MANCHESTER BUILDING SOCIETY GROUP

Pillar 3 Disclosures

December 2017

Internal Capital Adequacy

This document is issued pursuant to the requirements of the Capital Requirements Regulation ("CRR") and the Capital Requirements Directive ("CRD") which are referred to collectively as CRD IV. 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. Background

The European Parliament and Council approved new capital reforms which resulted in the implementation of Basel lll into the European Union from 1 January 2014. Some of the provisions of Basel lll have been implemented via a regulation specific to the UK, whilst others have required approval by the UK regulators the Prudential Regulation Authority ("PRA"). The new rules covering the capital reforms are incorporated in the Capital Requirements Regulations ("CRR") and the Capital Requirements Directive ("CRD") which collectively are referred to as CRD IV.

The new capital reforms have brought in stringent rules in relation to the eligibility of capital instruments. The main focus is on having 'fully loss absorbing capital' which is termed as 'Common Equity Tier 1 Capital'. Other Tier 1 capital instruments which are not fully loss absorbing can still be treated as additional Tier 1 capital under the transitional arrangements, but will be fully amortised over a nine year period. CRD IV has also brought in certain deductions from Common Equity Tier 1 capital not seen in the previous BIPRU regulations.

New Common Equity Tier 1 capital buffer requirements, commencing in 2016 were brought in under CRD IV. These buffers can be used in a period of stress. The buffers are required to be increased annually up to 2019. The Capital Conservation Buffer grows by 0.625% of Risk Weighted Assets ("RWA") for each of the 4 years. In 2016 the PRA buffer requirements commenced for the Society. The % of the PRA buffer to be met by CET1 capital increases by 25% each year until it will be fully met with CET1 capital in 2019. The Countercyclical Capital Buffer ("CCyB") is currently 0%. This rate will only change if directed by the Financial Policy Committee. There are currently two increases in the CCyB indicated; to 0.5% in June 2018 and then to 1.0% in November 2018.

The CRD is spilt into three main parts, known as "Pillars"

- 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 PRA
- Pillar 3 – This report has been prepared to meet the disclosure requirements of CRD IV and is issued on an annual basis in conjunction with the Group's Annual Report and Accounts.

Under Pillar 1 the Group has followed the Standardised Approach to both Credit Risk and Market 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.

This document deals with the disclosure requirements of Pillar 3 as required by the CRD. This document gives details of the principal business risks which the Society faces and the Society's approach to dealing with them. The document is also required to provide details regarding the remuneration of key staff members, (termed as "Code Staff"), which are subject to the requirements of the Remuneration Code.

Unless otherwise stated all figures within this document are as at 31 December 2017.

2. Scope

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

- Manchester Building Society ("Society"),
- MBS (Mortgages) Limited ("MBSM") and
- MBS (Property) Ltd ("MBSP")

The Society is authorised by the Prudential Regulation Authority ("PRA") and regulated by the PRA and by the Financial Conduct Authority ("FCA"). MBSM is regulated by the FCA.

As in 2016, for capital adequacy purposes, the Group's financial results and capital positions include the financial results of the Society, plus both MBSM and MBSP. This treatment was confirmed as appropriate by the PRA in July 2016.

Both MBSM and MBSP are wholly owned Society subsidiaries. The Society is committed to supporting its subsidiaries both operationally and financially.

3. Risk Management Objectives and Policies

The PRA's third 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

The Group provides retail savings and mortgage products.

The Group operates in the UK and Spain.

The main risks within the Group's business are: credit risk, liquidity risk, interest rate risk, currency risk and economic risk; the Group is also exposed to 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:

<u>The Board Procedures Manual – ("BPM")</u>

The BPM has three main purposes:

- To provide the Board with a summary of how the Group is controlled and managed in order to enable the Board to more effectively and more efficiently carry out their duties
- 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 PRA Rulebook and other regulatory requirements
- 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

<u>Board Policy Statements</u>

The various Board Policy statements (including its risk appetites) set out 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.

