

SUMMARY FINANCIAL REPORT

2010



Manchester Building Society

125 Portland Street

Manchester M1 4QD

Tel 0161 923 8000

Fax 0161 923 8950

Web www.themanchester.co.uk

*Authorised and regulated by the Financial
Services Authority*

Member of the Building Societies Association

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DIRECTORS

J.P. Allen ACIB Dip FS
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 I.M. Richardson ACIB

AUDITORS

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

BANKERS

Co-operative Bank p.l.c.
1 Balloon Street
Manchester
M60 4EP

SUMMARY CHAIRMAN'S STATEMENT



In common with much of the building society sector, the Society has continued to feel the effects of the global credit crunch. The Society's main challenge during 2010 has been the huge squeeze on interest margins brought about by the extremely low level of bank base rates. Inflationary pressures may make the continuation of base rates at 0.5% increasingly harder to justify, especially as the current rate is 1.5% below the previous lowest level set by the Bank of England in its 316 year history.

Given that the credit crunch was primarily caused by the huge expansion of credit in the decade before, it seems perverse that borrowers are now being bailed out by those prudent enough to save. The Society has nearly eight times as many saving members as borrowing members and I am sure that the vast majority will want to see a normalisation of interest rates as soon as possible.

At the start of 2010, a cautious approach was taken to capital management and it was decided to shrink the Society's balance sheet. As a consequence, while group total assets fell by 4.6% during 2010, the Society was able to increase its core tier 1 capital ratio from 8.6% to 9.2%. The steps taken in 2009 to reduce the Society's cost base by over 20% provided a material benefit to 2010's results. By the end of 2010, meticulous margin management had enabled the Society to claw back half of the interest margin erosion caused by tumbling base rates between October 2008 and March 2009. As an overall consequence, underlying profitability has improved progressively during 2010 and, despite net impairment charges of £1.4 million, a group profit after tax of £0.5 million has been achieved.

Inevitably, the results of 2010 are overshadowed by the successful disposal of the Society's subsidiary, Whiteaway Laidlaw Bank Limited in January 2011, at a significant profit for the Society, the benefit of which will be reflected in the results for 2011. The Society's acquisition of Whiteaway Laidlaw four years earlier had ensured the continued existence of the Bank at that time; the Society now passes on the stewardship of Whiteaway Laidlaw, wishing its new owners, its management and staff every success. The disposal provides significant benefits to the Society through both the repatriation of funds invested in the Bank and from the premium achieved on its sale. This leaves the Society with one of the strongest solvency positions in the sector, well placed to return its operational volumes back to pre-credit crunch levels within a more streamlined group structure.

For the first time since the global financial meltdown in the second half of 2008, the Society can now look forward with confidence to a return to its core strategy of measured growth in assets and profitability based on its core businesses of mortgage lending and retail deposit taking. The impact of the credit crunch will remain with us for some years to come but the Society's ability to have withstood the worst global financial crisis in living memory, emerging with a materially stronger capital position and lower expense ratio, reflects the resilience and commitment of the Society's management and staff as well as the continued loyalty of our members. With this point in mind, as we look forward to 2011, I would like to thank each member of the Society's staff for the effort and commitment that they have shown during 2010.

M.J. Prior
Chairman
2 March 2011

SUMMARY GROUP FINANCIAL RESULTS 2005 - 2010

FINANCIAL POSITION						
	2005	2006	2007	2008	2009	2010
Total assets						
Balances	£565.3m	£676.2m	£792.3m	£947.8m	£937.3m	£893.8m
% increase/(decrease)	18.7%	19.6%	17.2%	19.6%	(1.1%)	(4.6%)
Customer balances and deposits						
Balances	£516.0m	£622.4m	£726.6m	£849.3m	£859.2m	£780.8m
% increase/(decrease)	17.1%	20.6%	16.7%	16.9%	1.2%	(9.1%)
Loans and advances to customers						
Balances	£467.8m	£554.7m	£603.0m	£708.6m	£688.6m	£651.8m
% increase/(decrease)	21.5%	18.6%	8.7%	17.5%	(2.4%)	(3.2%)
Liquid assets						
Balances	£93.4m	£116.8m	£173.9m	£220.0m	£236.3m	£209.8m
% increase/(decrease)	7.2%	25.1%	48.9%	26.5%	7.4%	(11.2%)

