent deemed reasonable and appropriate by the Board.

At 31 December 2014, the Board consisted of two executive directors and six non-executive directors. The role of Chief Executive is being filled by Allan Hodges who is not a director or an employee of the Society, as this is an interim appointment. Two different individuals hold the roles of Chairman and Chief Executive.

All non-executive directors are considered to be independent, except for the Chairman who, by the nature of the role that he holds, is not considered to be wholly independent. Joe Smith was nominated by the Board as the Senior Independent Director. The role of the Senior Independent Director includes being available to members, where contact through the normal channels has failed or where such contact is inappropriate.

On matters where Board approval is required, each director has a single vote; there is a majority of non-executive directors on the Board.

APPOINTMENTS TO THE BOARD

There was one new non-executive director appointments during 2014, being Fiona Smith. The Remuneration and Nominations Committee's appointment process focuses on members of the business community in order to identify suitable candidates with specific, relevant skills and experience. Search consultants were not involved in this process.

On joining the Board, each director was provided with an induction which included reading material and meetings with executive directors and certain managers. Through a programme of self-managed continuing personal development, each director ensures that they maintain a level of knowledge and skill commensurate with their role within the Group.

FINANCIAL AND BUSINESS REPORTING

The respective responsibilities of the Directors and the Auditors for preparing and reporting on the Annual Report and Accounts are contained within the Statement of Directors' Responsibilities and the Independent Auditors' Report.

The Directors' Report includes an explanation of the Society's strategy and the means by which it generates and preserves value over the medium term.

REMUNERATION

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

No director is involved in the discussion of or Board voting activity that relates to their remuneration.

The remuneration policy for Directors is contained within the Remuneration Report and service contract details may be found in the Annual Business Statement. Details of directors' remuneration are contained in Note 8 to the Accounts.

INTERACTION WITH SHAREHOLDERS

The "shareholders" of the Group are its borrowing and investing members. Unlike a PLC, each member can only have one vote and as a result there are no "major" or "significant" shareholders whose views can be canvassed for the Board. There are very few opportunities for the Group to consult with its members. The Annual General Meeting ("AGM") provides one such opportunity and all Board members are available at this Meeting in order to discuss Society matters with any attending members.

Details of the AGM are sent out to every member; all are encouraged to vote, either in person or by proxy.

THE BOARD AND ITS COMMITTEES

In order to execute its responsibilities in an efficient manner, the Board has constituted six Committees, of which three (Audit, Remuneration & Nominations and Risk) are oversight committees and three (Assets and Liabilities Committee ("ALCO"), Conduct and Credit) are executive committees. The Board retains responsibility for the setting of strategy and the approval of all policy matters. The three oversight Committees are responsible for a more detailed review of matters in their specialist areas, making recommendations to the Board as appropriate. The focus of the three executive committees is on more day-to-day operational matters, operating within the Board-approved policy framework. Operational matters are delegated to executive directors and staff, within specified mandates, in order to ensure that timely decisions can be taken in support of the Board's strategy and policy limits. In addition, the non-executive directors meet periodically to assess all aspects of governance, board responsibility and board performance.

ALCO

ALCO met monthly to consider matters relating to liquidity and treasury management, including interest rate risk, treasury counterparty risk, exchange rate risk and interest margin management.

Membership as at 31 December 2014: A. Hodges* (Chairman), C.W. Gee, G.B. Honeyborne*, P.A. Lynch, S. Melbourne*, D. Callaghan*.

(not a director)*

Audit Committee

The Committee's membership includes directors who are considered to be independent and its Chairman has experience in accounting and auditing matters. The Committee receives reports from the Society's internal and external auditors and from the Compliance function; its focus is in relation to compliance with statutory and regulatory requirements and systems and controls matters, including assessing the effectiveness of risk systems delivered via a rolling Internal Audit Plan which is approved on an annual basis and covering elements of the control environment.

The Committee monitors the non-audit work undertaken by the external auditors, which related to seeking professional advice on accounting and tax matters. The Audit Committee is satisfied that this non-audit work does not impair PwC's independence. The Committee monitors the financial reporting process, the statutory audit and reviews all financial information that is disclosed externally.

Membership as at 31 December 2014: I.A. Dewar (Chairman), J.P. Allen, J. Smith.

Conduct Committee

The Committee was newly constituted in November 2014. The Committee meets monthly and considers matters relating to the fair treatment of customers; previously this responsibility was covered within ALCO and Credit Committee.

Membership as at 31 December 2014: P.A. Lynch (Chairman), A. Hodges*, G.B. Honeyborne*, R. Mervill*.

(not a director)*

Credit Committee

The Committee met monthly to consider all lending policy matters, including lending product development, loan book profile, arrears management and provisioning matters.

Membership as at 31 December 2014: A. Hodges* (Chairman), C.W. Gee, G.B. Honeyborne*, P.A. Lynch, D. Spencer*.

(not a director)*

Remuneration and Nominations Committee

The Committee is responsible for making recommendations to the Board in relation to the appointment of new directors and also relating to the mix of skills and experience of the Board and also in relation to the levels of remuneration for all Board members and certain managers.

Membership as at 31 December 2014: H.F. Baines (Chairman), D.A. Harding, F.B. Smith, J. Smith.

Risk Committee

In its oversight capacity, the Committee considers strategic issues affecting all areas of risk. Throughout the year, the Committee advised the Board on treasury, balance sheet and operational risk issues.

Membership as at 31 December 2014: I.A. Dewar (Chairman), J.P. Allen, C.W. Gee, A. Hodges*, G.B. Honeyborne*, P.A. Lynch, F.B. Smith, J. Smith.

(not a director)*

Board and Committee attendance records for 2014

Attendance at full meetings of the Board and its Committees throughout 2014 is scheduled below. Figures displayed in brackets represent the number of meetings that any individual director was due to attend.

	Board	ALCO	Audit	Conduct	Credit	Remuneration & Nominations	Risk
J.P. Allen	11 (12)	-	2 (3)	-	-	-	5 (5)
H.F. Baines	12 (12)	-	-	-	-	3 (3)	-
I.A. Dewar	11 (12)	-	3 (3)	-	-	-	5 (5)
R.W. Dyson	3 (5)	-	-	-	-	-	2 (3)
C.W. Gee	12 (12)	10 (12)	3 (3)	-	10 (12)	-	4 (5)
D.A. Harding	12 (12)	-	-	-	-	3 (3)	-
P.A. Lynch	12 (12)	12 (12)	3 (3)	2 (2)	12 (12)	-	5 (5)
F.B. Smith	12 (12)	-	-	-	-	3 (3)	1 (2)
J. Smith	11 (12)	-	2 (3)	-	-	3 (3)	4 (5)

Figures shown for R.W. Dyson are for the period up to his date of resignation, in June 2014.

The above figures exclude instances where directors have chosen to attend a meeting where they were not a member of that committee and at which their attendance was not strictly required. Also excluded from the above are ad hoc Board and Committee meetings called at short notice and where the agenda items considered were very restricted in nature.

Internal Control

The Board is responsible for ensuring the effectiveness of the Group's systems of risk management and internal control, which are designed to identify, monitor and manage the Group's risks, rather than to eliminate them completely. Through various policies, procedures and appetite statements and with the implementation of a variety of operational control processes, the Board ensures that the Group's risks are managed proportionately.

The Society's Risk Committee assesses, monitors and manages the significant risks faced by the Group, overseeing the promotion of a risk based approach to the Group's activities.

Directed by the Audit Committee, Internal Audit reviews the control environment throughout the year and reports its findings to the Audit Committee. Following its annual review of the activities undertaken, the Audit Committee has satisfied itself that the Society's systems are effective.

Evaluation

The non-executive directors, led by the senior independent director, are responsible for assessing the performance of the Chairman. The Chief Executive attends the Chairman's appraisal in order that executive views may be taken into consideration.

On an annual basis, the Board and its Committees undertake a process of assessing and formally documenting their performance during the year using a checklist that covers all areas of operation. Contributions are sought from both Board and Committee members and other relevant parties. The Board reviews and approves the written assessments undertaken by all Committees and where required, amendments are made to the Board Procedures as a result of the assessment processes.

Other matters

There are a number of areas of the Code where the Society's governance arrangements differ. These are summarised below (with the Code reference included in brackets at the end of each narrative area):

- The Board does not document its detailed reasons for determining directors' independence, as this is assessed in a qualitative manner by the Remuneration and Nominations Committee. (B1.1)
- Remuneration and Nominations Committee does not prepare a detailed role description for new NED appointments. It is the Remuneration and Nominations Committee's view that the searching of professional network contacts results in an appropriately balanced Board membership. (B2.2)
- The Chairman's other significant commitments are not disclosed to the Board prior to appointment. Instead, the Society's time requirements of every NED are laid out in their offer letters and it is expected that they will be able to meet such. (B3.1)
- The Senior Independent Director's performance evaluation of the Chairman does not take into account the views of executive directors or of any other directors. The Board's process for such reviews does not seek such feedback as it is felt that this is a matter for discussion solely between the Chairman and the Senior Independent Director. (B6.3)
- The Annual Report does not include a separate section describing the significant issues considered by the Audit Committee and how these were addressed. Instead, it is the Board's view that the Directors' Report covers such risk considerations. (C3.8)

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 and 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.

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.

All directors

The Group does not make mortgage loans available to any director. The above arrangements applied throughout 2014.

Other business interests

Details of directors' other business interests are shown in the Annual Business Statement.

Directors' emoluments

The full directors' emoluments table may be found in Note 8 to the Accounts.

Summary

This report, in addition to Note 8 to the Accounts, is intended to provide a full explanation of the policy and application of directors' remuneration. A resolution will be put to the Annual General Meeting inviting members to vote on the Directors' Remuneration Report.

On behalf of the Remuneration and Nominations Committee
H.F. Baines
Chairman
5 March 2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Directors' responsibilities for preparing the Annual Accounts

The following statement, which should be read in conjunction with the statement of the Auditors' responsibilities, is made by the directors to explain their responsibilities in relation to the preparation of the Annual Report & Accounts, Annual Business Statement and Directors' Report.

The directors are required by the Building Societies Act 1986 ("the Act") to prepare, for each financial year, Annual Accounts which give a true and fair view of the income and expenditure of the Society and the Group for the financial year and of the state of affairs of the Society and the Group as at the end of the financial year.

In preparing the accounts, the directors are required to:

- select appropriate accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether the accounts have been prepared in accordance with International Financial Reporting Standards (as adopted by the European Union)
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the Society and Group will continue in business

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

Directors' responsibilities pursuant to the Disclosure and Transparency Rules

The directors confirm that to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with International Financial Reporting Standards (as adopted by the European Union), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Society; and
- the Annual Business Statement and Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Society, together with a description of the principal risks and uncertainties that they face.

Directors' responsibilities for accounting records and internal control

The directors are responsible for ensuring that the Society:

- keeps accounting records in accordance with the Building Societies Act 1986; and
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Prudential Regulation Authority under the Financial Services and Markets Act 2000.

The directors have general responsibility for safeguarding the assets of the Society and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the directors is aware:

- There is no relevant audit information of which the Society's auditors are unaware; and
- The directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board of Directors
D.A. Harding
Chairman
5 March 2015

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF MANCHESTER BUILDING SOCIETY

<u>Report on the financial statements</u>

Our opinion

In our opinion, Manchester Building Society's financial statements, (the "financial statements"):

- give a true and fair view of the state of the Group's and the Society's affairs as at 31 December 2014 and of the Group's and the Society's income and expenditure and the Group's and the Society's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

The financial statements, which are prepared by Manchester Building Society, comprise:

- the Group and Society Statements of Comprehensive Income for the year then ended;
- the Group and Society Statements of Changes in Equity for the year then ended;
- the Group and Society Statements of Financial Position as at 31 December 2014;
- the Group and Society Statements of Cash Flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matters prescribed by the Buildings Societies Act 1986

In our opinion:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the accounting records and the financial statements; and
- The information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

<u>Other matters on which we are required to report by exception</u>

Adequacy of accounting records and information and explanations received

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- proper accounting records have not been kept, by the Society; or
- the Society financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have no exceptions to report arising from this responsibility.

<u>Responsibilities for the financial statements and the audit</u>

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 12, the directors are responsible for the preparation of the annual report and accounts and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the annual report and accounts in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the annual report and accounts sufficient to give reasonable assurance that the annual report and accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group and Society's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the annual report & accounts.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited annual report and accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Heather Varley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors Manchester
5 March 2015

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Interest receivable and similar income	2	18,609	27,354	18,220	26,494
Interest payable and similar charges	3	(7,973)	(12,947)	(7,973)	(12,947)
Net interest income		10,636	14,407	10,247	13,547
Fees and commission income		370	505	370	505
Fees and commission expense		(45)	(20)	(45)	(20)
Other operating income	4	173	222	870	1,090
Other operating charges	4	(58)	(125)	(201)	(205)
Profit/(loss) from derivatives	5	9	(329)	9	(329)
Net (loss) on financial assets designated at fair value through profit and loss	11	(314)	(1,134)	(314)	(1,134)
Total operating income		10,771	13,526	10,936	13,454
Administrative expenses	6	(5,845)	(5,689)	(5,421)	(5,344)
Depreciation	16	(227)	(218)	(87)	(79)
Operating profit before impairments and provisions		4,699	7,619	5,428	8,031
Impairment losses	14	33	(8,706)	(3,750)	(7,646)
Financial Services Compensation Scheme Levy	30	(430)	(489)	(430)	(489)
Profit/(loss) on ordinary activities before income tax		4,302	(1,576)	1,248	(104)
Income tax credit / (expense)	9	150	(5,517)	376	(5,645)
Profit/(loss) for the financial year		4,452	(7,093)	1,624	(5,749)

The notes on pages 18 to 49 form part of these accounts.