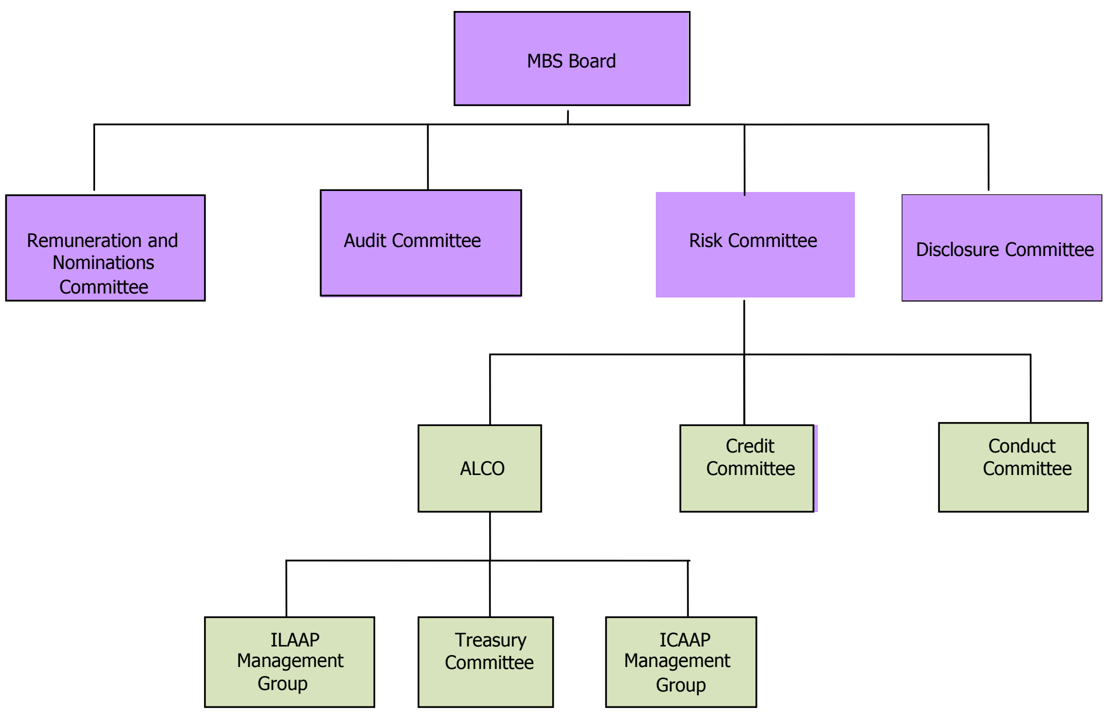
Departmental Procedures

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 oversight Committees and green denotes Management Committees):



Audit Committee

Committee role: oversight

The Group 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

Remuneration and Nominations Committee

Committee role: oversight

The Remuneration and Nominations Committee:

- Leads the process for Board appointments, re-appointments and succession planning
- Regularly reviews the selection, balance of skills, experience and composition of the Board
- Recommends to the Board nominations for the positions of Chairman and Vice-Chairman of the Society and the membership for all Board committees and subsidiary company boards
- Ensures that the performance of all Directors is appraised on a regular basis
- Considers formally all matters relating to the remuneration terms of both Non Executive and Executive Directors. Considers the remuneration arrangements for certain managers, including those holding significant influence functions
- Reviews and recommends the appointment of Executive Directors

Risk Committee

Committee role: oversight

The Risk Committee considers matters relating to the promotion of a risk-based approach in accordance to the Group's overall risk strategy and Risk Appetite Statement particularly in the following areas:

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

The Risk Committee acts as the ICAAP Steering Committee and the ILAAP Steering Committee.

ALCO

Committee role: operational management

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).
- IRRBB in the Balance Sheet, Structural Risk and Interest Rate View.
- Treasury Risk.
- Currency Risk
- Economic Risk
- Liquidity matters and ILAAP.
- Capital matters and ICAAP.

