SUMMARY FINANCIAL REPORT

2013

Manchester BUILDING SOCIETY

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The Society's core business performance remained robust and in line with the Board's expectations, but the 2013 annual results have been affected by a number of adjustments and an increase in provisions.

In April 2013 the Society issued new capital in the form of Profit Participating Deferred Shares in order to improve the Group's regulatory capital position. During the year the Board carried out a comprehensive review of the Group's operations and management structure to determine how best to serve the interests of members in the continuing low interest rate environment, whilst also focusing on reducing business risk. The Board has taken actions to streamline operational teams, refresh the Board and focus on risk reduction whilst maintaining the existing level of service provided to members.

Results for the current year are summarised below. Certain restatements have been made to the prior year results in line with professional advice: booking a provision for insurance risk associated with the Group's Lifetime mortgage assets, a re-classification of the 1999 PIBS from Equity to Liability, and the adoption of new accounting guidance regarding the treatment of levies. The combined impact of these was to reduce opening equity by £7.6 million.

The financial results for the year to 31 December 2013 are set out in detail later in this report but in essence the Group recorded total operating income of £13.5 million in the year compared with £3.0 million in 2012 (restated). After administrative expenses and depreciation, operating profit before impairment and provisions was £7.6 million compared with a restated loss of £1.9 million the previous year. The Group has also recognised an impairment charge of £8.7 million (2012: £0.9 million, restated). This impairment refers, in the main, to a mortgage book held by a third party but funded by the Society and mortgage assets in Spain.

After impairment and the compulsory Financial Services Compensation Scheme levy, the Group recorded a loss before tax of £1.6 million (2012: loss £3.1 million, restated). After tax, the loss for the year is £7.1 million (2012: loss £3.3 million), which includes a write down of £5.1 million of the Group's deferred tax asset, in line with IAS 12 - *Income Taxes*.

The Society scaled back its lending operations during 2013 with Group total assets reducing by £130.6 million. Internal restructuring actions delivered a reduction to the Group's underlying cost base. In addition, as a result of deciding to withdraw from certain types of lending, the Society's UK Lifetime mortgage book was sold for £68.4 million in December 2013 at a premium of £1.2 million. The result is a smaller Group with a high level of liquidity.

A process of refreshing the Board commenced in April 2013. David Cowie, Chief Executive retired and was replaced by Allan Hodges acting on a long-term interim basis. In June 2013 Susan Molloy resigned as a non-executive director following a prolonged period of ill health and at the close of the year Alec Finch, non-executive director and Chairman of the Audit Committee, retired after 7 years on the Board. After serving for nearly six years as a non-executive director, Bob Dyson has also indicated his wish to retire after the forthcoming AGM. I should like to thank them all for their service to the Society.

Three new non-executive directors have been appointed:

- Harry Baines joined the Board in August 2013 following an executive career as General Counsel to a number of major financial institutions, including Lloyds Banking Group plc.
- Ian Dewar also joined in August 2013, having retired in 2012 as a partner with KPMG. He brings valuable experience of Audit practices and Risk management.
- Fiona Smith joined the Board in January 2014. She also has wide experience as an in-house lawyer and currently occupies the role of General Counsel at the National Employment Savings Trust.

The low interest rate environment is, I know, of great concern to the saving members of the Society. Interest rates are at an unprecedentedly low level and seem likely to remain that way for some time to come. The Society has reduced the rates paid on savings in line with the trend in the market while trying to offer savers fair value. While borrowing members have, in general, benefited from lower interest rates, there are inevitably a small number of members who have moved into arrears. In these cases, with forbearance in mind, we have worked closely with these borrowers to seek a satisfactory solution to any payment problems.

The needs of our members and the service that we provide to them are key areas of focus for all members of staff, from the Board to the operational customer service teams. Our overriding aim is to provide a range of products that meet our members' lending needs and at all times to ensure that the service that we provide to them is second to none. This level of customer focus sees the Society's customer-facing staff aiming to deal with all member enquiries and queries at the first point of interaction – whether this be through our website, telephone contact teams, the branch or by post. The level of complaints and expressions of dis-satisfaction that we receive remain very low and we firmly believe that this is as a direct result of the level of member service that we provide.

