



MANCHESTER BUILDING SOCIETY GROUP

Pillar 3 Disclosures

December 2009

Internal Capital Adequacy

This document is issued pursuant to the requirements of the Capital Requirements Directive ("CRD") and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"). It provides information on the Manchester Building Society Group's Capital, Risk Exposures and Risk Assessment Processes, which are provided to the market for the benefit of the market.

For general enquiries relating to our Savings and Mortgage Products please follow the link:

www.themanchester.co.uk

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1. Introduction

The Capital Requirements Directive ("CRD") was issued by the European Union in order to implement the Basel II accord and sets out a framework for capital adequacy for building societies and banks, governing the amount of capital they must hold in order to provide security for members, depositors and shareholders.

In the UK, the Society's regulator, the Financial Services Authority ("FSA"), is responsible for the implementation of the CRD, which consists of three main elements known as "Pillars", as follows:

- Pillar 1 - Minimum capital requirements, calculated by the Group using defined formulae
- Pillar 2 - The Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by the Group, and the Supervisory Review and Evaluation Process ("SREP") undertaken by the FSA
- Pillar 3 - Disclosure of key information on risk exposures and risk management processes by the Group, as required by BIPRU Chapter 11.

The Manchester Building Society Group adopted Basel II from 1 January 2008 and became subject to the requirements from that date.

Under Pillar 1 the Group has followed the Standardised Approach to Credit Risk and the Basic Indicator Approach to Operational Risk, permitted by the CRD when calculating the minimum capital requirement. This involves applying a defined risk based capital calculation to produce the Group's credit and operational risk capital requirements.

As required by Pillar 2 the Group's Board has performed a thorough assessment of the risks to which the Group is exposed and has calculated the additional amount of capital that it considers necessary to cover these risks, above and beyond the minimum regulatory level of capital required. This assessment process included stress-testing scenarios to ensure that the Group could maintain adequate capital in the event of a severe economic downturn.

ICAAP included full review of all the Group's policies, processes and procedures including governance and risk management frameworks in order to allow the Board to conclude the level of capital that the Group required. It included a detailed assessment of the various risks identified by the Group and the capital allocated to mitigate those risks. The ICAAP therefore, takes into account the Group's assessment of current risks and future risks.

This document deals with the disclosure requirements of Pillar 3 and the information provided is in accordance with the rules laid down in the FSA Handbook, Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") Chapter 11.

All figures within this document are as at 31 December 2009 unless otherwise stated.

2. Scope

This Pillar 3 Disclosure covers the entirety of the Manchester Building Society Group, which comprises:

- Manchester Building Society ("Society")
- MBS (Mortgages) Limited ("MBSM")
- MBS (Property) Limited ("MBSP")
- PMP Network Limited ("PMP")
- Whiteaway Laidlaw Bank Limited ("WLB")

MBSM, MBSP, PMP and WLB are all wholly owned subsidiaries of the Society and all entities are consolidated for Group accounting purposes.

For capital adequacy purposes, the financial results and capital positions of MBSM and MBSP are included with those of the Society, under solo consolidation arrangements. The former solo consolidation arrangement was brought forward from Basel I with FSA consent, whilst the latter solo consolidation arrangement is the subject of a waiver granted by the FSA in September 2007.

WLB is a bank regulated by the FSA. It raises deposits under its own FSA permissions, which are separate to those of the Society and accordingly the Group benefits from having two separate regulated entities that can offer independent protection to depositors under the Financial Services Compensation Scheme.

Accordingly, WLB is required to maintain an appropriate level of capital in its own right for the protection of its depositors. To this extent the amount of capital that may be transferred from WLB to the Society is limited by the need to ensure that WLB maintains its capital at the required level. There are no other current or foreseen material practical or legal impediments to the prompt transfer of capital or repayment of liabilities between Group entities.

The Society is committed to supporting its subsidiaries operationally and financially.

3. Risk Management Objectives and Policies

The FSA's 3rd Principle for Business is: "A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems." In order to comply with this principle, the Group's system of internal control is designed to enable it to achieve its corporate objectives within a documented, managed risk profile.

