

Manchester Building Society Group (“the Society”) Results for the year ended 31 December 2021

	2021	2020
	£000	£000
Net Interest Income	6,173	6,352
Legal damages and interest	14,272	-
Other operating income and charges	(1,005)	670
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Total operating income	19,440	7,022
Legal costs recovered	7,540	-
Administrative expenses and depreciation	(4,854)	(4,239)
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Operating profit before impairment	22,126	2,783
Impairment losses	(1,289)	(3,127)
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Profit/(Loss) for the period before taxation	20,837	(344)
Tax expense	(1,467)	-
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Profit/(Loss) for the period	19,370	(344)
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Total assets	204,606	221,532

The Supreme Court’s decision to overturn the judgments of the lower courts and find in favour of the Society in its legal action against its former auditors resulted in £21.8m of damages, interest and cost recovered being recognised in 2021.

Underlying performance in 2021 has been impacted by continued economic uncertainty in both the UK and worldwide in relation to the ongoing Covid-19 pandemic.

In 2021 the Group reported a profit after tax for the financial year of £19.4m (2020: loss of £0.3m).

In the year the Group reported operating profit before impairments and provisions of £22.1m (2020: £2.8m).

The £19.3m increase in operating profit before impairments and provisions from 2020 is a result of:

- £21.8m increase in relation to the judgment of the Supreme Court in favour of the Society being:

- Legal damages of £13.4m
- Interest on damages and costs of £0.9m in relation to the Supreme Court case
- Legal costs recovered of £7.5m in relation to the Supreme Court case
- £0.2m lower net interest income due to the continued managed balance sheet reduction and lower margins on mortgage products. Interest payable includes £0.3m in relation to Permanent Interest Bearing Shares (“PIBS”) coupon payments
- £0.2m of fair value losses on assets held for sale
- A £1.5m reduction in other operating income and charges with foreign exchange losses of £0.8m in the year compared with exchange gains of £0.7m in 2020. These losses are largely offset within impairment where £0.8m of gains are recognised in 2021 compared with a £0.5m charge in 2020.
- £0.6m increase in Operating costs, excluding costs recovered, driven by additional IT costs in relation to core banking system migration and additional professional fees following the Supreme Court judgment.

The Group recorded impairment of £1.3m being £1.4m relating to the Society’s Spanish lifetime portfolio offset by a small credit impairment release relating to the UK portfolios.

The Group’s reserves increased in 2021 by £19.1m to accumulated profits of £8.1m. This reserves movement includes £0.3m reduction for interest paid on Equity PIBS.

The Society continues to have a strong liquidity position.

Strategic future and capital position

As at 31 December 2021, following the profit generated in the year, the Group meets all of the quantitative and qualitative requirements regarding the level of regulatory capital it must hold.

The Group continues to follow a medium to long-term strategic plan, against which it is monitored by the PRA. The plan shows that the Society remains viable in the medium-term and the Society has significant headroom against this plan.

Although largely mitigated by the profits generated in 2021, it is recognised that there remain long-term risks to this plan, particularly following a stress event in the economy or financial markets.

The Society made the coupon payments on both its issuances of PIBS in October 2021, for the first time since April 2016. Such a distribution was previously prohibited under the applicable regulatory capital conservation rules. Whilst the Society continues to manage down the size of the balance sheet, there remains some uncertainty over the Society’s ability to make PIBS coupon payments in the long-term.

2021 Annual Report & Accounts

The accounts for the 12 months ending 31 December 2021 are available to view on the Society’s website:

<http://manchesterbuildingsociety.co.uk/Main/FinancialInformation>

Enquiries

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