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

D. A. Harding
Chairman
3 May 2014

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

This financial statement is a summary of information which is contained in the audited Annual Accounts, the Directors' Report and Annual Business Statement for the year ended 31 December 2013, prepared using International Financial Reporting Standards, all of which will be available to members and depositors free of charge on demand at every office and agent of Manchester Building Society from 16 May 2014 and at www.themanchester.co.uk.

Approved by the Board of Directors of the Society on 3 May 2014 and signed on its behalf by:

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

SUMMARY DIRECTORS' REPORT

Strategic Report

The Group consists of the Society and its two wholly owned subsidiaries: MBS (Mortgages) Limited and MBS (Property) Limited. 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. Careful management of the Group's regulatory capital allows the Society to support its mortgage book and to accommodate unforeseen mortgage losses. With this latter point in mind, in order to enhance its regulatory capital position and ratios, the Board actively manages the Group's assets so that they attract lower regulatory capital risk weightings. The Group's strategy was reviewed during 2013 in order to reduce risk and improve regulatory capital by a combination of:

- Overall shrinkage of the total mortgage book
- Re-profiling of the Group's mortgage assets
- Management of its interest rate risk
- A low risk approach to lending activity
- Active management of net interest margins
- Focus on overhead management

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 on pages 6 to 9, 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 on page 4.

Restatements

PricewaterhouseCoopers LLP ("PwC") were appointed as the Group's external auditors during the year. A detailed review of accounting processes and policies has also been carried out. This review has highlighted two areas where a restatement of a previously adopted accounting treatment has been required relating to the Society's Permanent Interest Bearing Shares ("PIBS") and its Spanish Lifetime Mortgage assets. Additionally, the Group has chosen to adopt early the provisions of IFRIC 21, which impacts the recognition of the Financial Services Compensation Scheme ("FSCS") levy and which is also treated as a prior year adjustment.

- PIBS

IAS 32 – Financial Instruments: Presentation

The Society has two tranches of Permanent Interest Bearing Shares, issued in 1999 and 2005; each tranche is governed by a separate Offering Circular document. The terms of these documents differ, with those for the 2005 PIBS conferring discretion on the Society's Board to cancel in part or in whole any interest payment due. There is much less discretion on the Board's part to be able to cancel interest on the 1999 PIBS.

In relation to IAS 32 - *Financial Instruments: Presentation*, it is the view of the Board that the 1999 PIBS should be reclassified as a liability as the Board does not have an unconditional right to cancel the interest payment. The terms of these PIBS include a clause that if the Society were to have in issue any other share or deposit account (save for deferred shares) on which the Board could cancel the interest at its discretion, then the 1999 PIBS would qualify to be treated as equity. At both the 2012 and 2013 year ends there were no such accounts in issue, but if at a future year end such an account type were to exist, then the 1999 PIBS would be re-classified as equity.

The impact of the restatement on the 2012 and earlier years' positions is: subscribed capital within the liabilities heading increased by £5m, subscribed capital within the equity heading reduced by £5m, interest expense increased by £400k. There was a credit direct to the statement of changes in equity of £302k, being the tax effected interest adjustment. This is treated as an error in accordance with IAS 8 and gives rise to a restatement of prior period comparatives. Additionally, liabilities at 31 December 2011 increased by £74k (2012: nil) to recognise the accruals basis for the interest on the PIBS as a result of their reclassification from equity. This restatement does not alter the treatment of capital for regulatory purposes, as both tranches of PIBS are treated in the same way within the Group's regulatory capital assessments.

- Lifetime Mortgages

IFRS 4 – Insurance Contracts

The Society has a portfolio of Spanish Lifetime Mortgage loans secured on residential property. It has been identified that 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 oustanding balance the Society does not have any further ability to recover amounts from the borrower or the estate. The recognition of a provision based on this insurance risk under IFRS 4 represents a change in accounting treatment. As the insurance provision is akin to a credit risk provision, it has been booked against loans and advances to customers.