Credit Committee

Committee role: operational management

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:

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

Treasury Committee

Committee role: operational management

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

ICAAP Management Group

Committee role: operational management

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 annual ICAAP analysis and recommendations incorporated within the report and presenting the updated annual ICAAP report to the Risk Committee for their approval. The committee makes proposals and/or recommendations on all ICAAP matters to the Risk Committee. Accordingly it meets as frequently and as regularly as required.

ILAAP Management Group

Committee role: operational management

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

The ILAAP Management Group is responsible for providing documentation in relation to the ILAAP analysis and recommendations incorporated within the report and presenting the updated annual ILAAP report to both ALCO and to the Risk Committee for their approval. The committee makes proposals and/or recommendations on all ILAAP matters to both committees. Accordingly it meets as frequently and as regularly as required.

Both ALCO and Risk Committee consider analyses, proposals and recommendations arising from the ILAAP Management Group's meetings and the reports presented by the ILAAP Group before they are promoted to the Board for approval.

Conduct Committee

Committee role: operational management

The Conduct Committee meets monthly.

Conduct Committee considers matters relating to the fair treatment of customers.

Disclosure Committee

Committee Role: oversight

Disclosure committee monitors inside information and arranges for its release to the market. The committee will meet at least once a year to review the Society's systems and procedures relative to the discovery, disclosure and control of inside, regulatory and other sensitive information.

3.3 Risk and Compliance Functions

The risk and compliance functions provide a second line of defence against risk through their oversight of the internal control system. These functions report direct to the chair of the Risk Committee.

3.4 Internal Audit

KPMG LLP provides internal audit services to the Group, reporting directly to the Audit Committee.

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.

3.5 Other Risk Management Measures

3.5.1 External Audit

The Group has appointed PricewaterhouseCoopers UK LLP as its External Auditors.

An audit is conducted in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and 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 Report and Accounts and on whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

The Group Audit Committee reviews the effectiveness and independence of external audit formally each year.

Details of the meetings held during 2017 are set out in the Annual Report and Accounts on page 11 within the Corporate Governance report.

4. Principal and Other 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, including routine forecasting and stress testing
- Production of periodic key budget and business forecasting information

4.1. Principal Risks

a) 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 recommending any amendments to the policy to the Board. The Board monitors exposures in accordance with this policy including concentration to individual counterparties and to specific sectors.

b) Liquidity Risk

Liquidity risk is the risk that the Society does not have sufficient liquid funds to meet its liabilities as they fall due.

Responsibility for the day-to-day management of liquidity risk, including the monitoring of both retail and wholesale funding, lies with the Treasurer & Financial Controller, within the prudent framework of the Financial Risk Management Policy ("FRMP"), reporting on a weekly basis to the Treasury Committee.

The Treasury Committee, ALCO and Risk Committee each receive regular management information which facilitates the close monitoring and management of this risk.

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

Policy limits are in place so as to monitor and manage liquidity risk; included are limits for: liquid funds individual counterparty exposures, country exposures, types of financial instruments, wholesale funds individual counterparty exposures and the maturity profile of liquid assets and liabilities.

The Group's reliance upon the wholesale liquidity markets is limited, thus mitigating certain aspects of its liquidity risk.

c) 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. It is managed using a combination of on and off-balance sheet instruments. ALCO monitors and manages this exposure on an ongoing basis, with periodic oversight review by the Risk Committee.

To assist in potentially reducing this risk the Society may seek to acquire interest rate swaps with the same maturity profile as the fixed interest rate attached to the assets/liabilities they are being matched with. Interest rate swaps may be used to economically reduce interest rate risk exposures. The prepayment risks associated with fixed rate mortgages are mitigated to an extent through the use of early repayment charges.

Details of interest rate risk can be found in note 1 to the Group's 2017 Annual Report and Accounts.

d) Currency Risk

The Group has an exposure to foreign currency exchange rate risk arising from its lending denominated in Euros; exchange rate forward contracts are used to mitigate this risk.

e) Economic 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 which includes the use of stress testing scenarios that involves the Board and senior management team.

4.2. Other Risks

a) Market Risk

The Group plays a very small part in the wholesale funding market, and may borrow from it on a short-term basis to a limited degree.