STATEMENT OF CHANGES IN EQUITY

	Group 2014				Society 2014			
	Retained Earnings £000	Subscribed Capital £000	PPDS £000	Total £000	Retained Earnings £000	Subscribed Capital £000	PPDS £000	Total £000
Balance at 1 January 2014	(4,053)	9,788	17,461	23,196	(1,570)	9,788	17,461	25,679
Transactions with equity holders - interest on PIBS	(675)	-	-	(675)	(675)	-	-	(675)
Tax credit relating to interest on PIBS	135	-	-	135	135	-	-	135
Profit and total comprehensive income for year	4,452	-	-	4,452	1,624	-	-	1,624
Balance at 31 December 2014	(141)	9,788	17,461	27,108	(486)	9,788	17,461	26,763

	Group 2013				Society 2013			
	Retained Earnings £000	Subscribed Capital £000	PPDS £000	Total £000	Retained Earnings £000	Subscribed Capital £000	PPDS £000	Total £000
Balance at 1 January 2013	3,580	9,788	-	13,368	4,719	9,788	-	14,507
Issue of PPDS at par	-	-	18,000	18,000	-	-	18,000	18,000
Cost of issue of PPDS	-	-	(539)	(539)	-	-	(539)	(539)
Transactions with equity holders - interest on PIBS	(675)	-	-	(675)	(675)	-	-	(675)
Tax credit relating to interest on PIBS	135	-	-	135	135	-	-	135
(Loss) and total comprehensive income for year	(7,093)	-	-	(7,093)	(5,749)	-	-	(5,749)
Balance at 31 December 2013	(4,053)	9,788	17,461	23,196	(1,570)	9,788	17,461	25,679

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Notes	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
ASSETS					
Liquid assets					
Cash and balances with the Bank of England		63,053	95,677	63,053	95,677
Loans and advances to credit institutions	10	26,206	58,313	26,155	58,263
Investment securities	11	15,561	23,057	15,561	23,057
		104,820	177,047	104,769	176,997
Derivative financial instruments	12	2,146	582	2,134	582
Loans and advances to customers					
Loans fully secured on residential property	13	354,437	416,480	345,872	408,294
Loans fully secured on land	13	31,278	35,439	31,278	35,439
Other loans	13	1,657	2,128	1,657	2,128
		387,372	454,047	378,807	445,861
Investments					
Subsidiary undertakings	15	-	-	15,905	18,850
Trade investments	15	250	250	250	250
		250	250	16,155	19,100
Property, plant and equipment	16	8,313	8,358	275	172
Current tax assets		356	356	335	335
Deferred tax assets	17	4,542	4,257	4,542	4,031
Other assets	18	948	1,533	922	1,521
Total assets		508,747	646,430	507,939	648,599
LIABILITIES					
Due to members	19	389,475	502,586	389,475	502,586
Deposits from banks	20	1,508	5,543	1,508	5,543
Other deposits	21	66,946	91,285	66,946	91,285
Derivative financial instruments	12	-	620	-	620
Other liabilities	23	2,796	2,225	2,333	1,911
Provisions for liabilities and charges	30	214	275	214	275
Subordinated liabilities	22	15,700	15,700	15,700	15,700
Subscribed capital	24	5,000	5,000	5,000	5,000
		481,639	623,234	481,176	622,920
Equity					
Retained earnings		(141)	(4,053)	(486)	(1,570)
Subscribed capital	24	9,788	9,788	9,788	9,788
Profit participating deferred shares	26	17,461	17,461	17,461	17,461
		27,108	23,196	26,763	25,679
Total liabilities		508,747	646,430	507,939	648,599

The accounts on pages 15 to 49 were approved by the Board of Directors on 5 March 2015.

D.A. Harding	A. Hodges	C.W. Gee
Chairman	Chief Executive	Finance Director

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Cash flows from operating activities					
Interest and commission receivable		14,797	22,703	15,534	22,628
Interest expense payable		(7,577)	(12,547)	(7,577)	(12,547)
Fees and commission payable		(74)	(84)	(74)	(82)
Settlement of derivative contracts		(2,175)	(40,013)	(2,163)	(40,013)
Net trading and other income		1,053	57	1,043	57
Cash payments to employees and suppliers		(6,275)	(6,178)	(5,851)	(5,833)
Income taxes paid		-	-	-	-
Cash flows from operating activities before changes in operating assets and liabilities		(251)	(36,062)	912	(35,790)
Changes in operating assets and liabilities					
Net decrease in loans and advances to credit institutions		5	679	5	679
Net decrease in loans and advances to customers		69,977	111,197	66,154	111,576
Net decrease in other assets		585	41,989	599	41,662
Net (decrease) in deposits from banks		(4,035)	(17,061)	(4,035)	(17,061)
Net (decrease) / increase in other deposits		(24,339)	32,312	(24,339)	32,312
Net (decrease) in amounts due to members		(113,111)	(114,423)	(113,111)	(114,423)
Net increase in other liabilities		575	498	283	226
Net (decrease) in liabilities and charges		(61)	(56)	(61)	(56)
Net cash from operating activities		(70,655)	19,073	(73,593)	19,125
Cash flow from investing activities					
Investments in subsidiary undertakings		-	-	2,945	(53)
Purchase of property and equipment	16	(182)	(99)	(190)	(98)
Sale of securities		17,203	63,127	17,203	63,127
Investment in securities		(10,021)	(19,757)	(10,021)	(19,757)
Net cash from investing activities		7,000	43,271	9,937	43,219
Cash flow from financing activities					
Receipt of profit participating deferred shares	26	-	17,461	-	17,461
Interest paid on subscribed capital		(1,071)	(1,075)	(1,071)	(1,075)
Net cash from financing activities		(1,071)	16,386	(1,071)	16,386
Net movement in cash and cash equivalents		(64,726)	78,730	(64,727)	78,730
Cash and cash equivalents at start of year		153,959	75,229	153,909	75,179
Cash and cash equivalents at end of year	25	89,233	153,959	89,182	153,909

1. Accounting policies and financial risk management

a) Summary of significant accounting policies

The principal accounting policies applied consistently in the preparation of these financial statements are set out below.

Basis of presentation

The Group's financial statements have been prepared on a going concern basis (see page 7 of Directors' Report) and in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") pronouncements as issued by the International Accounting Standards Board and as adopted by the European Union and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 applicable to building societies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of all derivative contracts and certain other assets.

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

The Board has continued to focus on managing the risks and uncertainties facing the business and assessing regular forecasts covering profitability, liquidity and regulatory capital ratios. The key areas of judgement in the December 2014 accounts, as highlighted within the Directors' Report, relate to the sensitivity of the lifetime mortgage insurance risk provisions to changes in key estimates, the assessment of impairment risk in relation to mortgage assets, including the potential impact of interest rate rises on margins and customer affordability and any further legal and regulatory risk which may be associated with the small portfolio of CCA regulated loans, over which the Society holds a beneficial interest.

The Board has performed scenario analysis to consider eventualities using more pessimistic business and economic assumptions than those used in its Corporate Plan financial forecasts, including stresses applied to the interest margin and the cost base in order to demonstrate that the Group is able to meet its regulatory capital position over the period of the Corporate Plan. The outputs of these projections also incorporate steps to reduce interest rate risk and identifies that the Group is able to meet its regulatory capital position over the Corporate Planning period. Based on the output of the Board's projections, scenario analysis and through its regular discussions with the PRA (which include dialogue relating to its regulatory capital and corporate planning forecasts), the Board has a reasonable expectation that the Group will continue to operate on a going concern basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 1c.

A number of IFRS accounting standards and pronouncements identified as being relevant to the Group were adopted with effect from 1 January 2014:

- *IFRS 10 - Consolidated Financial Statements*. This standard changes the basis for determining which entities are consolidated into the consolidated financial statements. As a result the Group has reassessed all of its relationships with other entities and the outcome of this review is summarised in note 15.
- *IFRS 12 - Disclosures of Interests in Other Entities*. This standard introduces new and additional disclosures in respect of interests in subsidiaries, joint arrangements and associates. As a result there is more disclosure in the Group's financial statements.

The following new or amended standards came into force with effect from 1 January 2014 and the Directors have concluded that none of these have an impact on the financial statements of the Society or the Group: *IFRS 11 – Joint arrangements*; *IAS 27 (revised) - Separate Financial Statements*; and *IAS 28 (revised) - Investments in Associates and Joint Ventures*.

There have also been some amendments to the following standards, none of which have an impact on the financial statements of the Society or the Group: IAS 27, IAS 32, IAS 36 and IAS 39.

IFRIC 21 – Levies also came into force with effect from 1 January 2014. The Group elected to early-adopt this IFRIC in its 2013 financial statements and there is no additional impact in the year ended 31 December 2014.

The Group has noted that there are a number of further new accounting standards, which are neither adopted by the EU nor effective at 31 December 2014, but which are likely to be adopted over the coming years. The only one of these which is likely to have a significant impact on the Group is *IFRS 9 – Financial instruments*.

The final version of IFRS 9 has been issued by the International Accounting Standards Board but has not yet been endorsed by the EU. The effective date will be 1 January 2018, although it will be available for early adoption. The most significant impact on the Group is likely to be in respect of the measurement of impairment of financial assets; the Group will continue to monitor developments and consider the impact on its financial statements, which could be significant.

The Directors do not expect the other standards to have a material impact on the financial statements of the Society and Group.

Basis of consolidation

The Group's accounts include the accounts of the Society, its subsidiary undertakings and two entities in which the Group holds no shares but over which, per IFRS 10, it exerts control. The Society and its subsidiaries have accounting periods ending on 31 December, whilst NMB Mortgage Acquisition Company Limited ("NMB MAC") and Consumer Loans Company Limited ("CLC") have accounting periods ending on 28 February. For consolidation purposes, the accounting records of the entities with 28 February period ends have been prepared at 31 December and consolidated for the 12 months ended 31 December. The accounting policies of the subsidiary undertakings are materially consistent with the Group accounting policies. The accounting policies for the two other entities, where different from those of the Group, have been brought in line with those of the Group on consolidation. All internal costs and income associated with the subsidiaries and the two other entities are removed on consolidation. The Society's statement of financial position includes the investment in the subsidiary undertakings at cost, less any provision for impairment.

Interest income and expense

Interest income and expense are recognised in the statements of comprehensive income for all financial instruments measured at amortised cost using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated cashflows (excluding future expected credit losses) to the net carrying amount of the asset over the expected life of the instrument. In calculating the effective interest rate all contractual terms of the financial instrument are taken into account.

Insurance contracts

The Society has a portfolio of lifetime mortgage loans secured on Spanish residential property. A particular clause of the mortgage contract meets the definition of an insurance contract; where a borrower dies or goes into long term care and a redemption receipt is less than the contractual sum owed the Society does not have any further ability to recover amounts from the borrower or the estate.

Under IFRS 4 the Society has continued to account for these mortgage contracts using its existing accounting policies. The mortgage contract has been classified as being not unbundled. The impact of assessing the contracts as being "not unbundled" is that the income earned on the mortgage contracts is not split between interest and insurance premium and that the mortgage asset is included within loans and advances at the present value of future cash flows.

Measurement and recognition of the income earned on the mortgage contract has been undertaken in line with the Society's other mortgage contracts; the income earned has been included in the Income Statement within the Interest and Similar Income category. Within the Statement of Financial Position the mortgage asset and any impairment which has been calculated is disclosed in line with IAS 39.

The insurance risk liability associated with the no-negative equity guarantee is calculated by estimating potential shortfalls arising at redemption, discounted at the effective interest rate, and is represented by the impairment provision. The assessment incorporates assumptions relating to future house price values at the time of account redemption. Its assessment is also based on expected future outcomes relating to the date on which an account redeems which, given the nature of the product is expected to be on death of the borrower, but can be affected by health issues that would see borrowers move into care; it can also be affected by non-health related voluntary pre-payment.

Fees and commissions

Fees and commissions relating to the creating of loans and advances to members are recognised within interest income using the effective interest rate method.

Other operating income

The Group recognises foreign exchange gains and losses and rents receivable as other operating income. The Society recognises income relating to the interest that it charges on the loans made to its subsidiary undertakings.

Financial assets

The Group classifies its financial assets in the following categories under IAS 39:

(i) Financial assets at fair value through profit or loss.

Derivative financial instruments. These instruments hedge the exchange rate risk on the Group's Euro denominated Spanish mortgages. These instruments are carried at their fair value with changes in their fair value reflected in profit or loss as part of total operating income. The Society disposed of all of its interest rate hedges in June 2013.

Investment securities. These are deposit instruments with major high street banks (being Certificates of Deposit and Medium Term Notes) and Treasury Bills, used for liquidity management purposes. These instruments are carried at their market value which reflects the fair value of the asset. Changes in their fair value are recognised in profit or loss as part of total operating income. Any gain or loss on disposal is taken through profit or loss.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Fair values are obtained in line with the three tier hierarchy described in IFRS 7 from quoted market prices in active markets, revaluation techniques using specialist tools and confirmations from counterparties.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the profit or loss in the period in which they arise.

The fair values of financial assets as at 31 December 2014 and 31 December 2013 are detailed in the fair values of financial assets and liabilities section on page 31.

(ii) Loans and receivables

Loans and advances to credit institutions. These are sums deposited in instantly accessible bank accounts with major high street banks, used for liquidity purposes. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and advances to customers. These are sums advanced to the Group's borrowers, secured on property, land or (in a very restricted number of instances) unsecured. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are carried at amortised cost using the effective interest method.