The impact of the restatement is: an increase in provisions of £4.2m at 2012 (2011: increase of £3.1m) and an impairment loss of £0.5m in 2012 and reduction in interest and similar income of £0.2m, reflecting an adjustment to profit before tax of £0.7m, and a reduction in income tax of £0.2m and a reduction to 2012 opening retained earnings of £3.1m. This is treated as an error in accordance with IAS 8 and gives rise to a restatement of prior period comparatives.

- FSCS Levy

IFRIC 21 – Levies

IFRIC 21 – *Levies* clarifies the treatment of the levy charged by FSCS. The IFRIC indicates that the trigger point for recognising a provision in respect of the FSCS levy moves from 31 December to the following 1 April, being the start of the FSCS levy year. The impact of this is that, at the financial statement date, the Society would not have passed the trigger point for requiring accrual of the following year's levy and accordingly would only be required to hold an accrual for a single year levy; previously, the accounting policy for FSCS levies required the Society to hold the equivalent of two years of the interest levy and one year of the capital levy as prescribed by the FSCS.

Adoption of IFRIC 21 is mandatory for accounting periods beginning on or after 1 January 2014, although early adoption is permitted. The Society has chosen to adopt early the provisions of IFRIC 21, which is treated as a change in accounting policy in accordance with IAS 8 and gives rise to a restatement of prior period comparatives. The impact of the restatement was to reduce provisions for liabilities and charges by £375k for 2012 (2011: £177k) and to increase profit before tax by £375k.

The deferred tax asset increased by £76k (2011: £698k) as a result of the combined impact of the tax affected restatements above. The financial impact of all of the above restatements may be seen overleaf.

Review of the Business

Where 2012 figures are quoted within this report, they are restated figures, as per the above restatement.

The Group reported a loss before tax for the year of £1.6m (2012: loss £3.1m). This was after accommodating a number of large and exceptional items as follows:

	£000
Items that increased profit:	
Gain on disposal of UK Lifetime mortgage assets	1,183
Gain on sale of Icelandic banking debt	348
Items that decreased profit:	
Organisational restructuring costs	(827)
Provisioning impairment charge in the year	(8,706)

As mentioned in the Chairman's Statement, during 2013 the Board undertook a comprehensive review of the Group's operations and took a number of actions that had a direct financial impact on the results for the year. The timing of these actions and the impact that they had on profit before tax in 2013 was as follows:

- April 2013 - New capital issued - no impact on the Group's profit
- June 2013 - Organisational restructure - cost: £827k
- December 2013 - Sale of impaired Icelandic Banking debt - gain: £348k
  - Disposal of a mortgage book - gain £1,183k

- New capital. Subscribed capital in the form of £18m of Profit Participating Deferred Shares ("PPDS") was issued. 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. Their cost of issue was £539k and this has been deducted from the proceeds when arriving at their carrying value within the Financial Statements.

- Organisational Restructure. A review and restructuring of internal support teams was carried out. This streamlined the Society's operations, with a reduction in headcount of 22 occurring. The cost of the exercise was £827k, which covered contractual notice periods, redundancy payments and legal advice. The Board considers that the current staffing levels will support existing business levels.

- Icelandic Banking Counterparties. The Society sold its remaining Icelandic banking debt, recording a gain of £348k as a result.

- Disposal of UK Lifetime Mortgage Assets. Having already identified earlier in 2013 that the UK Lifetime mortgage market was not a core part of its future activities, divestment of this £68m book of equity release assets occurred at the end of the year with the disposal generating a gain of £1.2m for the Group. In addition the disposal reduced the risk profile of the balance sheet and the level of regulatory capital that the Society was required to hold. At 31 December 2013, the majority of the consideration received was held as liquid assets.

PROFITABILITY

- Result for the year: The Group reported a pre-tax loss for the year of £1.6m (2012: £3.1m loss).

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

	2013 £000	2012 £000
Interest receivable and similar income	27,354	28,214
Interest payable and similar charges	(12,947)	(17,421)
Net interest income	14,407	10,793

The level of interest earned on mortgages and loans (2013: £24.0m 2012: £25.4m) was lower in 2013 compared to 2012 due to lower mortgage balances and interest on investment securities was lower (2013: £1.1m; 2012: £2.0m) owing to a reduction in the level of securities held. Also included in interest receivable and other income in 2013 was the £1.2m gain (2012: nil) that was generated when the Society's UK lifetime mortgage book was disposed of at a value in excess of its carrying amount.