3.1. Risk Management Framework

Manchester Building Society's focus is on retail financial products, mainly in the form of savings and mortgages accounts. The provision of banking services, primarily to Small and Medium sized Enterprises ("SME's"), is undertaken by WLB. The Group's products give rise to financial assets and financial liabilities, which collectively are termed "financial instruments".

The main risks within the Group's business are: credit risk, market risk (including interest rate risk), liquidity risk and operational risk. The ways in which these risks are managed includes the adoption of Board approved policy documentation (which specify the Board's appetite for risk measured via numerous segmented policy limits), the use of forecasting and stress test models, which guide business strategies, and by producing key risk information and indicators to manage and monitor performance.

The Group operates a three-tiered approach to the allocation of responsibilities for risk identification and management.

- The **Board** reviews reports and management information (including both financial and non-financial measures), which allow it to conclude that the Risk Management Framework is effective. Duly constituted Committees and the Internal Audit function support the Board in the execution of these duties.
- **Senior Managers** oversee the use of the Risk Management Framework and make recommendations to the Board regarding the design of framework matters.
- **Department Managers** are responsible for day-to-day risk management, in line with the policies and procedures laid down.

The documenting of risks and controls is undertaken via:

The Board Procedures Manual – ("BPM")

The BPM has three main purposes:

- i) To document the Board's approach to control and management of the Group via an appropriate governance structure
- ii) To provide evidence as to how the Board meets its statutory, regulatory, prudential and compliance responsibilities; in particular those under BSA 1986, FSMA 2000 and the FSA Handbook (although it should be noted that there are a notable number of other regulatory requirements that the Group needs to follow)
- iii) To be a reference document for the Board and Senior Management with regard to the high level systems and controls and procedures of the Board and their responsibilities, both individually and collectively

Board Policy Statements

The Policy statements set out the Board's operating rules that ensure the Group complies on an ongoing basis with all regulatory requirements. They are designed to influence and determine all major decisions and actions and to ensure all activities take place within the Board's documented boundaries.