Purchases and sales of financial assets at fair value through profit or loss are recognised on the trade-date being the date on which the Group legally commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are no longer recognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Impairment

The Group assesses at each financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes accounts going into arrears and other observable data that comes to the attention of the Group about the following loss events:

i. the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
ii. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
iii. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:

   – adverse changes in the payment status of borrowers in the Group; or

   – national or local economic conditions that correlate with defaults on the assets in the Group. The above assessment includes those mortgage assets which are subject to forbearance arrangements.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment value is then reflected in a separate account from the underlying assets in the Group's financial records and is recognised in the Income Statement.

The Group's policy in relation to any properties that it has taken into possession is that it will seek their disposal with a view to minimising the losses that it may incur.

Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Investments in the Society's subsidiary undertakings are recorded in the Statement of Financial Position at historic cost less any provision for impairment. Impairment is assessed in line with *IAS 36 – Impairment of Assets* comparing the carrying value of the investment against future cash flows from the subsidiary undertakings.

Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation and any provision for impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in each asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

- Freehold office premises: over 50 years.
- Office premises structural alterations: over 20 years.
- Office fixtures and fittings: over 10 years.
- Computer and sundry equipment: over 5 years.
- Other assets: over 4 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial reporting date.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including: cash in hand and non-restricted balances with central banks, loans and advances to banks and amounts due from other banks.

Corporation tax

Corporation tax is charged at the current rate calculated on the basis of the profit on ordinary activities as adjusted in line with HMRC requirements for taxation purposes.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the financial position date and are expected to apply when the deferred tax asset is realised or the liability is settled.

Deferred tax assets ("DTAs") are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised.

In the Chancellor's Autumn Statement in December 2014 a restriction was introduced for the Banking sector to the amount of the profit for a financial year which can be offset by historic losses brought forward. With effect from 1 April 2015 only 50% of the Society's profits can be offset against historical losses. The restriction applies to losses made up to 1 April 2015, but not to losses incurred subsequently. The restrictions introduced in this draft legislation mean that the Group may be liable to make Corporation Tax payments over the next few years in spite of the scale of the DTA. This legislation is still in draft form and could be subject to alteration before it is enacted.

Pensions - Group defined contribution scheme

The Group operates a defined contribution pension scheme for its employees. All the costs incurred by the employer are included in profit or loss.

Foreign currency

Foreign currency transactions are translated into sterling, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognised in profit or loss.

Leases

The Group has entered into operating lease agreements. Rental income and expenditure is recognised in profit or loss on a straight line basis over the term of the lease in other income and charges in the Income Statement.

Financial Liabilities

All financial liabilities including shares, deposits, debt securities and subordinated liabilities are recognised initially at fair value, being the issue proceeds, net of transaction costs incurred as appropriate. Financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Offsetting

Foreign exchange derivative financial assets are subject to offsetting, enforceable, master netting agreements. The gross and net amounts of these assets on the balance sheet is £2,146k (2013: £582k). Related amounts not set off are £nil (2013: £620k) financial liabilities with cash collateral received of £600k (2013: £20k). Foreign exchange derivative financial liabilities are subject to offsetting, enforceable, master netting agreements. The gross and net amounts of these liabilities on the balance sheet is £nil (2013: £620k). Related amounts not set off are £2,146k (2013: £620k) financial assets with cash collateral paid of £525k (2013: £1,070k).

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

Financial Services Compensation Scheme ("FSCS") - Provisions for Liabilities and charges

During 2008, claims were made on the FSCS following the failure of Bradford & Bingley plc, Heritable Bank plc, Kaupthing Singer and Friedlander Limited and London Scottish Bank plc. In order to fund the claims made under its terms of operation, the FSCS has borrowed from the Bank of England and HM Treasury. The FSCS pays interest on its borrowings, it incurs operating expenses in its own right and incurs capital losses where shortfalls arise on the realisations of assets that it is managing from the failed banks listed above. The costs of the FSCS are passed on to all UK banks and building societies.

The Society makes provision for the charge based on estimates of its share of the total levy that the FSCS will raise by comparing its level of "protected deposits" with those of all deposit taking institutions covered by the FSCS. The Society's estimates are sensitive to the level of estimated management expenditure incurred by the FSCS and the level of capital losses that will arise in future periods as the FSCS undertakes the management of the assets of the failed banks.

In accordance with *IFRIC 21 - Levies* the trigger date for recognition of a provision in respect of the FSCS levy is 1 April each year and at 31 December the Society holds an accrual for one year's interest levy.

Permanent Interest Bearing Shares

The Society has two tranches of Permanent Interest Bearing Shares in issue. Both sets were issued with the intention of enhancing the Society's regulatory capital position. The PIBS issued in 2005 confer unconditional discretion on the Society's Board to cancel in part or in whole any interest payment due. Interest on the 1999 PIBS can only be cancelled in a restricted number of circumstances; the Board does not have an unconditional right to cancel this interest. Therefore, in accordance with *IAS 32 - Financial Instruments: Presentation*, within the Financial Statements the 2005 PIBS are classified as equity and the 1999 PIBS are classified as a liability. Interest paid on the 1999 PIBS issue is shown in the Income Statement whereas interest paid on the 2005 PIBS issue is shown in the Statement of Changes in Equity.

Profit Participating Deferred Shares

The Society has £18m of Profit Participating Deferred Shares, issued during 2013 (see note 26). These instruments qualify as equity within the Statement of Financial Position. Whilst no coupon was paid on the PPDS during 2014, any such cost would be recorded through the Statement of Changes in Equity.

b) Financial risk management

Strategy in using financial instruments

The Group accepts deposits from customers at both fixed and floating rates of interest, some of which are for fixed periods and others are open-ended; it seeks to enhance its interest margins by investing these funds in high-quality mortgages, liquidity instruments and liquid assets.

The Society has more fixed rate mortgages than fixed rate savings accounts. In order to manage the interest rate risk that arises, the Society may enter into simple-form interest rate swap arrangements with the intention of gaining some economic certainty as to its net interest margin position.

The Group uses financial instruments to invest liquid asset balances and raise funding. The Group also uses derivative financial instruments (derivatives) to manage the risks arising from its operations.

The Board has authorised the use of derivatives by the Group to reduce the risk of loss arising from changes in market risks in accordance with Section 9A (4) of the Building Societies Act 1986 and derivatives are used by the Group for economic hedging purposes only. The Group does not run a trading book.

The principal derivatives used by the Group are foreign exchange contracts that are used to economically hedge Group Statement of Financial Position exposures.

During June 2013, the Society exited from all of its historic interest rate swaps as it had been identified that they were in-effective for IAS39 hedge accounting purposes. The Board does not intend to hedge its fixed rate mortgages using interest rate swaps at this time; this position is monitored regularly.

Credit risk - exposure

Credit risk is the risk that an individual or institutional counterparty to whom the Society has lent money will be unable to re-pay the sums in full when they fall due.

The Group manages the levels of credit risk it accepts by placing limits on the amount available in relation to individual borrowers and groups of borrowers. Such risks are monitored on a revolving basis and are subject to a regular review. Policy limits on the level of credit risk by product, industry sector and by country are approved half yearly by the Board. The exposure to any one borrower, including banking counterparties, is further restricted by sub-limits covering on and off balance sheet exposures. Actual exposures against limits are monitored daily.

The Group's most significant concentration of credit risk is within the loans secured on residential property in the UK. The following table shows the credit exposure, which is the maximum potential exposure before provisions and including committed facilities.

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Financial assets				
Loans and advances to credit institutions	26,206	58,313	26,155	58,263
Investment securities	15,561	23,057	15,561	23,057
Gross loans and advances - on residential property and land	361,696	425,102	346,458	409,171
Gross loans and advances - lifetime mortgages	42,953	46,122	42,953	46,122
Gross loans and advances - other loans	1,678	2,138	1,678	2,138
Loans to subsidiary undertakings	-	-	18,613	24,519
Derivatives - interest and exchange rate swaps	2,146	582	2,134	582
	450,240	555,314	453,552	563,852

Impairment provisions are provided for losses that have been incurred at the financial position date. The figure for lifetime mortgages is also stated before deduction of an effective interest rate provision.

Credit risk - forbearance

The Society's forbearance strategy is to seek to agree with borrowers in financial difficulty the provision of short to medium term assistance with their monthly mortgage payments, in order to avoid or mitigate the risk of financial loss. The range of forbearance options available in certain circumstances includes arrangements to clear the arrears over a reasonable period of time, payment concessions, and capitalisation of arrears. For mortgages that are not past due, conversion to interest only payment terms, an extension of term, or suspension of monthly payments pending sale of the property are available as options to reduce the monthly payment due and these seek to avoid a mortgage entering arrears and becoming past due, allowing time for a borrower to regularise their financial position.

As at 31 December 2014, the Society had 47 accounts (2013: 52) with balances of £5.6m (2013: £6m) where conversion to interest only or an extension of term had taken place. Of these, 29 accounts (2013: 30) were neither past due nor impaired, and 18 (2013: 22) were past due and/or impaired. The aggregate capital balance was £3.0m (2013: £3.6m); aggregate arrears £28k (2013: £31k); and aggregate impairment provision was £5k (2013: £19k).

The forbearance strategy seeks to avoid arrears arising or further increasing and to allow account performance to be restored by supporting the mortgage payments being brought up to date or to provide a period of time for repayment of the amount owed. The assessment of impaired loans incorporates management work-out strategies in relation to a number of credit exposures. If expectations were to change then this would affect the impairment risk. This is incorporated into the assessment of impairment provisions.

There are no specific concentrations of accounts in forbearance in relation to portfolios or geographical areas.

Credit risk – Loans and advances to customers

The analysis shown below, in relation to loans and advances to customers is based on the Group's balances. Information is disclosed for the Society where there is significant variance between the Group and Society figures.

- Of the £406m of gross mortgage assets in this class £370m (91.1%) (2013: 91.5%) is fully secured on residential property and £34m (8.4%) (2013: 8.0%) is fully secured on land.
- £2m (0.4%) (2013: 0.5%) is unsecured personal loans.
- With balances of £43m Lifetime mortgages represent 10.7% of this class (2013: 9.7%).

Secured lending – fully secured on residential property

The average loan to valuation ("LTV") of the Group's lending that is fully secured on residential property is estimated at 39% (2013: 39%). Further analysis of the Group's residential property lending is detailed below.

	2014 %	2013 %
<70%	73	72
70% - 80%	13	16
80% - 90%	7	6
90% - 100%	3	3
>100%	4	3
Average loan to value of stock - UK mortgages	37	38
Average loan to value of stock - Spanish mortgages	74	70

Estimates of current LTV are obtained by indexing the valuation at the last physical inspection of the property, by reference to externally published data. The above encompasses those mortgage assets over which the Group holds legal title and excludes those first and second charge mortgage assets where it only holds a beneficial interest, as, for this book, LTV is not considered to be the best measure of credit risk.

At 31 December 2014, 27% of the loan book had an LTV of 70% or greater (2013: 28%). In the event that valuation were to increase by 5%, at 31 December 2014 this would reduce the proportion of the loan book that had an LTV of 70% or greater to 22% (2013: 23%); in the event that House Price Indices ("HPIs") decreased by 5% at 31 December 2014, the proportion of the loan book with an LTV of 70% or greater would increase to 34% (2013: 36%).

The Group continues to review regularly the quality of its loans that are fully secured on residential property. The proportion of these loans more than 3 months in arrears is 3% (2013: 3%). There are no lifetime mortgages which are past due.

The table below provides further information on the payment due status of gross loans fully secured on residential property.

	2014 £m	2014 %	2013 £m	2013 %
Not impaired:				
Neither past due nor impaired	324.5	88	378.6	87
Past due up to 3 months	16.1	4	22.9	5
Past due 3 to 6 months	4.2	1	3.4	1
Past due 6 to 12 months	2.2	1	1.0	-
Past due over 12 months	0.3	-	0.5	-
Impaired:				
Not past due and up to 3 months	2.1	-	2.2	1
Past due 3 to 6 months	-	-	1.2	-
Past due 6 to 12 months	0.1	-	1.2	-
Past due over 12 months	2.2	1	2.2	1
Possessions *	2.5	1	3.4	1
Society	354.2	96	416.6	96
Mortgage book where beneficial interest is held **	14.8	4	15.4	4
Group	369.0	100	432.0	100

* For properties in possession, £2.4m (2013: £3.3m) of collateral is held. In the analysis above, for all past due loans, £50.0m (2013: £78.6m) of collateral is held.

** The mortgage book of first and second charge loans in which the Group holds a beneficial interest was initially acquired at a deep discount and is considered impaired. The net book value of this loan book after impairment provisions is £7.8m (2013: £7.6m).

In the analysis above, loans which are not impaired and are less than 3 months past due and which have collective impairment provisions total £13.3m (2013: £13.6m).

At 31 December 2014 the Group held individually identified impairment provisions of £2.0m (2013: £2.0m).

Geographical Analysis

The table below provides information on the geographical split of the Group's gross lending on residential property.