Interest paid to savings members reduced from £15.0m in 2012 to £10.2m in 2013; reflecting the combined impact of lower interest rates paid on a reducing savings book (2013: £502.6m of balances owed to members compared with £617.0m at 31 December 2012).

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: As the Society's portfolio of interest rate swaps was not effective for IAS 39 hedge accounting purposes, the Board decided to exit from all of these derivatives. Exiting from this portfolio of swaps had a beneficial effect on the Group's other income as the level of loss on derivatives for the year reduced materially (2013: £0.3m; 2012: £8.3m). The net swap interest costs, being interest payments less interest receipts, reduced to £2.5m (2012: £4.5m). Also, at the point in time of exiting the swaps, their fair value, excluding interest, was £2.2m higher than that recorded at the previous financial statement date and accordingly, this £2.2m impacted favourably upon the Society and Group's other income during 2013. Another element of other income is the return that the Group earns on its investment securities; the income on these securities reduced during 2013 as a result of holding a lower level of investments (2013: £23.1m; 2012: £67.6m); the reduction in the level of investment securities arose through a combination of natural maturities and through managed disposal of selected instruments during Q2 2013, with the proceeds in all cases being retained in cash rather than being re-invested. The Group recorded a loss on these financial instruments of £1.13m (2012: £nil).

- Administrative expenses: In combination, the Group's administrative and depreciation expenses increased during the year from £4.9m to £5.9m. Of the £1.0m increase, £827k related to the organisational restructure referred to above. The cost savings that arose from the organisational restructure were offset in the year by the costs of the exercise itself, but it is expected that a reduction in the underlying level of administrative expenses will be seen in 2014 and onwards.

- Impairment losses: Impairment losses in 2013 were £8.7m (2012: £0.9m). All elements of the Group's mortgage and loan book were tested for impairment during the year and all impairment provisions were re-assessed. There were two particular parts of the book where provisions increased during the year, being: mortgage assets over which the Society holds a beneficial interest and Lifetime mortgage assets. In relation to the former, the Group has a beneficial interest in a mature portfolio of first and second charge mortgage assets which are consolidated in these accounts. This portfolio, which has a carrying value after impairment provisions, of £6.2m, includes both non-regulated residential mortgage assets and assets regulated under the Consumer Credit Act ("CCA"). Full legal title to these mortgages rests with a third party. The acquisition was made through a funding arrangement with a third party and the Group holds a debenture over both the third party business and the mortgage assets concerned. Administration of the mortgage book is undertaken by the same third party that owns the legal title of the assets. During the course of the year the Group identified instances where certain of the requirements of the CCA relating to post contract documentation had not been fully complied with by the mortgage administrator. An exercise was undertaken to estimate the future cashflows that could be generated from these mortgage assets and to discount these at the effective rate of interest; this resulted in an increase in impairment provisions of £6.7m (2012: £0.7m) which was booked in December 2013. As the Group benefits from all of the cashflows that this mortgage book generates, any refunds made by the mortgage administrator to customers where CCA compliance has fallen short, adversely affect the Group's recoverability. The Group has estimated that the administrator will need to make refunds to customers of the order of £273k and accordingly this sum has been booked in the Group's accounts, although it is noted that legal liability to repay such sums rests with the administrator and not the Group. Separately, in relation to the Society's Lifetime mortgage assets, having booked a prior year restatement to reflect a provision for the insurance risk associated with these assets, this provision increased during the year by £0.9m as a result of movements in Spanish house price inflation assumptions (2012: £1.2m).

FINANCIAL POSITION

- Liquid Assets: The Group's liquid assets are deposited with UK "high street" banking counterparties in either instantly accessible bank accounts, or in instruments that can be converted into cash in a very short period of time. Of the Society's total liquid funds at the year end, £95.7m was deposited with the Bank of England (2012: £50.4m). The increase was predominately due to £35m from the proceeds of the sale of lifetime mortgages in December 2013 being deposited with the Bank of England.

