

## PIBS COUPONS – Q&A

### **The half year results state that the Society met its Individual Capital Guidance (ICG), but will not meet the qualitative standards for the level of CET1 regulatory capital. What does this mean?**

Financial institutions such as Manchester Building Society have to meet regulatory requirements for capital as set out in the Capital Requirements Directive IV (“CRD IV”).

One of these requirements is to have a certain amount of total regulatory capital. This is set by the Prudential Regulation Authority (“PRA”) as the Individual Capital Guidance (“ICG”). The Society’s total regulatory capital comprises its reserves, Profit Participating Deferred Shares (“PPDS”), Permanent Interest Bearing Shares (“PIBS”) and Subordinated Debt. As at 30 June 2017 the Society had sufficient total regulatory capital to meet the ICG requirement.

There are further requirements as to the mix of capital required and the Society will not meet the qualitative standards for the level of CET1 regulatory capital. This means the Society does not have the right mix of capital types within its total capital figure.

### **Why can’t the Society pay the PIBS coupons if it has enough capital?**

As at 30 June 2017 the Society met its ICG but continues to have a shortfall against the qualitative standards for the level of CET1 regulatory capital. The Society will therefore not be paying the October 2017 coupon on the PIBS as, in order to conserve capital, such a distribution is prohibited under CRD IV article 141.

### **What gives the Society the right to stop paying interest on the PIBS?**

Under the Special Conditions of Issue of the PIBS (as set out in the Offering Circular for each class of PIBS), interest shall not be paid for any interest period if the payment would cause or contribute to the Society failing to meet its capital adequacy requirements, which currently include those set out in CRD IV.

The Risk Factors section of the Offering Circulars for each class of PIBS stated that "interest in respect of the PIBS will not be payable where to make payments would result in the Society's capital falling below prescribed levels."

### **Will the Society pay the coupon at some future date if it gets enough capital?**

PIBS coupons are not cumulative so any interest payments on the PIBS which are not paid are permanently cancelled and will not become due at a future date.

### **Will the Society be paying future PIBS coupons?**

There is uncertainty over the Society’s ability to make PIBS coupon payments due after October 2017 given the risks facing the business as explained in the Society’s Annual Report & Accounts for the year ended 31 December 2016 and the Half Yearly Financial Information for the period ended 30 June 2017. Both of these are available on the Society’s website. Any further non-payment of PIBS coupons will be announced to the market.

### **Are PIBS protected by the FSCS?**

PIBS are not protected deposits covered by the Financial Services Compensation Scheme (the "FSCS").

There is no expectation of repayment of the PIBS unlike normal deposits with the Society. PIBS are subordinated to all other liabilities of the Society, other than liabilities in respect of Profit Participating Deferred Shares ("PPDS"). In a liquidation of the Society the PIBS rank behind all other creditors of the Society (other than PPDS). In order to realise the investment in PIBS, an investor must either sell the PIBS in the market or make a private sale.

### **Should I hold or sell my PIBS holding?**

The Society is not authorised to give financial advice on your PIBS holding. PIBS holders should seek independent financial advice.

### **What is in the Capital Conservation Plan?**

CRD IV article 142 sets out the required content of the Capital Conservation Plan. This includes estimates of income and expenditure and a forecast balance sheet; measures to increase the capital ratios of the institution; a plan and timeframe for the increase of own funds with the objective of meeting fully the combined buffer requirement; and any other information that the PRA considers to be necessary.

### **What happens after the revised and updated Capital Conservation Plan has been submitted? Will the PIBS coupons then be paid?**

Under CRD IV article 142 the Group is required to submit a Capital Conservation Plan to the PRA which was presented in October 2016, with an update in April 2017, setting out proposed measures to improve the regulatory capital position. The Board continues to discuss and consult with the PRA on the Capital Conservation Plan.

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