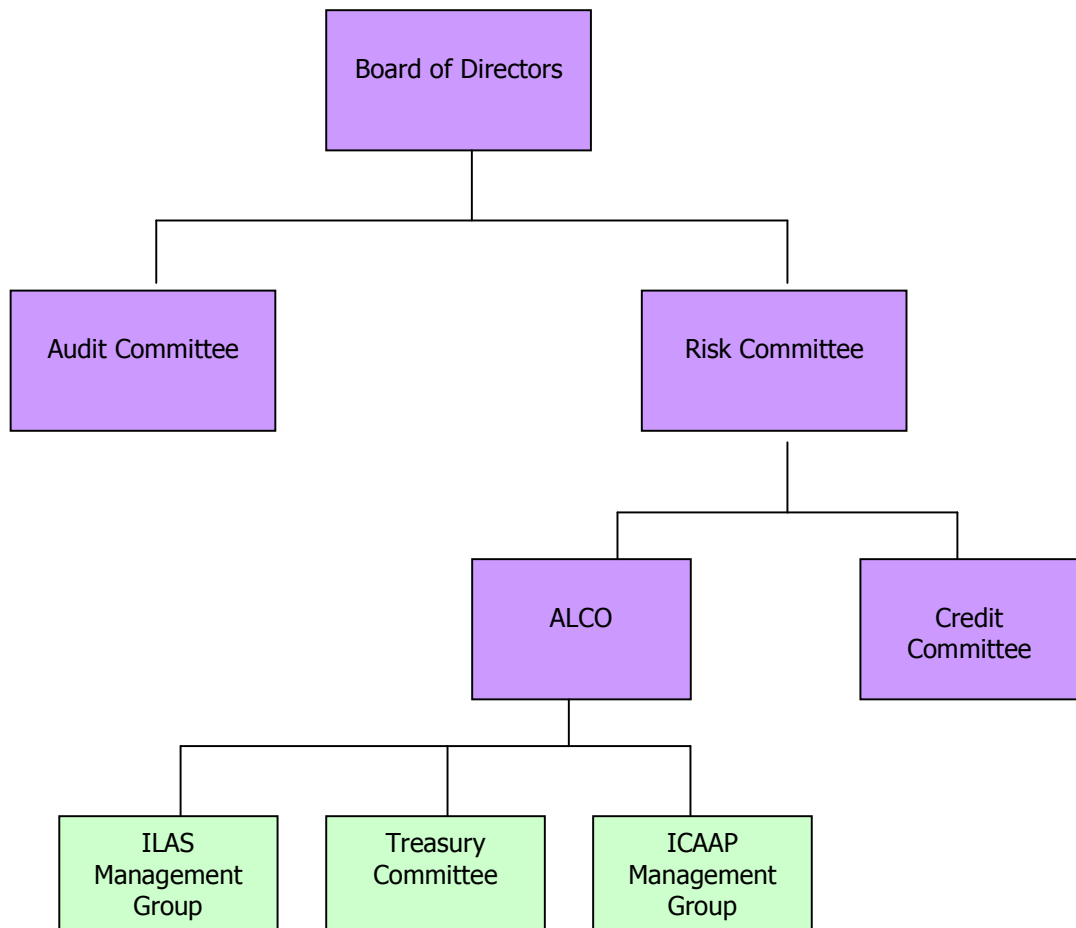
Departmental Procedures

Departmental procedures derive from the Board and Management Policy Statements; they describe the specific methods employed to express policies in action in day-to-day operations of the Group. Ownership of, and responsibility for, the Departmental Procedure Manuals rests with the Senior Managers. Departmental Managers ensure operational compliance.

Together, the policies and procedures ensure that the Board's requirements are translated into steps that result in a compliant outcome.

3.2. Board and Committee Structure

The Board is responsible for ensuring that effective systems and controls are in place for risk management and has established a risk management framework for the Group that is proportionate to both the size of the Group and the risks to which it is exposed. In order to achieve this, the Board has established a committee structure as illustrated in the following diagram (where purple denotes Board Committees and green denotes Management Committees):



Audit Committee

The Audit Committee meets four times per year. The Audit Committee considers and advises the Board on matters relating to:

- The appropriateness and effectiveness of systems and controls, including risk systems
- The adequacy of compliance with all relevant statutory and regulatory requirements
- The scope, operation and effectiveness of the internal audit function
- All aspects of the Group's relationship with its external auditors
- Reviewing and elevating to the Board for its approval the content and presentation of the Annual Report and Accounts
- Periodic management information

Risk Committee

The Risk Committee meets four times per year. The Risk Committee considers matters relating to the promotion of a risk-based approach to the Group's activities particularly in the following areas:

- Balance sheet structural risk
- Treasury and liquidity risk
- Credit risk
- Operational risk

The Risk Committee acts as the ICAAP Steering Committee.

ALCO

ALCO meets monthly.

ALCO considers matters relating to financial risk in line with the Society's risk appetite as set by the Board, specifically including:

- Financial Risk Management Policy (FRMP).
- Balance sheet, Structural Risk and Interest Rate View.
- Treasury Risk.
- Liquidity matters and ILAS.
- Capital matters and ICAAP.

Credit Committee

The Credit Committee meets monthly.

Credit Committee considers matters relating to the Society's credit risk management in line with the Society's risk appetite as set by the Risk Committee, specifically including:

- Ensuring new lending complies with the Lending Policy and is consistent with Board Strategy set out in the business plan.
- Regular review of Lending Policy and its conformity to Board Strategy and regulatory guidelines.
- Overseeing the risk control of the lending portfolio.
- Oversight of changes to the product range for new lending.

Treasury Committee

The Treasury Committee meets weekly to discuss operational issues associated with liquidity and balance sheet management, review compliance with policy limits and discuss future amendments to the FRMP. It reviews all liquidity matters, the availability and pricing of savings and mortgage products, effecting changes as appropriate.

ICAAP Management Group

The ICAAP Management Group's meetings are arranged to facilitate efficient and timely investigation of all ICAAP matters.

The ICAAP Management Group is responsible for providing documentation in relation to the ICAAP analysis and recommendations undertaken. It makes proposals and/or recommendations on ICAAP matters to the Risk Committee. Accordingly it meets as frequently as required.

ILAS Management Group

The ILAS Management Group's role is to facilitate efficient and timely investigation and analysis of all ILAS matters.