RESULTS FOR THE YEAR						
	2005	2006	2007	2008	2009	2010
Interest						
Interest margin	£7.7m	£10.3m	£11.9m	£12.0m	£8.3m	£6.4m
% increase/(decrease)	11.4%	33.6%	15.5%	0.8%	(30.8%)	(22.9%)
Profit						
Post-tax profit (continuing operations)	£2.8m	£3.5m	£4.3m	£1.7m	£0.5m	£0.5m
% increase/(decrease)	21.4%	23.6%	24.5%	(60.2%)	(73.4%)	7.2%

On 31 January 2011, the Society sold its subsidiary Whiteaway Laidlaw Bank Limited ("WLB"). IFRS requires that the results for WLB should be shown separately for 2010 and also for 2009 for comparative purposes. It should be noted that this presentation has not resulted in any change to the total Group assets or to the total Group profit – it has merely reclassified the results into different account headings to better understand the financial performance of the continuing operations of the Group, and those operations that were recently sold.

SUMMARY FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

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 2010, compiled using International Financial Reporting Standards.

This financial statement is a summary of information in the audited Annual Accounts, the Directors' Report and Annual Business Statement, all of which will be available to members and depositors free of charge on demand at every office of Manchester Building Society from 31 March 2011.

Approved by the Board of Directors of the Society on 2 March 2011 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 Combined Code on Corporate Governance June 2008 ("the Code") issued by the Financial Reporting Council.

Business review

Financial position:

- £70 million of new deposits made with Bank of England and in UK Government stocks
- Cautious underwriting approach taken to all new lending during 2010
- Total assets decreased in line with management expectations by 4.6% to £894 million

Results for the year:

- Group profit after tax from continuing operations was £492k
- The Society-only management expenses ratio reduction to 0.51% (compared with 0.59% for 2009) was of particular note and reflects the cost saving exercise that commenced in 2009
- Increase in recoverability of sums deposited with failed Icelandic banks of £0.5 million

Subsequent to the year end:

- Divestment of the Society's subsidiary, Whiteaway Laidlaw Bank Limited on 31 January 2011, generating an immediate improvement in both the Society's profitability and capital.

As a result of the disposal of WLB immediately following the year end, IFRS requires that the Society should show the results of WLB in a different way to that previously seen. On the page opposite, the financial results of WLB have been separately extracted within the Results for the Year and classified as "Loss after tax on Disposal Group". The disclosure is intended to make it easier to understand the relative profitability of those elements of Group activity that will continue unchanged and those elements that will fall away during 2011 as a result of the sale of WLB. The comparative 2009 results for WLB have been extracted for consistency and, accordingly, this has resulted in a reclassification of the 2009 positions, previously reported.

Outlook

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

The continued prudential management of the Group's liquidity, interest margin and capital will be areas of focus during 2011 and beyond. Carefully managed profitable growth, with improving capital and management expenses ratios are all objectives of the Board for the coming year.

SUMMARY FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

RESULTS FOR THE YEAR	Group		Society	
	2010 £000	2009 £000	2010 £000	2009 £000
Continuing Operations				
Net interest income	6,440	8,320	5,211	7,010
Other income and charges	466	(2,559)	1,591	(942)
Fair value losses	(360)	(72)	(360)	(72)
Administrative expenses	(4,790)	(5,620)	(4,552)	(5,347)
(Impairment losses)/reversal of impairment losses	(1,379)	1,414	(1,379)	114
Profit for the year before taxation	377	1,483	511	763
Taxation	115	(1,024)	(149)	(597)
Profit from continuing operations for the financial period	492	459	362	166
Discontinued Operations				
Revenue	1,179	1,514		
Expenses	(1,568)	(2,272)		
Loss before tax on Disposal Group	(389)	(758)		
Taxation	110	183		
Loss after tax on Disposal Group	(279)	(575)		
Total recognised income and expense relating to the financial period	213	(116)	362	166

FINANCIAL POSITION AT THE END OF THE YEAR	Group		Society	
	2010 £000	2009 £000	2010 £000	2009 £000
Assets				
Liquid assets	209,757	236,257	209,635	222,466
Mortgages	643,549	664,860	612,885	635,349
Other loans	8,288	23,708	3,141	8,644
Derivative financial instruments	1,758	2,082	1,758	2,082
Fixed and other assets	30,482	10,413	37,653	38,268
Total assets	893,834	937,320	865,072	906,809
Liabilities				
Shares	720,896	736,240	720,896	736,240
Borrowings	59,921	122,960	59,921	91,969
Other liabilities	32,895	4,449	2,764	3,709
Derivative financial instruments	17,569	11,331	17,569	11,331
Subordinated capital	15,700	15,700	15,700	15,700
Subscribed capital	14,788	14,788	14,788	14,788
Reserves	32,065	31,852	33,434	33,072
Total liabilities	893,834	937,320	865,072	906,809