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. The Board's risk management objective is for a low risk exposure to Market Risk.

b) Concentration Risk

Concentration risk is the risk that arises from a lack of diversification in the Group's business, including geographic, product and funding concentrations. Concentration risk is primarily an extension of credit risk.

The Board recognises that as a regional Building Society it is exposed to concentration risk. Conversely the regional Building Society model protects against Diversification Risk – the risk that the organisation's skills are spread too thinly across a number of diversified business activities.

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 Group regularly monitors its concentration risk and adjusts its lending strategy where appropriate.

c) Operational Risk

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

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

d) Regulatory and Legal Risk

Regulatory and legal risk is the risk of fines, public censure or restitution costs arising from failing to understand, interpret, implement and comply with UK and EU regulatory requirements. To mitigate these risks the Society has a compliance function which monitors compliance with existing legislation and the controls implemented to ensure that the Society fully meets all the new requirements. The compliance function reports directly to the Chair of the Risk Committee.

5. Capital Resources

The Group's main source of capital is from the Profit Participating Deferred Shares. The Group also generates annual profits and losses 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. There are currently no known impediments that would prevent the transfer of capital between the constituent elements of the Group.

At 31 December 2017 the Group's Total Assets were £304m and its Capital Resources totalled £33m.

Table 1 – Group Capital Resources

	CRD IV rules
Tier 1 Capital Resources	£k
Common Equity Tier 1 Capital ("CET1")	
Accumulated profits held as general reserves	(10,023)
Profit Participating Deferred Shares (Note 1)	17,461
CET1 capital prior to regulatory adjustments	7,438
Regulatory adjustments	
Other deductions	0
Common Equity Tier 1 Capital	7,438
Additional Tier 1 capital	
Permanent Interest Bearing Shares ("PIBS") (Note 2)	14,788
Regulatory adjustments	
Amortisation of PIBS under transitional rules	(7,394)
Total Tier 1 Capital	14,832
Tier 2 Capital Resources	
Collective Provisions	431
PIBS amortised from Tier 1	7,394
Long Term Subordinated Debt (Note 3)	14,200
Tier 2 capital prior to regulatory adjustments	22,025
Regulatory adjustments	
Amortisation of Subordinated Debt under transitional rules	(3,399)
Total Tier 2 Capital	18,626
TOTAL CAPITAL	33,458

Notes

1) Profit Participating Deferred Shares ("PPDS") are perpetual instruments with no maturity date or right to repayment other than on a winding-up, in the event of which, the PPDS would rank below claims in respect of subordinated noteholders, depositors, creditors, investing members of the Group and PIBS holders. Further details about PPDS are provided in Note 25 to the 2017 Annual Report and Accounts.

2) 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 23 to the 2017 Annual Report and Accounts. Under CRD IV PIBS are treated as not fully loss absorbing and therefore have to be amortised over a nine year period. The amount for PIBS included in Tier 1 capital resources is after 50% amortisation.

3) 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 21 to the 2017 Annual Report and Accounts. Under CRD IV certain subordinated liabilities must be amortised over a nine year period. The amount of Subordinated Debt shown as Tier 2 capital is after the required amortisation has been deducted, which is 50% of the nominal value of the Subordinated Debt that requires

amortising, plus an additional £897k relating to Subordinated Debt which now has less than five years to its maturity date.

6. Capital Adequacy

The Group maintains sufficient capital to support its ongoing activities.

The Board approves the annually-prepared Business Plan, which covers a three full-year financial forecast. The Business Plan enables the Group to forecast its capital requirements.

The Business Plan and the ICAAP documentation cross-refer; they both reflect the Board's risk appetite, integrating capital adequacy and forecast capital positions into business strategy.

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 requirements for credit risk.

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

The Group faces currency movement risks on its euro denominated mortgage balances. The exchange rate risk on these balances is mitigated by the Group transacting exchange rate swaps. The Group provides 8% of capital on the net difference between the carrying value of the euro denominated mortgages and the exchange rate swaps. The Group carries this amount as the minimum capital requirement for exchange rate risk.