	2014 £m	2014 %	2013 £m	2013 %
East Midlands	6.0	2	7.6	2
Greater London	23.1	6	27.2	6
London	51.6	14	64.2	15
North	7.9	2	8.7	2
North West	139.2	38	161.5	37
Other	12.5	3	14.6	3
South East	31.4	9	38.5	9
South West	12.8	3	15.1	4
Wales	9.6	3	11.5	3
West Midlands	12.1	3	14.2	3
Yorkshire	20.8	6	23.6	5
Total UK properties	327.0	89	386.7	89
Spain (lending is lifetime mortgages)	42.0	11	45.3	11
	369.0	100	432.0	100

Secured lending – fully secured on land

The constitution of gross loans fully secured on land by industry type is as follows:

	2014 £m	2014 %	2013 £m	2013 %
Offices	10.1	29	10.5	28
Shops	7.7	23	9.2	24
Industrial	5.4	16	5.7	15
Restaurants, Hotels and other	11.2	32	12.6	33
	34.4	100	38.0	100

The table below provides further information on the payment due status of gross loans that are fully secured on land.

	2014 £m	2014 %	2013 £m	2013 %
Not impaired:				
Neither past due nor impaired	26.8	78	29.1	76
Past due up to 3 months	1.1	3	2.1	5
Past due 3 to 6 months	0.7	2	0.8	2
Past due 6 to 12 months	0.1	-	0.4	1
Past due over 12 months	0.3	1	0.6	2
Impaired:				
Not past due and up to 3 months	0.9	3	0.7	2
Past due 3 to 6 months	-	-	-	-
Past due 6 to 12 months	-	-	0.6	2
Past due over 12 months	2.1	6	1.4	4
Possessions *	2.4	7	2.3	6
	34.4	100	38.0	100

* For properties in possession £2.1m of collateral is held (2013: £2.2m). In the analysis above, for all past due loans £5.9m of collateral is held (2013: £11.0m).

In the analysis above, loans which are not impaired and are less than 3 months past due have collective impairment provisions of £172k (2013: £72k).

At 31 December 2014 the Group held individually identified impairment provisions of £3.1m (2013: £2.5m).

Unsecured lending

The table below provides further information on the payment due status of gross unsecured loans.

	2014 £m	2014 %	2013 £m	2013 %
Not impaired:				
Neither past due nor impaired	1.5	88	1.8	89
Past due up to 3 months	0.1	6	0.2	8
Past due 3 to 6 months	0.1	6	0.1	3
	1.7	100	2.1	100

In the analysis above, loans which are not impaired and are less than 3 months past due have collective impairment provisions of £nil (2013: £nil).

At 31 December 2014 the Group held individually identified impairment provisions of £21k (2013: £10k).

Credit risk – loans and advances to banks and investment securities

Credit risk relating to liquid assets arises from the investments held by the Group in order to meet business-as-usual liquidity requirements. This aspect of credit risk is managed by the Group's Risk Committee, which sets and monitors compliance with policy and limits. The equivalent information has not been disclosed for the Society as there is no significant variance between the Group and Society figures.

The maximum individual counterparty exposure at the financial position date was £63m (2013: £96m) which was on deposit with the Bank of England. The number of active counterparties at the financial position date was 6 (2013: 7). All counterparties are UK 'High Street' blue chip banks whose registered address is within the UK and who are authorised by the PRA and regulated by the FCA and PRA as lead regulators; this is in support of the Board's low risk appetite approach to banking counterparty risk.

For credit purposes, the liquid asset portfolio comprises the following sub-portfolios as at 31 December:

	2014 £m	2014 %	2013 £m	2013 %
Financial institutions	104.7	100	176.9	100
Mortgage backed securities	0.1	-	0.1	-
	104.8	100	177.0	100

The Group's Risk Committee monitors exposure concentrations against a variety of criteria including industry sector / asset class and country of counterparty.

Geographical exposure, assessed by reference to the registered address of the counterparty and the lead regulator of the entity:

	2014 £m	2014 %	2013 £m	2013 %
UK	104.8	100	177.0	100
	104.8	100	177.0	100

Industry sector/asset class exposure:

	2014 £m	2014 %	2013 £m	2013 %
UK financial institutions	104.7	100	176.9	100
Asset backed securities	0.1	-	0.1	-
	104.8	100	177.0	100

Collateral held as security for liquid assets is determined by the nature of the instrument. Loans and debt securities are generally unsecured with the exception of asset backed securities which are secured by pools of financial assets.

Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which are monitored monthly.

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The equivalent information has not been disclosed for the Society as there is no significant variance between the Group and Society figures.

The Group's interest rate sensitivity exposures at 31 December 2014 and 31 December 2013 was:

	Effective interest rate %	0-3 months £000	3-6 months £000	6-12 months £000	1-5 years £000	5-10 years £000	10-20 years £000	20-30 years £000	Over 30 years £000	Non-interest bearing £000	Total £000
At 31 December 2014											
Assets											
Cash and central banks balances	0.50	63,028	-	-	-	-	-	-	-	25	63,053
Due from other banks	0.66	26,154	-	-	-	-	-	-	-	52	26,206
Investment securities	1.48	10,057	5,050	-	-	-	-	-	-	454	15,561
Loans to customers	3.88	314,849	1,703	3,513	10,935	2,007	11,315	6,207	239	-	350,768
Lifetime mortgages	7.02	-	-	1,733	1,041	2,125	14,423	16,309	973	-	36,604
Other assets		1,285	877	716	76	-	-	-	-	13,601	16,555
Total assets		415,373	7,630	5,962	12,052	4,132	25,738	22,516	1,212	14,132	508,747
Liabilities											
Due to other banks	0.93	1,000	-	500	-	-	-	-	-	8	1,508
Other deposits	1.24	52,973	5,500	8,214	-	-	-	-	-	259	66,946
Due to members	1.26	363,901	6,625	2,892	15,065	-	-	-	-	992	389,475
Subordinated liabilities	4.38	10,700	-	-	-	-	5,000	-	-	-	15,700
Other liabilities		-	-	-	-	-	-	-	-	3,010	3,010
Subscribed capital		-	-	-	-	-	-	-	-	14,788	14,788
Profit participating deferred shares		-	-	-	-	-	-	-	-	17,461	17,461
Reserves										(141)	(141)
Total liabilities		428,574	12,125	11,606	15,065	-	5,000	-	-	36,377	508,747
Cumulative interest rate sensitivity gap		(13,201)	(4,495)	(5,644)	(3,013)	4,132	20,738	22,516	1,212	(22,245)	-

	Effective interest rate %	0-3 months £000	3-6 months £000	6-12 months £000	1-5 years £000	5-10 years £000	10-20 years £000	20-30 years £000	Over 30 years £000	Non-interest bearing £000	Total £000
At 31 December 2013											
Assets											
Cash and central banks balances	0.50	95,645	-	-	-	-	-	-	-	32	95,677
Due from other banks	0.74	58,282	-	-	-	-	-	-	-	31	58,313
Investment securities	3.63	-	15,335	2,054	5,259	-	-	-	-	409	23,057
Loans to customers	3.93	353,802	5,163	10,209	17,162	7,880	12,294	7,476	119	-	414,105
Lifetime mortgages	6.75	370	370	739	-	2,704	15,703	18,216	1,840	-	39,942
Other assets	-	-	-	-	-	-	-	-	-	15,336	15,336
Total assets		508,099	20,868	13,002	22,421	10,584	27,997	25,692	1,959	15,808	646,430
Liabilities											
Due to other banks	1.09	4,000	1,000	500	-	-	-	-	-	43	5,543
Other deposits	1.55	60,039	9,500	11,212	10,000	-	-	-	-	534	91,285
Due to members	1.55	463,206	11,606	19,745	6,530	-	-	-	-	1,499	502,586
Subordinated liabilities	4.36	9,200	-	-	1,500	-	5,000	-	-	-	15,700
Other liabilities	-	-	-	-	-	-	-	-	-	3,120	3,120
Subscribed capital	-	-	-	-	-	-	-	-	-	14,788	14,788
Profit participating deferred shares	-	-	-	-	-	-	-	-	-	17,461	17,461
Reserves	-	-	-	-	-	-	-	-	-	(4,053)	(4,053)
Total liabilities		536,445	22,106	31,457	18,030	-	5,000	-	-	33,392	646,430
Cumulative interest rate sensitivity gap		(28,346)	(1,238)	(18,455)	4,391	10,584	22,997	25,692	1,959	(17,584)	-

The Society's financial performance is sensitive to changes in interest rates in respect of the interest it earns. Based on the assets and liabilities in the balance sheet at 31 December 2014 an increase of 1% in market interest rates across all maturities would reduce income and equity by £5.2m (2013: £5.1m reduction). These amounts are for indication only, and represent the impact of an unexpected overnight 1% parallel shift in the yield curve, without any subsequent management action, and consequently do not represent amounts that are at risk. ALCO monitor a variety of interest rate shocks from 0.5% to 4%.

Liquidity risk

The Group is exposed to daily calls on its available cash resources from customer withdrawals, maturing deposits, loan draw-downs and guarantees, and from margin and other calls on cash-settled derivatives. The Group does not maintain immediately available cash resources to meet instantly all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the nature of the funds that are available to the Society on an instantly accessible basis; with the latter, the Board strategy has been to place notable sums with the Bank of England and with other UK "High Street" banks in order to ensure that it meets its objectives of ensuring that all such funds are highly liquid. The liquidity profile throughout 2014 has aligned with the Board's low risk appetite in this area and day-to-day operations of the liquidity portfolio saw compliance with all policy limits throughout the period. Such policy limits are reviewed on a daily basis and it should be noted that the Group has consistently maintained cash resources in excess of the policy minimum.

The equivalent information has not been disclosed for the Society as there is no significant variance between the Group and Society figures.

During December 2013, the Society divested of its portfolio of UK Lifetime mortgages, receiving £68m of cash consideration thereby inflating the year end liquidity position at the 2013 year end above business as usual levels. During Q1 2014, the excess liquidity was used to pay down retail balances and accordingly, the liquidity position at 31 December 2014 was lower than that of 31 December 2013.

The table below analyses the Group's contractual cash flows under financial liabilities.

	On demand £000	0-3 months £000	3-12 months £000	1-5 years £000	5-10 years £000	10-15 years £000	Over 15 years £000	Total £000
At 31 December 2014								
Due to members	238,751	137,772	7,496	5,456	-	-	-	389,475
Due to other banks and depositors	11,866	37,358	19,419	-	-	-	-	68,643
Other liabilities	2,128	295	587	-	-	-	-	3,010
PIBS interest	-	-	400	1,600	2,000	2,000	2,000	8,000
Subordinated liabilities	-	1,664	433	2,307	11,511	1,675	5,977	23,567
Total outflow	252,745	177,089	28,335	9,363	13,511	3,675	7,977	492,695
	£000	£000	£000	£000	£000	£000	£000	£000
At 31 December 2013								
Due to members	333,765	166,407	760	2,099	-	-	-	503,031
Due to other banks and depositors	1,448	63,092	22,684	10,294	-	-	-	97,518
Other liabilities	-	878	275	-	-	-	-	1,153
PIBS interest	-	-	400	1,600	2,000	2,000	2,000	8,000
Subordinated liabilities	-	170	513	3,821	11,953	1,675	6,340	24,472
Total outflow	335,213	230,547	24,632	17,814	13,953	3,675	8,340	634,174

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the financial position date to the contractual maturity date. The equivalent information has not been disclosed for the Society as there is no significant variance between the Group and Society figures.

	0-3 months £000	3-6 months £000	6-12 months £000	1-5 years £000	5-10 years £000	10-20 years £000	20-30 years £000	Over 30 years £000	Total £000
At 31 December 2014									
Assets									
Cash and central banks balances	63,053	-	-	-	-	-	-	-	63,053
Due from other banks	36,635	5,050	-	82	-	-	-	-	41,767
Derivative financial instruments	760	877	433	76	-	-	-	-	2,146
Loans to customers	10,270	3,325	6,679	66,195	62,545	169,506	30,895	1,353	350,768
Lifetime mortgages	-	-	1,733	1,041	2,125	14,423	16,309	973	36,604
Other assets	401	-	1,607	1,817	2,271	-	-	8,313	14,409
Total assets	111,119	9,252	10,452	69,211	66,941	183,929	47,204	10,639	508,747
Liabilities									
Due to other banks	1,007	-	501	-	-	-	-	-	1,508
Other deposits	48,186	5,532	13,228	-	-	-	-	-	66,946
Derivative financial instruments	-	-	-	-	-	-	-	-	-
Due to members	376,523	5,722	1,774	5,456	-	-	-	-	389,475
Subordinated liabilities	-	1,500	-	-	9,200	5,000	-	-	15,700
Other liabilities	2,796	-	214	-	-	-	-	-	3,010
Total liabilities	428,512	12,754	15,717	5,456	9,200	5,000	-	-	476,639
Net liquidity gap	(317,393)	(3,502)	(5,265)	63,755	57,741	178,929	47,204	10,639	32,108
At 31 December 2013									
Total assets	171,350	19,102	9,939	78,790	65,014	222,935	67,344	11,956	646,430
Total liabilities	566,649	10,924	12,887	13,574	9,200	5,000	-	-	618,234
Net liquidity gap	(395,299)	8,178	(2,948)	65,216	55,814	217,935	67,344	11,956	28,196

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. The Society does not expect to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability but could also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Currency risk

At 31 December 2014 the Group had a currency exposure of €57.7m (2013: €58.0m) in loans and receivables. At the balance sheet date this exposure is matched with exchange rate Swaps. The Board sets limits on the level of exposures to foreign currency and these are monitored daily.

Foreign Exchange Sensitivity

The Group has assessed, on an indicative basis, the effect that a 10bp depreciation of the Euro would have on the Group's income, as a result of a revaluation of the balance sheet assets and liabilities.

