

SUMMARY FINANCIAL REPORT

2009

Manchester Building Society

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*Authorised and regulated by the Financial
Services Authority*

Member of the Building Societies Association

Member of the Council of Mortgage Lenders

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DIRECTORS

J.P. Allen ACIB Dip FS
J.D. Bee FCA
D.E. Cowie FCA
R.W. Dyson
A. Finch FCII
C.W. Gee FCA
P.A. Lynch
S.M. Molloy
M.J. Prior FCA
I.M. Richardson ACIB
J. Smith FCCA

CHAIRMAN M.J. Prior FCA

CHIEF EXECUTIVE D.E. Cowie FCA

SECRETARY N.L. Artell

AUDITORS

Grant Thornton UK LLP
Chartered Accountants
Registered Auditors
4 Hardman Square
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Manchester
M3 3EB

BANKERS

Co-operative Bank p.l.c.
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M60 4EP

SUMMARY CHAIRMAN'S STATEMENT



2009 represents the third year of the credit crunch and its expected fallout in relation to the building society sector will encompass permanent regulatory changes to Societies' funding, liquidity, capital and reporting, all of which will increase costs and require Societies to seek considerably wider margins from their future exposures.

Despite the atrocious market conditions we were able to report a Group pre-tax profit of £0.73 million. Overall, the results are disappointing and reflect two major factors. Firstly, having sold the loss making subsidiary Mortgage Broking Services Limited to Network Data Holdings plc ("NDH") in 2008, in exchange for shareholdings in NDH (the largest UK mortgage network), the ongoing lack of transaction volume in the UK housing market resulted in NDH itself becoming a casualty of prevailing economic conditions and it went into administration in the second quarter of 2009. Our results include full write down of the investment which reduced profits by £2.5 million.

Secondly, a more enduring problem encountered in 2009 was the impact on interest margins following the precipitous fall in the Bank of England base rate to a level of 0.5%, some 1.5% lower than the previous lowest ever floor of 2.0%. The problem faced by our sector is that the building society model – of providing 25 year mortgages, many of which are on rates linked to bank base rate, funded by short term retail deposits – does not work well at such low interest rate levels. Rates charged on our mortgage loan book have, for the most part, reduced in line with bank base rate. Average savings rates have not declined to the same extent, however, and consequently the Society operated at much lower net interest margins in the second half of 2009.

Despite the impact of the wider economic environment on the Group's margins, I am pleased to report that in operational terms the Society was still able to make material progress in a number of areas. The programme to reduce the Society's reliance on wholesale funding, which was commenced in the middle of 2007 when wholesale funds comprised 30% of total Society funding, continued into 2009 with the Society operating within its targeted range for wholesale funding of 7.5% to 12.5% of total funds throughout the second half of 2009. As part of this process, we increased retail deposits during 2009 by £68 million. This represents an increase of 10.2% in the year and more than 60% since the onset of the credit crunch. The Society also saw its mortgage arrears levels fall considerably over the year, with the aggregate balance of accounts more than two months in arrears falling by nearly 25% at a time when most other lenders have seen arrears levels rising. Lending activity by comparison was much more subdued, but in line with our expectations, with new lending in 2009 at £41 million, more than 60% lower than new lending in 2008.

The impact of much lower levels of both lending and interest margin necessitated a review of operational expenses in the middle of the year, leading to a cost reduction programme which is now complete. The programme, together with other incremental cost savings, has generated overall savings at the rate of over £1 million a year between January 2009 and January 2010 and has realigned staffing levels to allow the Society to operate viably for a prolonged period of time if current Bank of England interest rate levels continue into the medium term.

The Society's previous Chairman, John Bee, is to retire from the Board after the April 2010 Annual General Meeting. I would like to thank John for his commitment and stewardship of the Society as a Director since January 2000 and as Chairman from April 2006 until stepping down in September 2009. He will certainly be a hard act to follow.

Finally, I would commend the Society's team of management and staff. Our ability to withstand the shocks generated by the credit crunch and subsequent recession is a reflection of their commitment and hard work in such a difficult operational environment and I would like to thank them all for everything they have done for the Society during the past year.

M.J. Prior
Chairman
3 March 2010

SUMMARY GROUP FINANCIAL RESULTS 2004 - 2009

FINANCIAL POSITION		UK GAAP 2004	2005	2006	IFRS 2007	2008	2009
Total assets							
Balances	£476.0m	£565.3m	£676.2m	£792.3m	£947.8m	£937.3m	
% increase/(decrease)	16.8%	18.7%	19.6%	17.2%	19.6%	(1.1%)	
Customer balances and deposits							
Balances	£440.4m	£516.0m	£622.4m	£726.6m	£849.3m	£859.2m	
% increase	16.8%	17.1%	20.6%	16.7%	16.9%	1.2%	
Loans and advances to customers							
Balances	£384.9m	£467.8m	£554.7m	£603.0m	£708.6m	£688.6m	
% increase/(decrease)	21.0%	21.5%	18.6%	8.7%	17.5%	(2.4%)	
Liquid assets							
Balances	£87.1m	£93.4m	£116.8m	£173.9m	£220.0m	£236.3m	
% increase	4.2%	7.2%	25.1%	48.9%	26.5%	7.4%	