The ILAS Management Group is responsible for providing documentation in relation to the ILAS analysis and recommendations undertaken. Accordingly it meets as frequently as required.

Both ALCO and Risk Committee consider analyses, proposals and recommendations arising from the ILAS Management Group's meetings before being promoted to the Board for approval.

3.3. Internal Audit

The Group has appointed PKF (UK) LLP as its independent internal audit function, which reports directly to the Group Audit Committee on all its activities.

The Internal Audit function provides independent and objective assurance that the Group's processes are appropriately and effectively applied. The Audit Committee reviews the effectiveness of internal audit formally each year and informally on an ongoing basis.

3.4. Other Risk Management Measures

3.4.1 External Audit

The Group has appointed Grant Thornton UK LLP as its External Auditors. They conduct their audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Annual Accounts. It also includes an assessment of the significant estimates and judgments made by the Board of Directors in the preparation of the Annual Accounts and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

The Audit Committee reviews the effectiveness of internal audit formally each year and informally on an ongoing basis.

3.4.2 Other Committees

In addition to the Audit Committee and the Risk Committee, the Board has constituted two other Committees: the Nominations Committee and the Remuneration Committee.

3.4.2.1 Nominations Committee

The Nominations Committee:

- Leads the process for Board appointments, re-appointments and succession planning.
- Regularly reviews the structure, size, skills, knowledge, experience and composition of the Board.

- Recommends to the Board nominations for the positions of Chairman and Vice-Chairman of the Society.
- Ensures that the performance of all Directors is appraised on a regular basis.

The Committee met on three occasions during 2009.

3.4.2.2 Remuneration Committee

The overall responsibility of the Remuneration Committee is to consider formally all matters relating to the remuneration terms of both Non Executive and Executive Directors and to conduct this in a fair and thorough manner.

The Remuneration Committee makes recommendations to the Board, where remuneration matters are further discussed and approval for amendments is required.

The Committee met twice in 2009.

4. Principal Risks

The principal risks facing the Group and the procedures put in place to manage these are described below. Monitoring and managing the risks is undertaken in a number of ways, including:

- Board and Committee constitution
- Board Policies
- Departmental Procedures
- Production of key management information
- Forecasting and stress testing

Credit Risk

Credit risk refers to the potential risk that arises from customers or counterparties failing to meet their obligations as they fall due. The Risk Committee is responsible for reviewing the Group's Lending Policy and recommends changes to the Group's Board of Directors. The Board monitors exposures in accordance with this policy including concentration to individual counterparties and sector concentration. Additionally Risk Committee is responsible for recommending limits on Treasury counterparties, country exposures and types of financial instruments for approval by the Board of Directors.

Market Risk

The Group plays a part in the wholesale funding market; it deposits excess liquid funds into this market and borrows from it on a short-term basis.

Adverse movements in market variables such as settlement prices and valuations pose a risk to an organisation's financial position and constitute market risk. The Group does not operate a trading book and is therefore largely unaffected by Market Risk.

Exchange Rate Risk

The Group has a limited exposure to foreign currency exchange rate risk arising from its limited lending denominated in Euros.

Interest Rate Risk

The Group is affected by interest rate risk.

Interest rate risk arises from the different interest rate features, re-pricing dates and maturities of the Group's financial assets and its financial liabilities. The Risk Committee monitors and manages this exposure on an ongoing basis using a combination of on and off-balance sheet instruments.

Interest rate swaps and caps are used to manage interest rate risks. The prepayment risks associated with fixed rate mortgages are mitigated through the use of early repayment charges.

The Society's interest rate related risk appetite is measured against the impact of a parallel shift in interest rates of 2%.

Liquidity Risk

Liquidity risk is the risk of failing to meet demands and commitments to provide funds to customers and other third parties. The Treasury Committee, ALCO and the Risk Committee receive regular management information that allow for the close monitoring and management of this risk.

Responsibility for the day-to-day management of liquidity risk, including the monitoring of both retail and wholesale funding, lies with the Treasury Manager, within the prudent framework of the Financial Risk Management Policy.

Each month, the balance sheet position is stress tested to confirm that the Group can withstand normal and extreme cash outflows.

The Group has a relatively low level of wholesale funding and consequently its reliance upon the wholesale liquidity markets is limited.