	2014 £000	2013 £000
Effect on income with no Euro forward contracts	(3,231)	(3,690)
Effect on income with Euro contracts fully matching Euro denominated assets	1	1

Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The following methods and assumptions have been applied in determining the fair value of the financial instruments in these reports:

i. Trade investments are measured at cost as the fair value cannot be estimated reliably.
ii. The fair value of derivatives and investment securities are calculated by utilising internal valuation models using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity. External market data is used within these internal valuation models. Derivatives are held for trading. Investment securities are designated at fair value through profit or loss. Movements in the valuations of derivatives and investment securities are treated as fair value through profit and loss, and these financial assets and liabilities are grouped into the fair value hierarchy under level 2.
iii. The fair value of loans and advances to customers at a variable rate of interest is assumed to approximate to their carrying amounts. The fair value of loans and advances at a fixed rate of interest is estimated by internal valuation models. External market data is used within these internal valuation models.

All other financial assets and liabilities are held at amortised cost.

The Group has disclosed within these financial statements all the assets and liabilities for which fair values are required.

During February 2015, contracts were exchanged to dispose of the non-quoted investment, which is valued in the tables below at its historic cost of £250k. Further detail is included in note 31.

The accounting policies for financial instruments have been applied to the items below.

Group	2014 Carrying value £000	2014 Fair value £000	2013 Carrying value £000	2013 Fair value £000
Financial assets				
Cash and balances with the Bank of England	63,053	63,053	95,677	95,677
Loans and advances to credit institutions	26,206	26,206	58,313	58,313
Investment securities	15,561	15,561	23,057	23,057
Derivative financial instruments	2,146	2,146	582	582
Loans and advances to customers	387,372	382,068	454,047	445,525
Investments	250	250	250	250
	494,588	489,284	631,926	623,404
	£000	£000	£000	£000
Financial liabilities				
Due to members	389,475	389,512	502,586	502,278
Deposits from banks	1,508	1,508	5,543	5,543
Other deposits	66,946	66,946	91,285	91,285
Derivative financial instruments	-	-	620	620
Subordinated liabilities	15,700	15,700	15,700	15,700
Subscribed capital	5,000	6,000	5,000	4,925
	478,629	479,666	620,734	620,351

Society	2014 Carrying value £000	2014 Fair value £000	2013 Carrying value £000	2013 Fair value £000
Financial assets				
Cash and balances with the Bank of England	63,053	63,053	95,677	95,677
Loans and advances to credit institutions	26,155	26,155	58,263	58,263
Investment securities	15,561	15,561	23,057	23,057
Derivative financial instruments	2,134	2,134	582	582
Loans and advances to customers	378,807	373,503	445,861	437,339
Investments	250	250	250	250
	485,960	480,656	623,690	615,168
	£000	**£000**	**£000**	**£000**
Financial liabilities				
Due to members	389,475	389,512	502,586	502,278
Deposits from banks	1,508	1,508	5,543	5,543
Other deposits	66,946	66,946	91,285	91,285
Derivative financial instruments	-	-	620	620
Subordinated liabilities	15,700	15,700	15,700	15,700
Subscribed capital	5,000	6,000	5,000	4,925
	478,629	479,666	620,734	620,351

a. Loans and advances to customers

The fair value of loans and advances to customers has been calculated on an individual basis taking into account the fixed interest rate attached to each mortgage.

b. Deposits and borrowings

The estimated fair value of fixed interest deposits which do not have a market value is based on the carrying value of the deposits.

c. Investment securities

The fair value of each individual investment security is calculated using a discounted cash flow model using a current yield curve appropriate for the remaining term to maturity.

Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The following table summarises the carrying values of financial assets and liabilities presented on the Group or Society's balance sheet. The fair values presented in the table are at a specific date and may be significantly different from the amounts which will actually be paid or received on the maturity or settlement date.

Group	2014 Level 1 £000	2014 Level 2 £000	2014 Level 3 £000	2014 Total £000
Financial assets				
Cash and balances with the Bank of England	-	63,053	-	63,053
Loans and advances to credit institutions	-	26,206	-	26,206
Investment securities	-	15,561	-	15,561
Derivative financial instruments	-	2,146	-	2,146
Loans and advances to customers	-	382,068	-	382,068
Investments	-	250	-	250
	-	489,284	-	489,284
Financial liabilities				
Due to members	-	389,512	-	389,512
Deposits from banks	-	1,508	-	1,508
Other deposits	-	66,946	-	66,946
Derivative financial instruments	-	-	-	-
Subordinated liabilities	-	15,700	-	15,700
Subscribed capital	6,000	-	-	6,000
	6,000	473,666	-	479,666

Group	2013 Level 1 £000	2013 Level 2 £000	2013 Level 3 £000	2013 Total £000
Financial assets				
Cash and balances with the Bank of England	-	95,677	-	95,677
Loans and advances to credit institutions	-	58,313	-	58,313
Investment securities	-	23,057	-	23,057
Derivative financial instruments	-	582	-	582
Loans and advances to customers	-	445,525	-	445,525
Investments	-	250	-	250
	-	623,404	-	623,404
Financial liabilities				
Due to members	-	502,278	-	502,278
Deposits from banks	-	5,543	-	5,543
Other deposits	-	91,285	-	91,285
Derivative financial instruments	-	620	-	620
Subordinated liabilities	-	15,700	-	15,700
Subscribed capital	4,925	-	-	4,925
	4,925	615,426	-	620,351

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Valuation techniques where all inputs are taken from observable market data, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 Valuation techniques where significant inputs are not based on observable market data. None of the Group's financial assets of liabilities are valued using this technique.

The fair value of derivatives and investment securities are calculated by utilising internal valuation models using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity. External market data is used within these internal valuation models. Derivatives are held for trading. Investment securities are designated at fair value through profit or loss. Movements in the valuations of derivatives and investment securities are treated as fair value through profit and loss, and these financial assets and liabilities are grouped into the fair value hierarchy under level 2.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurements date.

Wherever possible, fair values have been calculated using unadjusted quoted market prices in active markets for identical instruments held by the Group. Where quoted market prices are not available, or are unreliable, fair values have been determined using valuation techniques which, to the extent possible, use market observable inputs, but in some cases use non-market observable inputs.

Valuation techniques used include discounted cashflow analysis and pricing models and, where appropriate, comparison to instruments with characteristics similar to those of the instruments held by the Group.

Because a variety of estimation techniques are employed and significant estimates made, comparisons of fair values between financial institutions may not be meaningful. Readers of these financial statements are thus advised to use caution when using this data to evaluate the Group's financial position.

c) Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the financial year. The most significant areas where judgements and assumptions are made are as follows:

(i) Impairment losses on loans and advances

The Group reviews its portfolio of loans to assess potential impairment periodically. Save for lifetime mortgages (discussed further below), forbearance matters, arrears positions and indexed LTVs are reviewed on all loan accounts in order to identify potential impairment indicators. For all accounts where impairment may have occurred, the recoverability of the balance due at the financial statement date is assessed by reference to the discounted cashflows associated with the loan. The assessment of these cashflows include periodic interest and capital repayments and a redemption amount. Within this impairment assessment, assumptions are made concerning sale disposal costs, any loss that may arise from discounts incurred at the point of sale and, in instances where the Society is not the primary charge holder, any payment that must be made to other lenders by the borrower. Values at redemption are assessed as follows:

- loans secured on residential property – assessed by reference to regional HPI data published by Nationwide Building Society and economic forecast data published by Oxford Economics.
- loans secured on land (a category which includes commercial property) – historic valuation data is supplemented with periodic updated desktop, drive-by or full inspection valuation information.

Assumptions are built in to the discounted cash flows regarding any work-out strategies on particular impaired accounts.

The Group holds a beneficial interest in a portfolio of mortgage assets, some of which are regulated by the CCA. The legal title of these loans remains with two separate third party businesses, to which the Group provided funding and over which it holds a debenture; under IFRS 10 these third party entities which are currently in administration, are consolidated within the Group Financial Statements. The impact of non-compliance with the CCA has been assessed and included in the estimate of discounted future cashflows that forms the basis of the impairment provision. This has been assessed based on recent historic cash flow receipts, experience on redemption and using estimates of the likely future redemption dates. The value of the mortgage assets, post impairment provision, is £6.7m of which approximately one third relates to regulated mortgages.

A 5% uplift in cashflows from these mortgage assets, associated with greater levels of recoverability than currently estimated, would result in the provision being reduced from £6.7m to £6.4m whilst a reduction in cashflows would see the provision requirement increase to £7.1m.

It is not clear what regulatory position the FCA will take and there is no judicial certainty in the legal position. The actual result could therefore differ materially from this estimate. The Group has considered its legal and regulatory position with respect to these matters and has obtained external legal advice to support the views taken.

The Board monitors its credit risk exposures, underlying security values and the level of impairment provisions on a regular basis.

(ii) Insurance risk

The Society's lifetime mortgages total £43.0m. All loans are at rates of interest that are fixed for the duration of the mortgage; at inception LTVs were low and borrowers were above the age of 60. Borrowers do not make monthly repayments; instead under their contractual terms, interest is capitalised within the balance and becomes repayable on redemption of the loan.

The mortgage contracts contain a clause that behaves like an insurance policy, where in certain circumstances, if the redemption receipt is less than the contractual sum due, the Society cannot pursue the borrower or the estate for the shortfall. This exposes the Society to the risk that the redemption balance may not be recovered fully. Impairment provisions are calculated using: projection data regarding the expected remaining term of the loan and both historic and forecast HPI data. As redemption dates can be 25+ years in the future, the impairment provision is most sensitive to the value of the property at redemption, where a small change in property value assumptions in the earlier years can have a notable impact on the estimated redemption receipt.

Spain: Projection data obtained from external UK sources indicates average long term year-on-year HPI appreciation at 2.80% (2013: 2.95%) over a 25 year period. If this HPI were to decrease to 1.80% per annum, the insurance provision would increase from its current level of £5.2m to £6.4m; an increase in HPI to 3.80% per annum would see the provision reduce to £3.8m. Mortality rates are based on third party actuarial assessment. The provision is not particularly sensitive to the date of redemption; in the event that borrowers were to live for 5 years longer than current predictions, the insurance provision would reduce by £300k. Pre-payment rates are estimated to be 5.5% (2013: 5%), based on experience to date. A 0.5% decrease in the pre-payment rate would see the insurance risk provision increase to £5.7m, whilst a 0.5% increase in pre-payment would result in a reduction in the insurance risk provision to £4.7m.

UK: The Society sold its portfolio of UK lifetime mortgages in December 2013 and generated a gain of £1.2m for the Group.

(iii) Effective Interest Rate ("EIR")

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Estimates and judgements need to be applied by management in order to determine a suitable EIR. In order to calculate the effective interest rate, the Group needs to estimate cash flows that will arise; to do so, the assessment process includes the consideration of all contractual terms of the financial instrument but it excludes the potential for future credit losses. The EIR calculation includes all fees paid or received, all transaction costs and any other premia or discounts.

(iv) Deferred tax

An asset is recognised to the extent that it is considered probable that future taxable profits will be available to utilise its carrying value. The most critical element of judgement applied is that relating to the Society's forecast profitability and the certainty of that profitability in the medium term in order to meet the requirements of *IAS 12 – Income Taxes*. This includes a consideration of the likely changes in economic conditions and the extent of new lending, or otherwise, in the business. The profitability forecasts use a modelling application wherein assumptions relating to future interest margin and levels of other income and expense are combined to produce both balance sheet and profit and loss projection data. The base assumptions regarding underlying interest margin are consistent with those of previous years and are further supported by the current levels of interest margin being reported. Further details may be found in note 17. An £0.2m per annum increase in profits in the forecast would lead to recognition of an additional deferred tax asset of £0.4m, while an £0.2m per annum decrease in profits would lead to derecognition of a further £0.4m.

(v) Property, plant and equipment

The Group's land and building, being its head office, is owned by MBS (Property) Limited. The value of this property was tested for impairment by reference to *IAS 36 Impairment of Assets*. Value in use assessment techniques were used to ascertain the future cashflows of the business.

The key assumptions in the assessment are that cashflows would include those arising from Liquid Assets, Loans and Advances, Shares and Deposits and Subordinated Debt, based on the Group's corporate planning forecast data. A discount rate of 12% was applied to these cashflows and the resulting position was compared to the adjusted carrying value of the net assets of the Group. The discount rate used was a post-tax assessment. As a building society is a mutual organisation with no shareholders there are no observable sector specific discount rates. By comparison, the Society's PIBS have a weighted rate of 7.17% and at 31 December 2014 were trading at a yield of 6.88% (2013: 7.83%).

The discount rate applied would need to increase to 15.90% (2013: 14.15%) before an impairment position would be observed. Long term profitability would need to show a year-on-year reduction of 5.8% (2013: 4.5%) before impairment is observed.

The Society holds an investment in MBS (Property). This is also tested for impairment using a similar method, but discounted using the rate of financing in place between the two entities and based on expectations of future rental arising from the property and void periods. A discount rate of 5.63% was applied and an impairment of £2.7m was recognised in the year. If rentals are not achieved in line with expectations then the investment may be further impaired. A 5% decrease in rental experience would lead to a £0.3m further charge. The value of the property has been assumed to grow at 2% per annum up to a future date of disposal. If the growth rate were only 1% per annum this would lead to additional impairment of £0.4m.

d) Segmental Analysis

The Group's results are predominately derived from the Society's principal activities. The Group's other income streams are not sufficiently material to require segmental reporting.

2. Interest receivable and similar income

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
On loans fully secured on residential property	16,200	22,446	15,811	21,586
On other loans	1,383	1,590	1,383	1,590
On investment securities	427	1,120	427	1,120
On other liquid assets	599	821	599	821
Disposal of UK lifetime mortgage assets	-	1,049	-	1,049
Sale of investment securities	-	328	-	328
	18,609	27,354	18,220	26,494

The gain arising on disposal of UK lifetime mortgage assets arose in December 2013 when the Society sold these mortgage assets for a sum in excess of their carrying value at that time.