RESULTS FOR THE YEAR		UK GAAP 2004	2005	2006	IFRS 2007	2008	2009
Interest							
Interest margin	£6.9m	£7.7m	£10.3m	£11.9m	£12.0m	£9.1m	
% increase/(decrease)	27.0%	11.4%	33.6%	15.5%	0.8%	(23.8%)	
Profit							
Pre-tax profit	£3.3m	£4.0m	£5.2m	£6.0m	£2.4m	£0.7m	
% increase/(decrease)	20.3%	20.2%	31.2%	15.4%	(60.4%)	(69.4%)	

The Society adopted International Financial Reporting Standards ("IFRS") with effect from 1 January 2005. Prior to that it compiled its results using UK Generally Accepted Accounting Principles ("UK GAAP").

IFRS have not altered the way in which the Society manages its underlying business but they do require that the results are measured and presented in a different way to those of earlier years.

SUMMARY FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

The Directors have pleasure in presenting the Summary Financial Statement of the Society and its subsidiary undertakings ("the Group") for the year ended 31 December 2009 compiled using International Financial Reporting Standards.

This financial statement is a summary of information contained in the audited Annual Accounts, the Directors' Report, the Corporate Governance Report, Directors' Responsibility Statement and Annual Business Statement, all of which will be available free of charge to members and depositors, on demand, at the Society's head office and all its agents' offices from 31 March 2010.

Approved by the Board of Directors of the Society on 3 March 2010 and signed on its behalf by:

M.J. Prior, Chairman

D.E. Cowie, Chief Executive

C.W. Gee, Finance Director

SUMMARY DIRECTORS' REPORT

Business objectives and activities

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

The Board is committed to the Society's status as a mutual and independent Building Society and considers that it is in the long-term interest of members for that status to be maintained.

Corporate governance

The Group maintains a code of practice that complies with the principles in the 2008 Combined Code on Corporate Governance ("the Code") issued by the Financial Reporting Council.

Business review

Financial position:

- Member deposits increased by 10.2% to £736 million
- Liquidity increased by 7.4% to £236 million
- Total assets decreased in line with management expectations by 1.1% to £937 million
- Aggregate balances on mortgage accounts more than 2 months in arrears fell by 25%

Results for the year:

- Group profit before tax was £725k
- Write back of Icelandic-related treasury assets by £1.5 million following improved recoverability assessment
- Write off of £2.5 million investment in Network Data Holdings plc
- Cost of Financial Services Compensation Scheme of £0.4 million
- Management expense ratio reduced to 0.72%

Outlook

The market outlook remains volatile and uncertain as the UK emerges from recession.

The continued prudential management of the Group's liquidity, profitability and capital will remain areas of focus for the Board during 2010 and beyond.

The Group is cautiously optimistic of modest recovery in the UK housing market as the UK economy improves. It will maintain its prudent approach to both product development and its underwriting assessment of all mortgages and loans.

Focus will be maintained on cautious, controlled, profitable growth with the reduction of the management expense ratio as a further key target.

SUMMARY FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

RESULTS FOR THE YEAR	Group		Society	
	2009 £000	2008 £000	2009 £000	2008 £000
Net interest income	9,118	11,964	7,010	9,244
Other income and charges	(2,021)	2,394	(942)	619
Fair value (losses)/gains	(78)	1,515	(72)	1,512
Administrative expenses	(6,831)	(7,528)	(5,347)	(5,157)
Reversal of/Impairment (losses)	537	(5,976)	114	(5,733)
Profit for the year before taxation	725	2,369	763	485
Taxation	(841)	(642)	(597)	(333)
Total recognised income and expense relating to the financial period	(116)	1,727	166	152

FINANCIAL POSITION AT THE END OF THE YEAR	Group		Society	
	2009 £000	2008 £000	2009 £000	2008 £000
Assets				
Liquid assets	236,257	220,012	222,466	203,211
Mortgages	664,860	681,314	635,349	661,656
Other loans	23,708	27,237	8,644	5,403
Derivative financial instruments	2,082	5,979	2,082	5,979
Fixed and other assets	10,413	13,267	38,268	41,803
Total assets	937,320	947,809	906,809	918,052
Liabilities				
Shares	736,240	668,304	736,240	668,304
Borrowings	122,960	181,023	91,969	151,112
Other liabilities	4,449	2,793	3,709	2,009
Derivative financial instruments	11,331	33,233	11,331	33,233
Subordinated capital	15,700	15,700	15,700	15,700
Subscribed capital	14,788	14,788	14,788	14,788
Reserves	31,852	31,968	33,072	32,906
Total liabilities	937,320	947,809	906,809	918,052