- Mortgages and Other Loans: Group mortgage balances, after provisions, were £454.0m (2012: £570.5m), representing a year on year decrease of 20.4% (2012: 6.5% reduction). Of this decrease, 11.9% is accounted for from the disposal of the Group's UK Lifetime Mortgage book in December 2013. Further, to help maintain its regulatory capital position, the Society was less active in terms of making new or further sums available to borrowing members, with advances to 70 new and 1 existing borrowers occurring during the year, to a total value of £10.1m (2012: £12.3m).

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 2013 there were 18 mortgage accounts (2012: 25) where payments were 12 or more months in arrears. Outstanding balances on these accounts amounted to £6.0m (2012: £6.6m) with total arrears of £0.7m (2012: £0.7m), representing 1.3% of total mortgage balances (2012: 1.1%). 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 at each calendar quarter end accordingly.

- Other Assets: Included within Other Assets is a sum of £1.1m (2012: £42.3m) relating to collateral deposited in the form of cash under credit support annex agreements ("CSA") with the Group's counterparty providers of derivative contracts. As the Group exited from all of its interest rate derivative contracts in June 2013 the level of CSA balances reduced materially.

- Retail Balances: Retail balances reduced 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 member protection as a regulated deposit taker. The Board manages capital within the regulatory limits set by the PRA, with Basel II regulatory capital positions being:

	31 Dec 2013 **£000**	31 Dec 2012 **£000**
Tier 1 Capital		
Retained earnings	(1,374)	5,611
PPDS	17,461	-
PIBS	14,788	14,788
Total Tier 1 Capital	30,875	20,399
Tier 2 Capital		
Subordinated debt	14,500	14,800
Collectively identified provisions	13,688	1,364
Total Tier 2 Capital	28,188	16,164
Total Regulatory Capital	59,063	36,563

Since the start of 2013, noteable movements in capital have arisen from:

	£000
Opening position at 1 January 2013 (as previously reported)	39,154
Reduction in reserves arising from restating 2012 and earlier years	(2,591)
Opening position at 1 January 2013 (restated)	36,563
Issuance of new PPDS	17,461
Movements in Tier 2 capital	12,024
Reduction in retained earnings arising from current year trading	(6,985)
Closing position at 31 December 2013	59,063

Concurrent with the approval of the 2012 financial statements, £18m of new capital was issued in April 2013 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.

The Board is focused on further actions to reduce risk and rebuild reserves, as demonstrated by the sale of the UK lifetime mortgage portfolio. The 31 December 2013 capital position reflects the actions taken by the Board, along with the impact of the accounting adjustments and impairments booked in these 2013 accounts.

As a result of the implementation of Basel III on 1 January 2014, the Society's regulatory capital at that time was assessed to be £42m.

The Group's gross capital improved from 4.9% at 31 December 2012 to 7.3% at 31 December 2013. The free capital at 31 December 2013 was 8.2% (2012: 4.6%).

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 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, liquidity risk, interest rate risk and currency risk. Certain aspects of the macro economic environment also influences the risks that the Society faces. The Board believes that the profile of risks that the Society will face in 2014 is similar to those experienced during 2013.

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 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. In relation to loans and advances, credit risk presents as more of a consideration 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 the risk is assessed as being very low. Credit risk is mitigated by appropriately underwriting all mortgage applications 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. In addition to its first charge mortgage lending, the Group has an interest in a small portfolio of second charge mortgage assets; these are all mature and it has been assessed that the risk of non-repayment arising from there being insufficient equity in the properties to satisfy both the first and second charge holder is low. No impairment provision has been made specifically in relation to second charge assets. 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 a third party business, to which the Group provided funding and over which it holds a debenture; due to this beneficial interest held, these assets are consolidated in the Group balance sheet. During the year the Group identified instances of non-compliance with the CCA which have led to legal advice being sought and an assessment being made of the impact of such on the loan book. This 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. It is not clear what regulatory position the FCA will adopt and there is no judicial certainty in the legal position. The actual result could therefore differ materially from this estimate.