SUMMARY OF KEY FINANCIAL RATIOS

	Group		Society	
	2010 %	2009 %	2010 %	2009 %
Gross capital as a percentage of shares and borrowings	7.87	7.08	8.04	7.49
Liquid assets as a percentage of shares and borrowings	26.86	27.50	26.85	26.86
Profit for the year as a percentage of mean total assets	0.02	(0.01)	0.04	0.02
Management expenses as a percentage of mean total assets	0.52	0.60	0.51	0.59

SUMMARY FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

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 operational 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 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 the business whilst maintaining capital ratios at suitable levels to protect investors.

5. The management expense ratio measures the proportion that administration expenses bears to the average of total assets during the year.
6. The assets and liabilities of WLB that were disposed of on 31 January 2011 were classified, at 31 December 2010 as being "held for sale", as a Disposal Group, consisting of:

	£000		£000
Liquid assets	16,682	Deposits	29,679
Loans and advances to customers	3,156	Other liabilities	71
Property, plant & equipment	13		
Other assets	174		
Total Assets	20,025	Total Liabilities	29,750

STATEMENT OF THE AUDITORS 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 for the year ended 31 December 2010 set out on pages 6 to 8 and the directors' remuneration disclosures on pages 9 and 10.

This report is made solely to the members and depositors of Manchester Building Society, both as a body, in accordance with Section 76 of the Building Societies Act 1986. Our examination has been undertaken so that we might state to the Society's members and depositors those matters we are required to state in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept responsibility to anyone other than the Society and the Society's members and depositors, both as a body, for our examination, for this statement, or for the opinions we have formed.

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 Directors' Remuneration Report and the Directors' Report and its compliance with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made there under.

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 Summary Financial Statement. The other information comprises the Summary Chairman's Statement.

Basis of opinion

We conducted our work in accordance with Bulletin 2008/3 'The Auditors' Statement on the Summary Financial Statements' issued by the Auditing Practices Board. Our report on the Group's full Annual Report and Accounts describes the basis of our audit opinion on those Annual Accounts.

Opinion

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 Manchester Building Society for the year ended 31 December 2010 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made there under.

Grant Thornton UK LLP
Chartered Accountants
Registered Auditors
Manchester

2 March 2011

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. 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 a discretionary non-pensionable bonus scheme
- membership of the Group personal pension scheme, on the same terms as other eligible employees of the Group, save for the Chief Executive, whose membership of the scheme attracts an increased level of employer pension contributions
- 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 of Practice.

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 2008 and 2009 but they have waived these sums.

The reduction in Bank Base Rate in early 2009 had an adverse effect on the Group's interest margins, reducing monthly profitability during the second half of 2009. During 2010 the Society's executive took material steps to address these issues, with monthly improvements in profitability seen throughout the year, evidenced by a reduction in the Society's management expense ratio and an improvement in its capital position. In recognition of this, each of the executive directors was awarded a discretionary bonus.

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

DIRECTORS' REMUNERATION

Executive directors	2010				
	Salary	Pension Contributions	Bonus	Benefits	Total
	£000	£000	£000	£000	£000
D.E. Cowie	172	36	25	17	250
C.W. Gee	104	15	25	11	155
P.A. Lynch	104	15	25	11	155
I.M. Richardson	104	15	25	11	155
	484	81	100	50	715

2009	2009				
	Salary	Pension Contributions	Bonus	Benefits	Total
	£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

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 2010	Fees 2009
	£000	£000
J.P. Allen (appointed 01.11.09)	27	5
J.D. Bee (retired 27.04.10)	9	43
R.W. Dyson	27	27
A. Finch	27	27
S.M. Molloy	27	27
M.J. Prior	48	37
J. Smith	34	29
A.K. Snape (retired 16.04.09)	-	8
	199	203

All directors	2010	2009
	£000	£000
Total remuneration	914	882

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

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

CONTACT DETAILS

Branch

Queens Court
24 Queen Street
Manchester M2 5HX

Telephone: 0161 923 8065

Agencies

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

Savings Customer Services

Telephone 0161 923 8065
Fax 0161 923 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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