Concentration Risk

As a regional building society, the Society is considered to face concentration risk because its activities and those of its subsidiaries are concentrated in the areas of retail deposit taking and residential mortgage lending.

The following types of concentration risk are considered to affect the Group and are monitored and managed by the Board to ensure that an appropriate risk profile is maintained: Geographic, Funding, Large Exposures and Product Type.

Geographic concentration risk is considered when undertaking stress testing. The impact of dramatic falls in property prices in the areas of greatest concentration of mortgage balances is considered in the assessment of the level of capital required to cover the impact of recessionary conditions. The Society regularly monitors its geographic concentration risk and adjusts its lending strategy where appropriate.

Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events. The Group Operational Risk Policy sets out the Group's approach to the management of operational risk.

Each Executive Director has responsibility identifying and managing operational risks for specified functions that cover the whole Group. This is carried out using an agreed framework and methodology, with quarterly reporting to the Risk Committee.

Other policies and procedures contribute to the overall risk environment, notably, the Business Continuity Plan, the Anti-Money Laundering Policy, the Fraud Policy and the Staff Handbook. Departmental procedure manuals reinforce the Group Operational Risk Policy.

Business Risk

The Board considers that Business and Strategic risks are inextricably linked and recognises that in an adverse macroeconomic environment it may be unable to achieve its corporate plan objectives due to earnings volatility and additional costs. The Group has a well-developed corporate planning process that involves the Board and senior management team.

Pension Obligation Risk

The Group's defined benefit pension scheme was wound up on 30 December 2008. The Group currently offers a defined contribution scheme to its employees. Accordingly, the Group is not subject to pension obligation risk.

Equity Risk

The Group has no material exposure to equity risk. Details of the Group's equity exposure can be found at Note 16 of the Annual Report and Accounts the year ended 31 December 2009.

Residual Risk

The Board recognises that there are residual risks inherent in the operations of any business, which may not be identified specifically. Accordingly, the Board has resolved that the Group should operate with a buffer of capital in excess of the regulatory requirement.

Group Risk

Group risk is the risk that the financial position of a firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risks, which may affect the financial position of the whole group, for example reputational contagion. This risk is considered within the ICAAP and the Board believes that it does not present a material risk to the Society Group.

5. Capital Resources

The Group's main source of capital is from retained profits, which are added to the Group's General Reserves.

The Group's capital resources are calculated in accordance with the regulations specified in the CRD. This calculation takes into account the capital required for the Society and all of its active subsidiaries. There are currently no known impediments that would prevent the transfer of capital resources from Manchester Building Society to these subsidiaries, should the need arise.

Total Group assets at 31 December 2009 were £945.3M of which £43.4M relates to the assets of WLB

At 31 December 2009 the Group's Capital Resources totalled £62.6M and comprised:

Table 1 – Group Capital Resources

	Group £000	Society Group £000	WLB £000
Tier 1 Capital Resources			
Accumulated Profit held as general reserves	34,351	31,801	2,550
Permanent Share Capital	2,000	0	2,000
Permanent Interest Bearing Shares (Note 1)	14,788	14,788	0
Net Tier 1 Capital Resources	51,139	46,589	4,550
Tier 2 Capital Resources			
General Provision	727	692	35
Perpetual subordinated debt (Note 2)	5,000	0	5,000
Long Term Subordinated Debt (Note 2)	15,700	15,700	0
Net Tier 2 Capital Resources	21,427	16,392	5,035
Deductions			
Material holding in WLB	9,961	9,961	0
Shareholding in PMP	1	1	0
Deductions from Capital	9,962	9,962	0
TOTAL CAPITAL RESOURCES	62,604	53,019	9,585

Notes

- 1) Permanent Interest Bearing Shares ("PIBS") are unsecured deferred shares and rank behind the claims of all subordinated noteholders, depositors, creditors and investing members of the Group. Further details about PIBS are provided in Note 25 to the Annual Report and Accounts.
- 2) Subordinated notes are unsecured and rank behind the claims of all depositors, creditors and investing members (other than holders of PIBS) of the Group. More details of the subordinated liabilities are included in Note 23 to the Annual Report and Accounts.