- Insurance Risk: In the context of lifetime mortgages, impairment assessments incorporate the insurance risk attaching to the contracts. 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, 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. 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 2013, 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 Group is required to hold sufficient capital by its regulator; regulatory capital includes retained earnings, PPDS, PIBS and subordinated debt. 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. 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 of the UK lifetime mortgages. From 1 January 2014 the extent to which remunerated capital instruments may be included within regulatory capital is set to change, as a result of the implementation of Basel III. For the Group, the impact is that certain elements that are currently included within its regulatory capital, being PIBS and certain tranches of subordinated debt, will amortise over a 10 year period. The Society has assessed the impact of this future amortisation of instruments and it is satisfied that, based on current projections, it will continue to meet its regulatory requirements without the need to issue further capital instruments. The Group is continuing to assess the impact that Basel III will have on its business.

- 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. The interest rate risk had been offset through the purchase of interest rate swaps. At the previous financial statement date, it had been identified that these swaps were not effective for hedge accounting purposes under IAS 39. The result of this was that the fair value movement on the interest rate swaps was recorded through profit or loss. The fair value of the interest rate swaps was volatile to a material degree by reference to movements in yield curves. The Board's view was that the risk of volatility in its retained reserves (and consequentially upon its regulatory capital) was too great and as a result, it exited from all of its interest rate swaps in June 2013. 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.

- Currency Risk: The Group faces currency movement risks on its Euro denominated mortgage balances which represent 7.3% of total mortgage assets as at 31 December 2013. 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. Following the launch of the Bank of England's Funding for Lending Scheme, it is apparent that there has been an easing in the rates that retail institutions pay to their saving members and as a consequence, the impact of this has been an improvement in the Society's interest margin during 2013.

Details of the Group's critical accounting estimates and judgements may be found within the 2013 Annual Report and Accounts.

Diversity Matters

Gender Analysis

Below is a table summarising Directors and Staff by gender at 31 December 2013, with comparative positions for the previous year end:

	31 December 2013		31 December 2012	
	Male	Female	Male	Female
Directors	8	0	9	1
Staff	20	23	33	31
Total	28	23	42	32

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 disclosure as 'Senior Managers' in the above table.

Social, Community and Human Rights Issues

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

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

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

Directors

Current Directors

J.P. Allen	Non-executive director	
H.F. Baines	Non-executive director	(appointed 30 August 2013)
I.A. Dewar	Non-executive director	(appointed 30 August 2013)
R.W. Dyson	Non-executive director	
C.W. Gee	Finance Director	
D.A. Harding	Chairman	(appointed 17 April 2013)
P.A. Lynch	Operations Director	
F.B. Smith	Non-executive director	(appointed 1 January 2014)
J. Smith	Vice Chairman	

Former Directors

D.E. Cowie	Chief Executive	(retired 5 June 2013)
A. Finch	Non-executive director	(resigned 31 December 2013)
S.M. Molloy	Non-executive director	(resigned 26 June 2013)
M.J. Prior	Chairman	(resigned 17 April 2013)
I.M. Richardson	Executive Director	(resigned 28 June 2013)

At the Annual General Meeting: Harry Baines, Ian Dewar and David Harding will offer themselves for election as they were appointed to the Board during 2013. In addition, Fiona Smith, who was appointed to the Board in January 2014, will also offer herself for election; this would normally occur at the AGM in 2015, but the resolution to elect her has been brought to the 2014 AGM as, in the view of the Board the timing of the appointment and 2014 AGM allow for her election to occur at that time. Further, Chris Gee will retire by rotation and being eligible, will offer himself for re-election. Bob Dyson 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

Pillar 3

The disclosure requirements of Pillar 3 may be found on the Society's website.

Charitable & political donations

The Society made charitable donations totalling £5,000 (2012: £5,000) during the year. No contributions were made for political purposes.

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 2013 amounted to 9 days of average supplies (2012: 16 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; these are summarised on pages 10 to 12.