Periodically the Society reviews its investment securities portfolio and occasionally it divests of instruments if deemed appropriate. During 2013 this approach delivered a gain of £328k.

Other than £3.1m (2013: £3.3m) generated on loans originating in Spain, all interest receivable and similar income has been generated within the United Kingdom.

3. Interest payable and similar charges

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
On amounts due to members	5,756	10,220	5,756	10,220
On deposits and other borrowings				
Subordinated liabilities	845	683	845	683
Subscribed capital (Note 24)	396	400	396	400
Other	976	1,644	976	1,644
	7,973	12,947	7,973	12,947

4. Other operating income and charges

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Income				
Rents receivable	10	-	-	-
Income from subsidiaries	-	-	716	868
Exchange gains and losses	163	158	154	158
Other	-	64	-	64
	173	222	870	1,090
Charges				
Rents payable	51	51	194	194
Other	7	74	7	11
	58	125	201	205

Exchange gains and losses arise in respect of the Spanish lifetime mortgage book.

Rent payable by the Society under operating leases is payable to the Society's subsidiary MBS (Property) Limited. Rent payable by the Group under operating leases is payable to 3rd parties.

5. Profit/(loss) from derivatives

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Net profit/(loss) from derivatives	9	(329)	9	(329)

Included within the above are the swap costs and receipts associated with their normal operation and funding as follows:

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Interest rate swap receipts	-	578	-	578
Interest rate swap costs	-	(3,095)	-	(3,095)
Net	-	(2,517)	-	(2,517)

During June 2013, the Society exited from all of its interest rate swaps at a value that was £2.2m in excess of the fair value at 2012 year end.

6. Administrative expenses

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Employee costs (including Executive Directors)				
Wages & salaries	1,358	2,110	1,358	2,110
Social security costs	139	218	139	218
Pension costs	133	171	133	171
	1,630	2,499	1,630	2,499
Other administrative expenses	4,215	3,190	3,791	2,845
	5,845	5,689	5,421	5,344

Re-organisational costs incurred during 2013 were: £328k included within employee costs in relation to a reduction in headcount, and £499k of legal and professional costs included in other administrative expenses, above. During 2014, additional specialist professional services were obtained as part of the business strategy resulting in professional charges of £1,615k (2013: £747k) within other administrative expenses.

Remuneration of the auditors

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Fees payable to the auditors for audit of the annual accounts				
Current year	289	295	289	295
Additional fees in relation to the 2013 audit	288	-	288	-
Fees payable to the auditors for other services				
Audit of the accounts of subsidiaries	12	4	-	-
Tax compliance services	94	20	94	20
Other assurance services	13	-	13	-
	696	319	684	315

During 2013 in addition to the amounts shown above a further £128k was paid to PwC for work undertaken prior to their appointment as external auditors. This work was in relation to accountancy consultancy services and review of corporate plans.

7. Employees

The average number of persons employed during the year for continuing operations was:

	Group 2014 Number	Group 2013 Number	Society 2014 Number	Society 2013 Number
Full-time	32	43	32	43
Part-time	6	7	6	7
	38	50	38	50

In mid-2013, the Society undertook an organisational restructure, which resulted in a reduction in head count.

8. Directors' emoluments

Executive directors

	Salary £000	Pension Contributions £000	Benefits £000	Total £000
2014				
C.W. Gee	117	14	11	142
P.A. Lynch	117	14	11	142
	234	28	22	284
2013				
D.E. Cowie (retired 5 June 2013)	143	43	7	193
C.W. Gee	117	14	11	142
P.A. Lynch	117	14	11	142
I.M. Richardson (resigned 28 June 2013)	208 *	7	5	220
	585	78	34	697

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

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

Non-executive directors

	Fees 2014 £000	Fees 2013 £000
J.P. Allen	29	29
H.F. Baines (appointed 30 August 2013)	32	10
I.A. Dewar (appointed 30 August 2013)	29	10
R.W. Dyson (resigned 16 June 2014)	13	29
A. Finch (resigned 31 December 2013)	-	29
D.A. Harding (appointed 17 April 2013)	72	51
S.M. Molloy (resigned 12 June 2013)	-	13
M.J. Prior (resigned 17 April 2013)	-	17
F.B. Smith (appointed 1 January 2014)	28	-
J. Smith	32	36
	235	224

Total directors' emoluments

	2014 £000	2013 £000
Executive directors	284	697
Non-executive directors	235	224
Total directors' emoluments	519	921

Further information regarding Key Management Personnel may be found in note 27.

9. Income tax expenses

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Results for the year before tax	4,302	(1,576)	1,248	(104)
Tax rate	21.50%	23.25%	21.50%	23.25%
Expected tax expense	925	(366)	268	(25)
Adjustment for non-deductible items	28	31	583	1,319
Current year losses for which no deferred tax asset recognised	-	1,269	-	-
Deferred tax movement closing rate/average rate difference	(67)	47	(60)	(181)
Deferred tax change in tax rates on opening balance	-	1,338	-	1,325
Adjustment in respect of prior years - current tax	-	(554)	-	(435)
Adjustment in respect of prior years - deferred tax	233	3,752	-	3,642
Increase in deferred tax asset recognised	(1,269)	-	(1,167)	-
Actual tax (credit) / expenses, net	(150)	5,517	(376)	5,645
Comprising				
Current tax adjustment in respect of prior years	-	(554)	-	(435)
Deferred tax origination and reversal of timing difference	(383)	981	(376)	1,113
Effect of tax rate change on opening balance	-	1,338	-	1,325
Deferred tax adjustment in respect of prior years	233	3,752	-	3,642
	(150)	5,517	(376)	5,645

10. Loans and advances to credit institutions

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Accrued interest	26	31	26	31
Repayable on demand	26,180	58,282	26,129	58,232
	26,206	58,313	26,155	58,263

11. Investment securities

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Government investment securities	9,989	-	9,989	-
Listed private sector investment securities	5,572	23,057	5,572	23,057
	15,561	23,057	15,561	23,057
Investment securities have remaining maturities as follows:				
In not more than three months	9,989	-	9,989	-
In more than three months but not more than one year	5,490	17,524	5,490	17,524
In more than one year but not more than five years	82	5,533	82	5,533
	15,561	23,057	15,561	23,057

The directors of the Society consider that the primary purpose of holding investment securities is prudential. The securities are held as liquid assets with the intention of use on a continuing basis in the Group's activities.

The movement in investment securities is summarised as follows:

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
The movement in investment securities is summarised as follows:				
At 1 January	23,057	67,561	23,057	67,561
Additions	10,021	19,757	10,021	19,757
Fair value adjustment	(314)	(1,134)	(314)	(1,134)
Disposal	(17,203)	(63,127)	(17,203)	(63,127)
At 31 December	15,561	23,057	15,561	23,057

12. Derivative financial instruments and trading liabilities - Group and Society

Exchange rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currency rates (for example, Sterling for Euros). No exchange of principal takes place. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. This risk is monitored by reference to the fair value of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using techniques including credit ratings. The fair value is based on the current discounted cash flows of the swaps when compared with the current exchange rate yields.

The Group uses foreign exchange forward contracts and swaps for hedging purposes. All derivative financial instruments are held for economic purposes.

The following table describes the significant activities undertaken by the Group, the risks associated with such activities and the types of derivatives which are typically used in managing such risks.

Activity	Risk	Type of derivative instruments used
Mortgage lending in Euros	Sensitivity to changes in exchange rates	Exchange rate swaps

	Notional amount £000	Fair value Assets £000	Fair value Liabilities £000
Derivatives held at 31 December 2014			
Exchange rate swaps	44,861	2,146	-
	44,861	2,146	-
Derivatives have remaining maturities as follows:			
Up to three months	13,594	760	-
Three to six months	13,206	877	-
Six to twelve months	14,177	433	-
One to two years	3,884	76	-
	44,861	2,146	-
Derivatives held at 31 December 2013			
Exchange rate swaps	48,149	582	620
	48,149	582	620

13. Loans and advances to customers

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Loans fully secured on residential property	354,437	416,480	345,872	408,294
Loans fully secured on land	31,278	35,439	31,278	35,439
Other loans	1,657	2,128	1,657	2,128
	387,372	454,047	378,807	445,861

At 31 December 2014 the Group had €57.7m (2013: €58.0m) of loans denominated in Euros. These were converted into Sterling at a rate of €1.2873 to the £ (2013: €1.2046).

Maturity analysis

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

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Repayable on demand	8,180	10,075	8,180	10,075
Other loans and advances secured by residual maturity repayable:				
In not more than three months	2,408	2,603	2,123	2,460
In more than three months but not more than one year	10,611	10,419	9,562	9,990
In more than one year but not more than five years	70,534	74,003	65,975	71,507
In more than five years	313,428	375,166	304,083	362,303
	405,161	472,266	389,923	456,335
Less: impairment provisions	(17,789)	(18,219)	(11,116)	(10,474)
	387,372	454,047	378,807	445,861

The Group's experience is that, in many cases, mortgages are redeemed before their natural or contractual redemption dates. As a consequence, the maturity analysis above may not reflect actual experience.

Impairment losses on loans and advances

	Loans fully secured on residential property £000	Other loans fully secured on land £000	Other loans £000	Total £000
Group				
At 1 January 2014				
Individually identified				
Credit risk provisions	1,992	2,529	10	4,531
Total individually identified	1,992	2,529	10	4,531
Collectively identified				
Credit risk provisions	8,535	72	-	8,607
Insurance risk provisions	5,081	-	-	5,081
Total collectively identified	13,616	72	-	13,688
Total opening provisions	15,608	2,601	10	18,219
Amounts utilised during the year				
Individually identified				
Credit risk provisions	(152)	(85)	-	(237)
Total individually identified	(152)	(85)	-	(237)
Collectively identified				
Credit risk provisions	-	-	-	-
Insurance risk provisions	(160)	-	-	(160)
Total collectively identified	(160)	-	-	(160)
Statement of Comprehensive Income				
Individually identified				
Credit risk provisions	141	703	11	855
Total individually identified	141	703	11	855
Collectively identified				
Credit risk provisions	(1,097)	(52)	-	(1,149)
Insurance risk provisions	261	-	-	261
Total collectively identified	(836)	(52)	-	(888)
Total	(695)	651	11	(33)
At 31 December 2014				
Individually identified				
Credit risk provisions	1,981	3,147	21	5,149
Total individually identified	1,981	3,147	21	5,149
Collectively identified				
Credit risk provisions	7,438	20	-	7,458
Insurance risk provisions	5,182	-	-	5,182
Total collectively identified	12,620	20	-	12,640
Total closing provisions	14,601	3,167	21	17,789

	Loans fully secured on residential property £000	Other loans fully secured on land £000	Other loans £000	Total £000
Society				
At 1 January 2014				
Individually identified				
Credit risk provisions	1,993	2,530	10	4,533
Total individually identified	1,993	2,530	10	4,533
Collectively identified				
Credit risk provisions	788	72	-	860
Insurance risk provisions	5,081	-	-	5,081
Total collectively identified	5,869	72	-	5,941
Total opening provisions	7,862	2,602	10	10,474
Amounts utilised during the year				
Individually identified				
Credit risk provisions	(152)	(86)		(238)
Total individually identified	(152)	(86)	-	(238)
Collectively identified				
Credit risk provisions	-	-	-	-
Insurance risk provisions	(160)	-	-	(160)
Total collectively identified	(160)	-	-	(160)
Statement of Comprehensive Income				
Individually identified				
Credit risk provisions	140	703	11	854
Total individually identified	140	703	11	854
Collectively identified				
Credit risk provisions	(23)	(52)		(75)
Insurance risk provisions	261			261
Total collectively identified	238	(52)	-	186
Total	378	651	11	1,040
At 31 December 2014				
Individually identified				
Credit risk provisions	1,981	3,147	21	5,149
Total individually identified	1,981	3,147	21	5,149
Collectively identified				
Credit risk provisions	765	20	-	785
Insurance risk provisions	5,182	-	-	5,182
Total collectively identified	5,947	20	-	5,967
Total closing provisions	7,928	3,167	21	11,116

14. Impairment losses

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Impairment losses on loans and advances to customers on residential property and land	(294)	8,403	779	1,672
Impairment losses on loans and advances to customers on lifetime mortgages	261	889	261	889
Impairment on loan to subsidiary	-	-	2,710	5,671
Reversal of impairment losses on loans and advances to credit institutions	-	(347)	-	(347)
Write back of mortgage insurance guarantee premiums	-	(239)	-	(239)
	(33)	8,706	3,750	7,646

In 2013 following the reassessment of the recoverability of a portfolio of mortgage assets in MBS (Mortgages) an impairment provision was booked in the financial statements of this subsidiary and this impaired its ability to repay the Society's investment in the subsidiary. As a result an impairment provision of £5.7m was made in the Society's separate financial statements, reducing the net investment in the subsidiary to reflect the recoverability of the assets within that business.

The reversal of the impairment on loans and advances to credit institutions in 2013 arose as a result of the Society disposing of its balances with failed Icelandic banking counterparties. The disposal occurred at a value in excess of the written down value. Additional detail on impairment losses and impaired portfolios is shown in Note 1.

15. Investments

Subsidiary undertakings	Shares £000	Loans £000	Total £000
At 1 January 2014	2	18,848	18,850
Impairment	-	(2,710)	(2,710)
Repayment of loans	-	(235)	(235)
At 31 December 2014	2	15,903	15,905

The Society's investment in its subsidiaries has been tested for impairment and reductions in the carrying balances have been made as appropriate.