6. Capital Adequacy

It is essential that the Group maintains sufficient capital to support its ongoing activities and this requirement is an integral part of the Group's corporate planning process.

The Group maintains a three year financial forecasting and strategic planning framework, which is reviewed by the Society's Board on an annual basis. The three year Business Plan enables a forecast of the Group's capital and its regulatory capital resources requirement to be made, and this is a key element of the Group's ICAAP. The ICAAP contains calculations of the capital resources requirement as at the most recent financial year-end, with forecasts for the following three years, using the standardised approach for credit risk and the basic indicator approach for operational risk.

The ICAAP includes assessments of the capital adequacy position under stressed scenarios in order to ensure that the Group capital holdings will be satisfactory in such circumstances.

Whilst the Business Plan and the ICAAP documentation are prepared at different times of the year, they cross-refer with the result that both reflect the Board's risk appetite, thus integrating the capital adequacy position and forecasts into business strategy.

On a weekly and monthly basis cash flow forecasts and interest rate risk gap analyses are used to control overall liquidity requirements and to manage interest rate mis-matches.

Under the standardised approach for credit risk, the Group applies a risk weighted asset value to each of its exposure classes and provides 8% of that risk weighted asset value as the minimum capital requirement for credit risk, as required under Pillar 1.

With respect to the basic indicator approach for operational risk, the Group calculates its average net income over the previous three years and provides 15% of that average net income as the minimum capital requirement for operational risk.

Table 2 provides details of the calculation of the capital resources requirements of the Group as at 31 December 2009.

Table 2 – Group Capital Resources Requirement

	Asset £000	Risk Weighted Asset £000	Minimum Capital Requirement £000
Credit Risk Category			
Treasury Exposures (Note 1)			
Central Governments or central banks	10,122	0	0
Institutions	226,864	45,682	3,655
Cash			
(A) Total Treasury Exposures	236,986	45,682	3,655
Loans and advances to customers			
<u>Residential:</u>			
Performing	594,367	238,880	19,110
Past Due	17,359	18,971	1,518
Commitments	7,812	5,852	468
<u>Non Residential and Business:</u>			
Performing	42,208	41,824	3,346
Past Due	5,548	7,369	589
Commitments	292	292	23
<u>Unsecured loans and current accounts/overdrafts</u>			
Performing	19,803	16,216	1,297
Past Due	6,277	8,490	679
Commitments (Note 2)	0	0	0
(B) Total loans and advances to customers	693,666	337,894	27,031
(C) Fixed and other assets	14,669	14,669	1,174
(D) Total Credit Risk Exposures and Capital Resources Requirement (A+B+C)	945,323	398,245	31,860
(E) Foreign Exchange Position Risk Capital Requirement			56
(F) Operational Risk Capital Requirement			1,930
(G) TOTAL CAPITAL RESOURCES REQUIREMENT (D+E+F)			33,846

Notes

- 1) Inclusive of Derivative contracts
- 2) Overdraft facilities are treated as fully drawn for the purposes of the capital calculation and therefore no commitments are included.

Total assets in the table below of £945.3M, reconciles to the total assets figure in the Group's balance sheet in the Annual Report and Accounts for the year ending 31 December 2009 as follows:

	£000
Assets as per Table 2 above	<u>945,323</u>
<i>Less:</i>	
Loan Commitments	8,104
WLB Facilities treated as fully drawn	779
General and Specific Provisions	4,909
Net Discounts	126
Derivatives	3,522
Other	2,174
	<u>925,709</u>
<i>Add:</i>	
IFRS Adjustments	9,547
Sums recoverable from Icelandic banks	<u>2,064</u>
Assets as per 2009 Accounts	<u><u>937,320</u></u>

7. Credit Risk

This section gives more information with respect to the Group's credit risk exposures with respect to residential lending, retail unsecured lending (including WLB current and loan accounts), and treasury assets. The Group regards as 'past due' any mortgage or loan account where more than three monthly repayments have not been made at the accounting date.

A geographical analysis of the Group's Loans and Advances to Customers¹ as at 31 December 2009 is provided in Table 3 which summaries regional distribution information.

The Group operates from its head office in Manchester city centre.