During the year to December 2013, and prior to the issuance of the December 2012 accounts, an accounting adjustment was identified in relation to unwinding hedge accounting previously applied in the accounts. The impact was a reduction in reserves of £28.7m. As a result, and concurrent with the approval of the prior year accounts, the Society issued further subscribed capital in the form of £18m of Profit Participating Deferred Shares which are incorporated in Core Equity Tier 1 capital for regulatory purposes.

The Group has continued to focus on managing the risks and uncertainties facing the business and assessing regular forecasts covering profitability, liquidity and capital assessments. Impairment losses in the year on specific books of assets and accounting restatements have impacted capital resources. The key areas of judgment in the December 2013 accounts, as reflected in the summary on pages 10 to 12, 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, 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 forecasts, including stresses applied to the interest margin and the cost base. 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 both now and over the Corporate Planning period.

Based on the output of the Boards 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.

Auditors

Following the 2013 AGM, Grant Thornton UK LLP resigned as auditors and PricewaterhouseCoopers LLP were appointed. A resolution for their appointment as auditors of the Society will be proposed at the Annual General Meeting.

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. It is expected that the Bank of England's Funding for Lending Scheme will result in further downward pressure on both retail savings rates and on the short term rates offered on new mortgage lending across the UK.

It is the Board's view that interest margins will improve further when Bank Base Rate starts to increase, although the timing of this remains uncertain.

The Group will continue with its approach of prudent underwriting of all mortgage applications.

The continued prudential management of the Group's capital, interest rate risk, interest margin and liquidity will be areas of focus during 2014 and beyond.

On behalf of the Board of Directors

D.A. Harding

Chairman
3 May 2014

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

RESULTS FOR THE YEAR	Group		Society	
		Restated		Restated
	2013	2012	2013	2012
	£000	£000	£000	£000
Net interest income	14,407	10,793	13,547	9,637
Other income and charges	93	150	881	954
Fair value losses	(1,463)	(8,278)	(1,463)	(8,278)
Administrative expenses	(5,907)	(4,862)	(5,423)	(4,479)
Impairment losses	(8,706)	(864)	(7,646)	(147)
Loss for the year before taxation	(1,576)	(3,061)	(104)	(2,313)
Taxation	(5,517)	(219)	(5,645)	(361)
Loss for the financial period	(7,093)	(3,280)	(5,749)	(2,674)
Payment to Equity Holders	(675)	(675)	(675)	(675)
Tax credit on payment to Equity Holders (See page 6 for narrative)	135	165	135	165
Transfer to Retained Earnings	(7,633)	(3,790)	(6,289)	(3,184)

FINANCIAL POSITION AT THE END OF THE YEAR	Group		Society	
		Restated		Restated
	2013	2012	2013	2012
	£000	£000	£000	£000
Assets				
Liquid assets	177,047	142,930	176,997	142,880
Mortgages	451,919	567,819	443,733	553,281
Other loans	2,128	2,721	2,128	2,721
Derivative financial instruments	582	1,097	582	1,097
Fixed and other assets	14,754	62,442	25,159	78,030
Total assets	646,430	777,009	648,599	778,009
Liabilities				
Shares	502,586	617,009	502,586	617,009
Borrowings	96,828	81,577	96,828	81,577
Other liabilities	2,500	2,254	2,186	2,115
Derivative financial instruments	620	42,101	620	42,101
Subordinated capital	15,700	15,700	15,700	15,700
Subscribed capital	5,000	5,000	5,000	5,000
Subscribed capital##	9,788	9,788	9,788	9,788
Profit Participating Deferred Shares##	17,461	-	17,461	-
Reserves##	(4,053)	3,580	(1,570)	4,719
Total liabilities	646,430	777,009	648,599	778,009

Classified as equity

SUMMARY OF KEY FINANCIAL RATIOS	Group		Society	
	2013	2012*	2013	2012*
	%	%	%	%
Gross capital as a percentage of shares and borrowings	7.32	4.88	7.74	5.04
Liquid assets as a percentage of shares and borrowings	29.54	20.46	29.53	20.45
Loss for the year as a percentage of mean total assets	(1.00)	(0.40)	(0.81)	(0.33)
Management expenses as a percentage of mean total assets	0.83	0.60	0.76	0.55

*** Restated**

NOTES TO THE SUMMARY FINANCIAL STATEMENT

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

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

INDEPENDENT AUDITORS' STATEMENT ON THE SUMMARY FINANCIAL STATEMENT

INDEPENDENT AUDITORS' STATEMENT TO THE MEMBERS AND DEPOSITORS OF THE MANCHESTER BUILDING SOCIETY

We have examined the Summary Financial Statement of Manchester Building Society set out on pages 5 to 16.