An impairment was made to the investment held in MBS (Property) in the year. The investment valuation was assessed based on the discounted cash flows associated with the property, requiring an assessment of rentals, void rates and long term property values. A discount rate of 5.63% was applied being the rate associated with the financing arrangement in place. If future rentals were to decline by 5% this would give further impairment of £0.3m.

The directors consider that the carrying value of the investment in subsidiaries is supported by their net assets, less impairment provisions.

Subsidiaries	Nature of Business	Country of Incorporation and place of business	Proportion of Ordinary shares held
MBS (Mortgages) Limited	Mortgage lending	England	100%
MBS (Property) Limited	Property ownership	England	100%

MBS (Mortgages) Limited and MBS (Property) Limited are wholly owned and wholly funded by the Society. The Society's ability to recover its investment in these subsidiaries is based upon the cashflows that these subsidiaries can generate.

Connected undertakings

There are two other entities the results of which have been consolidated with the Group position under the terms of IFRS 10: NMB Mortgage Acquisition Company Limited ("NMB MAC") and Consumer Loans Company Limited ("CLC"). There is no change in accounting policy in respect of these entities as in the prior year their results were consolidated under the provisions of SIC 12 "Consolidation – Special Purpose Entities". Both companies have been funded by the Group and both companies are in administration. The Group benefits from the cash flows arising from NMB MAC and CLC, save for those used by the administrator of the businesses to meet their day-to-day running costs, and the Group has significant influence over these companies. The Group has no shareholding or voting rights in either company but it is exposed to variable returns from the companies. There are no material non-controlling interests in either NMB MAC or CLC. These arrangements meet the definition of control under IFRS 10 and so the results of NMB MAC and CLC have been consolidated in accordance with that standard.

Connected undertakings	Nature of Business	Country of Incorporation and place of business	Proportion of Ordinary shares held
NMB Mortgage Acquisition Company Limited*	Mortgage lending	England	0%
Consumer Loans Company Limited*	Mortgage lending	England	0%

** in administration*

MBS (Mortgages) Limited is subject to a regulatory requirement to hold £50k of regulatory capital. This is satisfied by means of its retained earnings and accordingly, the Society's ability to use MBS (Mortgages) Limited's assets or settle its liabilities is restricted by this requirement. As both NMB MAC and CLC are in administration, the Group's ability to use these entities assets or settle their liabilities is restricted by the cashflows that the entities are able to generate alongside the administrator's statutory duty to manage these entities. Save for the above, there are no other significant restrictions on the Group's ability to use assets or settle liabilities in any of the subsidiaries listed above.

Trade investments - Group and Society	2014 £000	2013 £000
At 1 January and at 31 December	250	250

The above trade investment represents a minority share in New Life Home Finance Limited ("NLHF"), an unquoted investment for which there is no active market. The Society holds 19.9% of NLHF's ordinary shares; the Society does not have representation on the NLHF board, is not involved in the management and therefore does not participate in any NLHF policy decisions entity covering aspects relevant to the Society. Accordingly, in accordance with IFRS 10, it has been concluded that NLHF should not be consolidated into the Group's financial statements.

During February 2015, the Society exchanged contracts with Legal and General Group plc to sell its 19.9% ordinary shareholding in NLHF, subject to regulatory approval by the FCA, as set out in Note 31.

16. Property, plant and equipment

Group	Land and buildings £000	Alterations fixtures and equipment £000	Total £000
Cost			
At 1 January 2014	8,539	1,662	10,201
Additions	-	202	202
Disposals	(20)	(411)	(431)
At 31 December 2014	8,519	1,453	9,972
Accumulated depreciation			
At 1 January 2014	760	1,083	1,843
Charge for the year	111	116	227
Elimintated on disposal	-	(411)	(411)
At 31 December 2014	871	788	1,659
Carrying amount			
At 31 December 2014	7,648	665	8,313
At 31 December 2013	7,779	579	8,358

Society	Land and buildings £000	Alterations fixtures and equipment £000	Total £000
Cost			
At 1 January 2014	-	1,428	1,428
Additions	-	190	190
Disposals	-	(743)	(743)
At 31 December 2014	-	875	875
Accumulated depreciation			
At 1 January 2014	-	1,256	1,256
Charge for the year	-	87	87
Eliminated on disposal	-	(743)	(743)
At 31 December 2014	-	600	600
Carrying amount			
At 31 December 2014	-	275	275
At 31 December 2013	-	172	172

The Group's land and building, being its head office, is owned by MBS (Property) Limited. The value of this property was tested for impairment by reference to *IAS 36 Impairment of Assets*. Value in use assessment techniques were used to ascertain the future cashflows of the business. The key assumptions in the assessment are that cashflows would include those arising from Liquid Assets, Loans and Advances, Shares and Deposits and Subordinated Debt, based on the Group's corporate planning forecast data. Profitability is assumed to grow at 2% p.a. after the corporate planning period.

A discount rate of 12% was applied to these cashflows and the resulting position was compared to the adjusted carrying value of the net assets of the Group. The discount rate used was a post-tax assessment. As a building society is a mutual organisation with no shareholders there are no observable sector specific discount rates. By comparison, the Society's PIBS have a weighted rate of 7.17% and at 31 December 2014 were trading at a yield of 6.88%. A number of sensitivity analyses have been performed to assess the likelihood of any impairment.

The discount rate applied would need to increase to 15.9% before an impairment position would be observed. Alternately, long term profitability would need to show a year on year reduction of 5.8% per annum, compared to the 2.0% growth assumed, for an impairment to be observed.

17. Deferred tax assets

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 20.0% (2013: 20.0%). The movement on the deferred income tax account is as follows:

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
At 1 January	4,257	10,193	4,031	9,976
Statement of comprehensive income	150	(6,071)	376	(6,080)
Statement of changes in equity	135	135	135	135
At 31 December	4,542	4,257	4,542	4,031
Deferred tax assets are attributable to the following items:				
Other provisions	(6)	(14)	(6)	(14)
Accelerated tax depreciation	(37)	(5)	(19)	9
Tax losses	349	1,832	331	1,592
Deferred tax asset on timing differences on derivative contracts	4,236	2,444	4,236	2,444
	4,542	4,257	4,542	4,031

The movement in the deferred tax account is shown below:

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Other provisions	8	12	8	12
Tax losses	(1,618)	923	(1,396)	683
Provision for loan impairment	-	(471)	-	(238)
Accelerated tax depreciation	(32)	(21)	(28)	(23)
Deferred tax movement on timing differences on derivative contracts	1,792	(6,514)	1,792	(6,514)
Deferred income tax credit/(expense) in statement of comprehensive income	150	(6,071)	376	(6,080)
Deferred income tax credit/(expense) in statement of changes in equity	135	135	135	135
	285	(5,936)	511	(5,945)

IAS 12 - Income Taxes, requires that a deferred tax asset ("DTA") can only be recognised to the extent that it is probable that it will be recovered through future profitability.

In order to assess the recoverability of its deferred tax asset, the Group prepares financial forecasts over short, medium and long term time horizons so as to determine its likely future profitability. Its annual budgeting and corporate planning processes allow the Board to forecast financial performance over a 3-4 year time horizon. Given the uncertainty and judgement involved in forecasting over the medium to longer term the valuation of the deferred tax asset is a critical accounting estimate in these accounts.

For capital planning, the corporate plan is then projected across a 10 year time period using the assumptions that underpin the 3-4 year period.

It is recognised that the further into the future it is necessary to look for sufficient taxable profits (the "look-out" period), the more subjective the projections become. The accounting standard permits the look-out period to be based on the stability and trend in past earnings and on the nature of the business or industry. The Board has been mindful of this when assessing its profitability forecasts, given that it has been a profitable and stable provider of financial services for over 90 years. It could be argued that the probability of taxable profits decreases over time; so there could be a point when taxable profits are no longer probable, however, the Board recognise that the accounting standard does not require there to be an arbitrary cut-off in the time period over which an assessment of expected taxable profits is made (for example, the recoverability test should not be limited using an arbitrary look-out period solely because budget information is not available after a certain number of years).

It should be noted that the de-recognised element of the DTA is still available for tax relief purposes, as tax losses can be carried forward indefinitely under UK tax rules.

In addition to the recognised deferred taxation assets and liabilities, certain deferred tax assets have not been recognised. At 31 December 2014 for the Group, these were:

- £1,718k arising from timing differences on derivative contracts (2013: £3,819k) and
- £1,560k arising from losses (2013: £1,269k)

At 31 December 2014 for the Society, these were:

- £1,718k arising from timing differences on derivative contracts (2013: £3,819k) and
- £173k arising from losses (2013: £nil).

As reported in note 1 the Chancellor's Autumn Statement in December 2014 proposed a restriction for the Banking sector to the amount of the profit for a financial year which can be offset by historic losses brought forward. The restrictions introduced in this draft legislation would mean that the Group could be liable to make Corporation Tax payments over the next few years in spite of the scale of the DTA. We have estimated that the upper limit on such payments would be around £0.4m.

18. Other assets

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Amounts due within one year				
Credit support annex	525	1,070	525	1,070
Prepayments	401	432	375	420
Other assets	22	31	22	31
	948	1,533	922	1,521

The Credit support annex balances represent the sums deposited by the Society with its derivative counterparties to collateralise the derivatives issued. The balances, whilst in cash form, are not included within Liquid Assets.

19. Due to members

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Held by individuals	389,475	502,586	389,475	502,586
Shares are repayable from the financial position date in the ordinary course of business as follows:				
Accrued interest	992	1,499	992	1,499
Repayable on demand	238,750	333,765	238,750	333,765
Other shares by residual maturity repayable:				
In not more than three months	136,781	164,566	136,781	164,566
In more than three months but not more than one year	7,496	751	7,496	751
In more than one year but not more than five years	5,456	2,005	5,456	2,005
	389,475	502,586	389,475	502,586

20. Deposits from banks

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Amounts owed to credit institutions are repayable from the financial position date in the ordinary course of business as follows:				
Accrued interest	8	43	8	43
Other amounts owed to credit institutions by residual maturity repayable:				
In not more than three months	1,000	4,000	1,000	4,000
In more than three months but not more than one year	500	1,500	500	1,500
	1,508	5,543	1,508	5,543

21. Other deposits

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Amounts owed to other deposit customers are repayable from the financial position date in the ordinary course of business as follows:				
Accrued interest	259	534	259	534
Repayable on demand	11,809	1,447	11,809	1,447
Other amounts owed to other deposit customers by residual maturity repayable:				
In not more than three months	36,164	58,592	36,164	58,592
In more than three months but not more than one year	18,714	20,712	18,714	20,712
In more than one year but not more than five years	-	10,000	-	10,000
	66,946	91,285	66,946	91,285

£23m nominal value of mortgages is pledged as collateral for £10m of deposits placed by other customers.

22. Subordinated liabilities

	Group and Society 2014 £000	Group and Society 2013 £000
Subordinated loans		
Loan repayment 2015 (fixed interest rate of 7.362%)	1,500	1,500
Loan repayable 2022 (variable interest rate of 3 months LIBOR plus 1.75%)	5,000	5,000
Loan repayable 2023 (variable interest rate of 3 months LIBOR plus 2.45%)	4,200	4,200
Loan repayable 2032 (fixed interest rate of 6.70%)	5,000	5,000
	15,700	15,700

The subordinated loans were taken to assist the financing of future development. The loans exist for a fixed period and the Society has the option to prepay the loans at par 5 years prior to the final repayment dates.

23. Other liabilities

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Amounts falling due within one year:				
Income tax - deducted from interest payments to customers	233	447	233	447
Taxation and social security	62	60	62	60
Creditors	1,338	718	875	445
Interest accrued on subordinated liabilites	160	159	160	159
Accruals	1,003	841	1,003	800
	2,796	2,225	2,333	1,911

Other liabilities includes interest accrued on PIBS of £70k (2013: £75k) and on subordinated liabilities of £160k (2013: £159k).

24. Subscribed capital

The Society has two tranches of PIBS in issue. The first tranche was issued in 1999 and is remunerated at 8.00% and the other was issued in 2005 and is remunerated at 6.75%. The two tranches are accounted for differently as they are subject to differing legal arrangements. Both tranches of PIBS are unsecured and rank pari passu with each other. In priority terms, the PIBS holders rank behind the Society's depositing members, its wholesale counterparties and all subordinated note holders.

Classified as a liability:	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
8.00% Permanent Interest Bearing Shares	5,000	5,000	5,000	5,000
	5,000	5,000	5,000	5,000

Under the terms of offer, the Board may, subject to a resolution, cancel in whole or in part any scheduled interest payment due to holders of the 8.00% PIBS in restricted circumstances, when the Society were to have in issue other shares or deposits (save for deferred shares) on which the Board could cancel interest at its discretion. As no such class of share or deposit was in issue at either of the financial statement dates, it has been assessed that the terms of the PIBS confer a contractual obligation on the Society to deliver cash in the form of interest payments and as such, the 8.00% PIBS are treated as a liability on the part of the Society and interest is booked to income and expenditure (note 3).

Classified as equity:	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
6.75% Permanent Interest Bearing Shares	9,788	9,788	9,788	9,788
	9,788	9,788	9,788	9,788

Under the terms of offer, the Board may at its sole discretion, subject to a resolution, cancel in whole or in part any scheduled interest payment due to holders of the 6.75% PIBS. Whilst the Board does not intend to avail itself of this discretion, the facility to do so results in the assertion that the PIBS should be considered not to confer a contractual obligation on the Society to deliver cash in the form of interest payments. As such, the 6.75% PIBS are treated as forming a part of the Society's equity and interest is booked to Statement of Changes in Equity.