Table 3 – Regional Distribution Analysis

Loans and advances to customers	Performing £000	Past Due £000	Total £000
<u>Residential</u>			
Manchester	50,570	1,812	52,382
NW & Midlands	218,289	7,123	225,411
North	37,416	1,972	39,388
London	84,617	2,069	86,686
South	161,119	4,383	165,502
Spain *	42,357	0	42,357
<u>Non Residential and Business:</u>			
Manchester	11,394	421	11,815
NW & Midlands	24,147	3,050	27,197
North	921	0	921
London	768	6	774
South	4,978	2,070	7,049
<u>Unsecured loans and current accounts overdrafts</u>			
Manchester	4,044	884	4,928
NW & Midlands	13,379	3,231	16,610
North	1,759	1,198	2,957
South including London	621	965	1,586
TOTAL	656,379	29,184	685,563
<i>*Lifetime mortgages to UK Expatriates</i>			

Details of the residual maturity analysis may be found at Note 14 to the Annual Report and Accounts for the year ended 31 December 2009.

¹ Excluding Commitments.

7.1. Provisions

The Group's accounting policy in relation to provisions for loans and advances is set out in Note 1 to the Annual Report and Accounts for the year ended 31 December 2009.

7.2. Treasury Assets

The Group has nominated Fitch Rating Services as its external credit assessment institution. Fitch ratings are applied to Group liquidity exposures in order to establish their risk weighted value for capital adequacy purposes, in line with the standardised approach using credit quality steps as set out in BIPRU chapter 3.

Unrated exposures are restricted to banks and building societies, which have not obtained a Fitch rating and are considered to be of high standing. In line with these requirements, the Group's liquid assets counterparties at 31 December 2009 were rated as shown in Table 6 below together with their residual maturity.

Table 6 – Counterparty ratings and residual maturities of Treasury assets at 31 December 2009

Fitch Long Term Rating	Maturity of Treasury Investments						Total £000
	< / = 3 months		3 months to 1 year		> / = 1 year		
	Assets	Derivatives	Assets	Derivatives	Assets	Derivatives	
	£000		£000		£000		
AAA to AA-	101,553	0	36,724	1,038	35,974	1,443	176,732
A+ to A-	4,671	21	0	0	0	1,020	5,712
BBB+ to BB-	0	0	0	0	0	0	0
CCC+ & Below	0	0	0	0	0	0	0
Unrated Banks, Building Societies & Local Govt	44,405	0	0	0	0	0	44,405
Central Governments & Banks	9,999	0	123	0	0	0	10,122
Cash	14	0	0	0	0	0	14
Total	160,643	21	36,847	1,038	35,974	2,463	236,986

7.3. Counterparty Credit Risk

Counterparty credit risk in the context of this disclosure is the risk that a counterparty to a derivative instrument we hold could default before the final settlement of the transaction's cash flows.

The Group uses derivative instruments to hedge interest rate risk and foreign currency risk. Derivatives are only used by the Group in accordance with the rules set out in the Building Societies Act 1986 and in line with the FRMP. This means that such instruments are not used in trading activity or speculative purposes.

Further details on derivative financial instruments held by the Group are contained in Note 13 to the Annual Report and Accounts for the year ended 31 December 2009.

7.4. Credit Risk Mitigation

Credit Support Annexes ("CSA") exist for collateralising derivative transactions with a number of banking counterparties to which the Group has derivative exposures in order to mitigate the risk of loss on default. Each CSA allow margin calls to be made on the net market value of derivative exposures with the particular counterparty.

The Group does not currently recognize the positive risk mitigating effect of these CSAs in its Pillar 1 capital calculations.

8. Conclusion

This Pillar 3 Disclosure document has been prepared in accordance with the requirements of BIPRU chapter 11, as appropriate for a Group of the size and complexity of Manchester Building Society Group and in line with the Group's Board-approved policy document entitled "Pillar 3 Disclosure Policy".

It provides both a description of the Group's risk management approach and identifies the key areas that have the most impact on the calculation of the Group's capital requirement Pillars 1 and 2 of the CRD.

In the event that a user of this disclosure document should require further information, application should be made in writing to Chris Gee, Finance Director at 125 Portland Street, Manchester, M1 4QD.