Table 2 shown over provides details of the calculation of capital resources requirements within the Group as at 31 December 2017.

Table 2 – Group Capital Resources Requirement

	Asset £000	Risk Weighted Asset £000	Minimum Capital Requirement £000
Credit Risk Category			
Treasury Exposures			
Central Governments or Central Banks	32,904	0	0
Institutions	11,071	2,226	178
Cash	6	0	0
(A) Total Treasury Exposures	43,981	2,226	178
Loans and advances to customers			
Residential:			
Performing	217,547	83,852	6,708
Past Due	8,925	9,260	741
Commitments	820	615	49
Non Residential and Business:			
Performing	19,212	19,212	1,537
Past Due	2,028	2,028	162
Unsecured loans and current accounts/overdrafts			
Performing	3,557	2,668	213
Past Due	165	247	20
(B) Total loans and advances to customers	252,253	117,881	9,430
(C) Fixed and other assets	9,372	8,043	643
(D) Total Credit Risk Exposures and Capital Resources Requirement (A+B+C)	305,607	128,150	10,252
(E) Foreign Exchange Position Risk Capital Requirement		324	26
(F) Operational Risk Capital Requirement		18,578	1,486
(G) TOTAL CAPITAL RESOURCES REQUIREMENT (D+E+F)		**147,052**	**11,764**

Total assets in the table below of £305.6m, reconciles to the total assets figure in the Group's balance sheet in the Annual Report and Accounts for the year ending 31 December 2017 as follows:

	£000
Assets as per Table 2 above	305,607
Less:	
Loan Commitments	(820)
Derivatives	(443)
General Provisions	(431)
Other	278
Assets as per 2017 Annual Report and Accounts	304,191

7. Credit Risk

This section provides summary information with respect to the Group's credit risk exposures in relation to residential lending, retail unsecured lending, 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 Customers as at 31 December 2017 may be found in Note 1 of the 2017 Annual Report and Accounts, which summarises regional distribution information.

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

Details of the residual maturity analysis may be found at Note 12 to the 2017 Annual Report and Accounts.

7.1. Provisions

The Group's accounting policy in relation to provisions for loans and advances is set out in Note 1 of the 2017 Annual Report and Accounts. A summary of provisions may be found in Note 12 of the 2017 Annual Report and Accounts.

7.2. Treasury Assets

The Group has nominated Moody's Rating Services as its external credit assessment institution.

The following tables analyses the Group's risk exposures to Treasury counterparties as at 31 December (£000).

At 31 December			
Concentration by credit grading	2017		2016
AAA to AA-	32,950		67,689
A+ to A-	11,031		14,431
Baa1 to Baa3	0		0
Total	**43,981**		**82,120**

At 31 December			
Concentration by sector	2017		2016
UK Government & Bank of England	32,903		67,614
Financial Institutions	11,039		14,440
Mortgage Backed Securities	39		66
Derivatives	0		0
Total	**43,981**		**82,120**

At 31 December 2017			
Residual maturity by sector	≤ 3 months	3 months to 1 year	≥ 1 year
UK Government & Bank of England	32,903	0	0
Financial Institutions	11,039	0	0
Mortgage Backed Securities		0	39
Derivatives		0	0
Total	**43,942**	**0**	**39**

At 31 December 2016			
Residual maturity by sector	≤ 3 months	3 months to 1 year	≥ 1 year
UK Government & Bank of England	67,614	0	0
Financial Institutions	14,440	0	0
Mortgage Backed Securities	0	0	66
Derivatives	0	0	0
Total	**82,054**	**0**	**66**

7.3. Counterparty Credit Risk

Counterparty credit risk in the context of treasury-related instruments is the risk that a banking counterparty could default before the final settlement occurs on the derivative held.

The Group uses derivative instruments for both hedging and non-hedging purposes. The Group uses foreign exchange swaps and forward contracts for hedging purposes. 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.

Further details on derivative financial instruments held by the Group are contained in Note 11 to the 2017 Annual Report and Accounts.