Respective responsibilities of Directors and Auditors

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

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

We also read the other information contained in the Summary Financial Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Annual Report and Accounts. The other information comprises only the Summary Chairman's Statement and Director's Remuneration Report.

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

Basis of Opinion

We conducted our work in accordance with Bulletin 2008/3 'The auditor's statement on the summary financial statement in the United Kingdom' issued by the Auditing Practices Board. Our report on the Group and Society's full Annual Report and Accounts describes the basis of our audit opinion on those Annual Report and Accounts.

Opinion on Summary Financial Statement

In our opinion the Summary Financial Statement is consistent with the full Annual Report and Accounts, the Annual Business Statement and the Directors' Report of The Manchester Building Society for the year ended 31 December 2013 and comply with the applicable requirements of section 76 of the Building Societies Act 1986, and regulations made under it.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester

3 May 2014

SUMMARY DIRECTORS' REMUNERATION REPORT

Introduction

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

Nominations and Remuneration Committee

The Nominations and Remuneration Committee is responsible for the remuneration policy for all directors; it also reviews the remuneration of certain managers. All recommendations made by the Nominations and Remuneration Committee are considered by the full Board. The Committee has regard to best practise as set out in the Code.

No director is involved in any decision regarding their own level of remuneration.

Executive directors

Remuneration levels are set for executive directors at such a level 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 Nominations and Remuneration 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.

Their remuneration arrangements include:

- salaries, reviewed by the Committee on an annual basis
- membership of the Group personal pension scheme, on the same terms as other eligible employees of the Group, save for the previous Chief Executive, whose membership of the scheme attracted an increased level of employer pension contributions
- taxable benefits which include a car allowance and private health care

Bonus scheme arrangements that were in place historically for executive directors ceased to exist from 1 January 2011.

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

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

2012	Salary £000	Pension Contributions £000	Benefits £000	Total £000
D.E. Cowie	194	33	17	244
C.W. Gee	117	14	11	142
P.A. Lynch	117	14	11	142
I.M. Richardson	117	14	10	141
	545	75	49	669

** includes £149k for compensation for loss of office*

Following the retirement of David Cowie, the role of Chief Executive Officer is held by Allan Hodges on an interim basis. Mr. Hodges is not a director of the Society and his services are provided by Lamjam Ltd. The Society entered into the agreement with Lamjam Ltd on 29 April 2013 and paid £175,200 inclusive of VAT during 2013.

Non-executive directors

Non-executive directors are remunerated by way of fees, which are recommended by the 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 and they do not have any pension arrangements through the Group.

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

	Fees 2013 £000	Fees 2012 £000
J.P. Allen	29	29
H.F. Baines (appointed 30 August 2013)	10	-
I.A. Dewar (appointed 30 August 2013)	10	-
R.W. Dyson	29	29
A. Finch (resigned 31 December 2013)	29	29
D.A. Harding (appointed 17 April 2013)	51	-
S.M. Molloy (resigned 12 June 2013)	13	29
M.J. Prior (resigned 17 April 2013)	17	50
J. Smith	36	35
	224	201

All directors

	2013 £000	2012 £000
Total remuneration	921	870

The Group does not make mortgage loans available to any director or close family member.

Full details of directors' remuneration and other business interests are shown within the Annual Report and Accounts.

CONTACT DETAILS

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Agencies

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

Savings Customer Services

Telephone	0161 923 8065
Fax	0161 923 8954
Post	Manchester Building Society Savings PO Box 4256 Manchester M60 3AX

Mortgage Customer Services

Telephone	0161 923 8030
Fax	0161 923 8951
Post	Manchester Building Society 125 Portland Street Manchester M1 4QD

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