SUMMARY OF KEY FINANCIAL RATIOS

	Group		Society	
	2009 %	2008 %	2009 %	2008 %
Gross capital as a percentage of shares and borrowings	7.08	7.17	7.49	7.54
Liquid assets as a percentage of shares and borrowings	27.50	25.90	26.86	24.80
Profit for the year as a percentage of mean total assets	(0.01)	0.20	0.02	0.06
Management expenses as a percentage of mean total assets	0.72	0.87	0.59	0.61

SUMMARY FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

NOTES TO THE SUMMARY FINANCIAL STATEMENT

1. The Summary Financial Statement is prepared on both a Group and Society basis.
2. The gross capital ratio measures the proportion by which capital bears to shares and borrowings. Gross capital consists of retained profits, accumulated over many years in the form of reserves, Permanent Interest Bearing 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. Liquid assets are generally readily realisable and thereby assist the Group and Society in its cash management. They 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.

AUDITORS' STATEMENT ON THE SUMMARY FINANCIAL STATEMENT

Statement of the independent auditor to the members and depositors of Manchester Building Society.

Pursuant to Section 76 of the Building Societies Act 1986, we have examined the Summary Financial Statement of Manchester Building Society set out on pages 6 to 8.

This statement, including the opinion, has been prepared for, and only for, the Society's Members as a body in accordance with section 76 of the Building Society's Act 1986 and for no other purpose. To the fullest extent permitted by law, we do not, in giving this opinion, 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.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Summary Financial Report, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement within the Summary Financial Report with the Annual Accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made under it. We also read the other information contained in the Summary Financial Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6 'The Auditors' Statement on the Summary Financial Statement' issued by the Auditing Practices Board for use in the United Kingdom. Our report on the Group's full annual accounts describes the basis of our audit opinion on those annual accounts.

Opinion

In our opinion the Summary Financial Statement is consistent with the Annual Accounts, the Annual Business Statement and Directors' Report of Manchester Building Society for the year ended 31 December 2009 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

Grant Thornton UK LLP
Chartered Accountants
Registered Auditors
Manchester

3 March 2010

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 explains the process for setting the level of directors' remuneration.

Remuneration Committee

The Remuneration Committee is responsible for the remuneration policy for all of the directors; it does not review the remuneration of other staff. All recommendations made by the Remuneration Committee are considered by the full Board. The Committee is committed to compliance with best practice as set out in the Combined 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 enable the Group to grow and develop within a competitive and challenging business sector. In accordance with best practice, the 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
- participation in an annual non-pensionable bonus scheme
- 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

Unlike a public company the Society is not able to offer Share Option Schemes as part of its remuneration policy. Instead, the executive directors participate in a performance related non-pensionable bonus scheme.

Performance bonuses have historically been calculated by reference to the Society's profitability and growth in comparison to a peer group of other building societies, assessed over a three year period, in order to ensure that bonuses arise when profitable performance is achieved consistently over the medium term; this is in compliance with the FSA's Remuneration Code.

The bonus scheme restricts bonuses to a maximum of 25% of basic salary.

Under the terms of the scheme bonuses would have become payable to the executive directors for both 2008 and 2009 but they have waived these sums.

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

DIRECTORS' REMUNERATION

Executive directors	Salary	Pension	Bonus	Benefits	Total
		Contributions			
2009	£000	£000	£000	£000	£000
D.E. Cowie	172	36	-	15	223
C.W. Gee	104	15	-	10	129
P.A. Lynch	104	15	-	10	129
I.M. Richardson	104	15	-	10	129
P.A.G. Rumbold (vacated office 06.07.09)	53	10	-	6	69
	537	91	-	51	679

2008	Salary	Pension	Bonus	Benefits	Total
		Contributions			
	£000	£000	£000	£000	£000
D.E. Cowie	170	35	-	16	221
C.W. Gee	102	16	-	10	128
P.A. Lynch	102	16	-	10	128
I.M. Richardson	102	16	-	10	128
P.A.G. Rumbold	102	16	-	10	128
	578	99	-	56	733

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 2009	Fees 2008
	£000	£000
J.P. Allen (appointed 01.11.09)	5	-
D. Barron (retired 16.04.08)	-	8
J.D. Bee	43	48
R.W. Dyson (appointed 01.07.08)	27	14
A. Finch	27	27
S.M. Molloy	27	27
M.J. Prior	37	34
J. Smith	29	27
A.K. Snape (retired 16.04.09)	8	27
	203	212

All directors	2009	2008
	£000	£000
Total remuneration	882	945

The Group does not make mortgage loans available to any director.

Full details of directors' remuneration are available within the Annual Report and Accounts.

Details of directors' other business interests are shown within the Annual Report and Accounts.

CONTACT DETAILS

Branch

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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

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Savings
PO Box 4256
Manchester M60 3AX

Mortgage Customer Services

Telephone 0161 923 8030
Fax 0161 923 8951

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