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 allows margin calls to be made on the net market value of derivative exposures with the particular counterparty.

8. Remuneration Matters

8.1. PRA Disclosure Requirements

The Society is committed to complying with the PRA's Remuneration Code, as detailed within SYSC 19A, in support of the CRD.

The PRA's rules regarding remuneration disclosure require that the Society should identify those individuals who have a material impact on the Society's risk profile and disclose remuneration levels for those members of staff and the remuneration policies by which they are governed; these individuals are described as "Code Staff".

8.2. Governance

Responsibility for reviewing and approving the Society's remuneration policy, including all aspects of the PRA and FCA's Remuneration Code and any additional disclosure requirements, resides with the Remuneration and Nominations Committee.

The terms of reference of the Remuneration and Nominations Committee may be obtained on request from the Society's Secretary.

The Committee's latest report may be found on page 12 of the 2017 Annual Report and Accounts.

8.3. Code Staff

At 31 December 2017, the executive director and five non-executive directors were identified as being Code Staff. The cost of these Officers has been included in the disclosure below. The number of code staff as at 31 December 2017 was 6 (31 December 2016: 8).

It is the Board's view that, given the restricted levels of authority delegated to other senior members of staff, none could materially affect the risk profile of the Society in a manner similar to members of the Board. All senior members of staff report directly to an executive Board member and are constrained in their actions and day-to-day mandates by the Group's approved policies and operating procedures.

Aggregate remuneration for Code Staff for the year ended 31 December 2017 is shown below and includes pension contributions and other benefits:

	£000
Fixed remuneration	400
Variable remuneration	5
Total	405

8.4. Remuneration Disclosure

In order to comply with the disclosure requirements of CRD IV and the PRA's Remuneration Code the Society has provided details of its policy on the remuneration of its executive and non-executive directors on page 12 of the 2017 Annual Report & Accounts

9. Developments during 2017

The Group's strategy since 2013 has been to reduce its risks and conserve its regulatory capital. This strategy was necessary because of events, fully disclosed in the Annual Report and Accounts for the year ended 31 December 2012, that led to a material write-down of the Group's reserves following a change in the accounting treatment of certain financial assets.

Risk reduction has been achieved via the disposal of almost all of the Group's non-strategic UK lifetime mortgage assets. Further reduction has been sought by investigating the potential for disposals of other mortgage assets. The Board's strategic aim in this regard has been to move the Group's risk profile away from those legacy asset positions that carried higher risks and higher regulatory capital risk weightings.

During 2017 the Group significantly concluded a project to ensure regulatory compliance of two acquired second charge loan portfolios, NMB MAC and The Consumer Loans Company Limited ("CLC"), the administration of which is now in house. Discussions with relevant interested parties to acquire these loans in the future will continue.

Regulatory capital conservation has continued to be a priority. The Group continues to have headroom above its Internal Capital Guidance ("ICG") in total capital terms as set by the PRA, but did not meet the qualitative standards for the level of Common Equity Tier 1 ("CET 1") regulatory capital. Consequently, the Society did not pay the coupons on PIBS as, in order to conserve capital, such a distribution is prohibited under CRD IV article 141.

The Group has continued to explore ways in which the CET 1 regulatory capital position could be improved and an updated Capital Conservation Plan was submitted to the PRA in April and September 2017. These options include improving the CET 1 regulatory capital position through a capital restructuring exercise. In addition, owing to the financial position and challenges faced by the business, there is a risk that the Group will not meet the regulatory requirement to hold 4.5% of CET 1 capital against risk weighted assets in the future, though based on present projections this is not the case.

The Board continued to take legal advice regarding the Group's claim for damages against the previous external auditors, Grant Thornton UK LLP and as at the date of signing these financial statements the trial verdict is still awaited.

Against this background the Board is currently reviewing the strategic direction of the Group and continues to hold discussions on a regular basis with the PRA; the uncertainties which exist regarding the longer term prospects of the Group are disclosed in Note 1 of the 2017 Annual Report and Accounts, on page 25.

10. Conclusion

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

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