25. Cash and cash equivalents

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances with less than three months maturity from the date of acquisition:				
Cash and balances with central banks	63,053	95,677	63,053	95,677
Loans and advances to credit institutions	26,180	58,282	26,129	58,232
	89,233	153,959	89,182	153,909

26. Profit Participating Deferred Shares

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Nominal value - proceeds received	18,000	18,000	18,000	18,000
Less: issue costs	(539)	(539)	(539)	(539)
Book value	17,461	17,461	17,461	17,461
PPDS Reserve Account at 1 January (memo)	(1,680)	-		
Share of profit/(loss) for the year	1,174	(1,680)		
PPDS Reserve Account at 31 December (memo)	(506)	(1,680)		

The Society issued £18m of PPDS in April 2013. The PPDS are deferred shares for the purposes of Section 119 of the Building Societies Act 1986, as amended. They are perpetual instruments with no maturity date or right to repayment other than on a winding-up; in the event of a winding-up, the PPDS would rank below claims in respect of the Society's PIBS. The PPDS are not protected deposits for the purposes of the Financial Services Compensation Scheme. They are eligible as Core Tier 1 Capital for regulatory purposes.

Save as described below, the holders of the PPDS are eligible to receive a dividend, at the discretion of the Board of the Society, of up to 30% (the "Participation Percentage") of the annual consolidated post-tax profits of the Society and its subsidiaries (calculated prior to payment of the PPDS dividend and subject to certain other adjustments).

The PPDS will also absorb the Participation Percentage of any consolidated post-tax losses recorded by the Society and its subsidiaries, any such amount being debited to a reserve account maintained by the Society for the purpose of the PPDS (the "PPDS Reserve Account"). Any net profits which are eligible to be paid to holders of PPDS as dividends but which are not so paid will be credited to the PPDS Reserve Account.

No dividends may be paid on the PPDS when the PPDS Reserve Account is in deficit as a result of previous years' losses.

No dividend has been declared in the year.

27. Related party transactions

Key Management Personnel. The directors, the Chief Executive and the Society Secretary are considered to be the only key management personnel as defined by *IAS 24 – Related Party Disclosures*. In line with the Board's continuing policy, there were no loans provided to any of these individuals or their close family members (2013: nil). None of the directors, or their close family members held any of the Society's PIBS (2013: nil).

The total remuneration of key management personnel was as follows:

Key Management personnel	Group 2014 £000	Group 2013 £000	
Executive directors (per note 8)	284	697	*
Non-executive directors (per note 8)	235	224	
Chief Executive (Allan Hodges - appointed 29 April 2013)	280	175	
Society Secretary (Graeme Honeyborne - appointed 13 November 2013)	212	20	
	1,011	1,116	

* Includes £149k compensation for loss of office for one executive director

Register. In accordance with sections 68 and 69 of the Building Societies Act 1986 a register of transactions is maintained at the Society's head office which shows details of all transactions and arrangements with directors and connected persons. Mrs. S. M. Molloy, who resigned on 12 June 2013, is a partner in Gateley LLP who provide legal services to the Group. In 2013 Gateley LLP were paid £65,288 inclusive of VAT for legal services rendered.

Subsidiaries. The Group is controlled by Manchester Building Society; details of the subsidiary undertakings may be found in note 15.

The Society had the following transactions with its subsidiary undertakings during the year.

(i) Current loan accounts - unsecured	Society 2014 £000	Society 2013 £000
As at 1 January	18,848	24,466
Loans issued during the year	1,274	1,335
Loan repayments during the year	(1,509)	(1,282)
Impairment in subsidiary	(2,710)	(5,671)
At 31 December	15,903	18,848
(ii) Interest income charged to subsidiaries	716	868

Interest is charged at pre-agreed rates which are either fixed, track the Bank of England base rate, or track LIBOR rates.

(iii) Society recharge to subsidiaries of head office expenses	79	16
(iv) Subsidiary recharge to Society on rent for head office	143	143
(v) Cash received from borrowers by connected undertakings		
NMB MAC - cash received and paid through to MBS (Mortgages)	1,126	840
CLC - cash received and paid through to Society	123	121

28. Financial commitments

(i) Capital commitments:

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Capital expenditure contracted for but not provided	-	5	-	5

(ii) Lease commitments

At the financial position date the Group had outstanding commitments as lessee under operating leases. The financial commitments are shown below.

Lease commitments:	Lessee 2014 £000	Lessee 2013 £000
Less than one year	50	50
One to five years	91	142
	141	192

(iii) Contingent liabilities

The Group does not have any contingent liabilities.

29. Capital management

Regulatory capital requirements are laid down by the Society's regulator; they are calculated, forecast and stress tested on a regular basis for the Board and period end positions are reported to the regulator.

Following the implementation of CRD IV, from 1 January 2014 the extent to which remunerated capital instruments may be included within regulatory capital changed. For the Group, the impact was that certain tranches of subordinated debt previously included within its regulatory capital are now amortised over a 9 year period. Further, over a 9 year period, PIBS are reclassified from Tier 1 to Tier 2 regulatory capital. Additionally, deferred tax assets arising from losses are deducted from regulatory capital; deferred tax assets arising from timing differences continue to be classified within regulatory capital subject to certain regulatory criteria. The Society has assessed the impact of the future amortisation of instruments and is satisfied that it will be able to meet its regulatory requirements without the need to issue further capital instruments.

The capital positions at 31 December 2014 (under CRD IV) and at 31 December 2013 (under BASEL II) are:

	Group under CRD IV 2014 £000	Group under CRD IV 2013 £000	Group under BASEL II 2013 £000
Tier 1 Capital			
Retained earnings	754	(1,374)	(1,374)
Deductions	(3,030)	(2,867)	-
Profit Participating Deferred Shares	17,461	17,461	17,461
Total CET1 Capital	15,185	13,220	16,087
Permanent Interest Bearing Shares	11,831	13,309	14,788
Total Tier 1 Capital	27,016	26,529	30,875
Tier 2 Capital			
Collective provisions	2,850	3,327	13,688
Permanent Interest Bearing Shares	2,958	1,479	-
Subordinated Debt	13,255	14,500	14,500
Total Tier 2 Capital	19,063	19,306	28,188
Total Regulatory Capital	46,079	45,835	59,063

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

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

With effect from 1 January 2014, the means of calculating regulatory capital migrated from a BASEL II framework to CRD IV. As a result of this regulatory transition the Society experience a change in the mix and value of its Tier 1 and Tier 2 regulatory capital.

CRD IV introduced requirements that:

- Restricted the extent to which Collectively Identified provisions could be included within Tier 2 Capital.
- Restricted the extent to which deferred taxation could be included for regulatory capital purposes. Consequently, the Society has made the necessary deduction from its Tier 1 Capital.
- Saw PIBS being re-classified from Tier 1 to Tier 2 over a 9 year period.

During April 2013 £18m of new capital was issued in the form of PPDS. These instruments, issued and subscribed at par, are classified as equity within the Financial Statements and included as Core Tier 1 capital for regulatory purposes. The figure disclosed is the proceeds received less the costs of issue.

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

The Board is focused on further actions to reduce risk and rebuild reserves, as demonstrated by the sale of the UK lifetime mortgage portfolio during December 2013. The 31 December 2014 capital position reflects the actions taken by the Board.

30. Provisions for liabilities and charges

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Financial Services Compensation Scheme				
At 1st January 2014	275	331	275	331
Charge for the year	430	489	430	489
Provision utilised	(491)	(545)	(491)	(545)
At 31 December 2014	214	275	214	275

The Society's provision for FSCS charges arises from its operation as a UK deposit taker.

The FSCS levy consists of two parts - a management expenses levy, which covers the cost of running the scheme, and a capital levy to cover the cost of the compensation paid, net of any recoveries.

The charge for 2014 and the provision at the end of the year include the expected management expenses levy for the FSCS scheme year 2014-15.

During 2013 the FSCS announced that there was likely to be a shortfall in their overall level of recoverability and indicated that it would levy this shortfall on deposit-taking institutions over the three years 2013-14 to 2015-16. The shortfall capital levy for the FSCS scheme year 2013-14 was received during 2014 and recognised as a charge in the Statement of Comprehensive Income for 2014. No provision is made in respect of the capital levy for scheme years beyond this period.

The levy is paid during the third quarter of each year and the Society does not expect to recover any sums paid.

31. Post Balance Sheet Event

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

ANNUAL BUSINESS STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

1. Statutory limits

	2014 %	Statutory % limit
Lending limit	10.73	25.0
Funding limit	14.95	50.0

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986, as amended by the Building Societies Act 1997.

The Lending limit measures the proportion of business assets not in the form of loans fully secured on residential property and is calculated as (X - Y) ÷ X where:

X = business assets, being the total assets of the Group plus provisions for bad and doubtful debts less liquid assets, tangible fixed assets and intangible assets as shown in the Group accounts.

Y = the principal of, and interest accrued on, loans owed to the Group which are fully secured on residential property and mortgage loss provisions.

The Funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals and is calculated as (X - Y) ÷ X where:

X = shares and borrowings, being the aggregate of:

(i) the principal value of, and interest accrued on, shares in the Society;
(ii) the principal value of, and interest accrued on, sums deposited with the Society or any subsidiary undertaking of the Society;
(iii) the principal value of, and interest accrued under, bills of exchange, instruments or agreements creating or acknowledging indebtedness and accepted, made, issued or entered into by the Society or any such undertaking less any amounts qualifying as own funds.

Y = the principal value of, and interest accrued on, shares in the Society held by individuals otherwise than as bare trustees (or, in Scotland, simple trustees) for bodies corporate or for persons who include bodies corporate.

The statutory limits are laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a Building Society is that of making loans which are secured on residential property and are funded substantially by its members.

Other ratios

As a percentage of shares and borrowings:

	2014 %	2013 %
Gross capital	10.4	7.3
Free capital	11.4	8.2
Liquid assets	22.9	29.5
Leverage ratio	4.6	4.3

As a percentage of mean total assets:

Profit after taxation	0.77	(1.00)
Group management expenses	1.05	0.83
Society management expenses	0.95	0.76

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

'Shares and borrowings' represent the total of amounts due to customers, amounts owed to banks, amounts owed to other depositors and debt securities in issue in the Group statement of financial position.

'Gross capital' represents the aggregate of reserves, other borrowed funds, profit participating deferred shares and subscribed capital as shown in the Group statement of financial position.

'Free capital' represents the aggregate of gross capital and general loss provisions for bad and doubtful debts less property, plant and equipment in the Group statement of financial position.

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

'Liquid assets' represent the total of cash and balances with central banks, loans and advances to banks and debt trading securities in the Group statement of financial position.

'Leverage ratio' is the ratio of Tier 1 capital divided by total exposure, which includes the sum of on balance sheet exposures, derivative exposures and off balance sheet items.

'Management expenses' represent the aggregate of administrative expenses and depreciation taken from the Group/Society statement of comprehensive income.

2. Information relating to the directors and officers as at 31 December 2014

Name	Date of Birth	Date of appointment	Occupation	Other directorships
Directors				
J.P. Allen	3.6.1953	Nov 2009	Consultant	Emerson Developments (Holdings) Ltd J & JA Associates Ltd Jones Homes Ltd Pallet-Track Ltd
H.F. Baines	12.3.1957	Aug 2013	Consultant	Halifax Pension Nominees Ltd Harry Baines Consulting Ltd HBOS Final Salary Trust Ltd PACE Trustees Ltd
I.A. Dewar	14.9.1957	Aug 2013	Chartered Accountant	Aldenham Foundation Brewin Dolphin Ltd Brewin Dolphin Holdings plc
C.W. Gee	22.6.1968	Jan 2005	Building Society Executive	MBS (Mortgages) Ltd MBS (Property) Ltd
D.A. Harding	29.7.1947	Apr 2013	Company Director	
P.A. Lynch	31.8.1969	Apr 2002	Building Society Executive	MBS (Mortgages) Ltd MBS (Property) Ltd
F.B. Smith	3.1.1959	Jan 2014	General Counsel	
J. Smith	5.12.1950	May 2006	Certified Accountant	Adventure Learning Academy Trust Adventure Learning Education Services Ltd Bright Tribe Educational Services Ltd Bright Tribe Trust Ltd JJF Services Ltd Rubicon West plc
Officers				
A. Hodges	7.4.1956	April 2013	Consultant	Lamjam Ltd
G.B. Honeyborne	17.7.1961	Nov 2013	Consultant	Boone Henry Ltd

Executive Directors	Position	Date of signing service contract
C.W. Gee	Finance Director	7.12.2004
P.A. Lynch	Operations Director	3.4.2002

Each of the executive directors has an employment contract which is terminable by the Society by giving 12 months' notice. Each executive director is required to give 6 months' notice to the Society to terminate his contract.

Non-Executive Directors

Non-executive directors are not appointed under service contracts. Their employment is terminable by 1 month's notice on either side. It is indicated to each non executive director that they would not be expected to serve more than nine years on the board, although for the avoidance of doubt this is not a contractual commitment to the directors. Accordingly, by reference to a full nine year term, the unexpired part of each non executive director's term at 31 December 2014 would be:

J.P. Allen	3 years and 10 months
H.F. Baines	7 years and 8 months
I.A. Dewar	7 years and 8 months
D.A. Harding	7 years and 4 months
F.B. Smith	8 years
J. Smith	4 months

Any documents may be served on the above named directors at the following address: Lyons Wilson, 1 Central Street, Manchester M2 5WR.

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