

Manchester Building Society Group (“the Society”) Results for the year ended 31 December 2020

	2020	2019
	£000	£000
Total operating income	7,022	6,856
Administrative expenses and depreciation	(4,239)	(4,829)
Operating profit before impairment	<u>2,783</u>	<u>2,027</u>
Expected credit losses	(600)	(272)
Other impairment losses	(2,527)	(1,814)
Impairment gain on property, plant and equipment	-	640
Financial Services Compensation Scheme levy	-	11
(Loss)/Profit for the period before taxation	<u>(344)</u>	<u>592</u>
Tax expense	-	-
(Loss)/Profit for the period	<u>(344)</u>	<u>592</u>
Total assets	221,532	247,106

The £0.8m increase in operating profit before impairments and provisions compared to 2019 is a result of:

- Other income increasing by £0.8m due to an increase in income from foreign exchange movements. The foreign exchange gain is however largely offset by a £0.5m foreign exchange charge in impairment.

- Administrative expenses reducing by £0.5m. This included a £0.3m reduction in professional fees, largely in relation to the Grant Thornton legal case. Other savings were achieved across the cost base.
- Depreciation reduced by £0.1m following the disposal of the Group's head office building in 2019.

Partially offset by:

- Net interest income in the year being £0.7m lower than in 2019 due to lower margins following the Bank of England base rate reductions in March 2020 and an 8% reduction in Loan balances as the Society continues a managed reduction of the balance sheet.

The Group recorded a credit impairment charge of £0.6m relating to the UK portfolios and other impairment of £2.6m relating to the Society's Spanish lifetime portfolio.

There was no impairment on property, plant and equipment whereas a £0.6m release of impairment was recorded in the prior year on the sale of the Group's head office building.

The Group's reserves reduced in 2020 by £0.6m to accumulated losses of £11.0m.

The Society continues to have a strong liquidity position.

The 2020 accounts have been prepared on a going concern basis of accounting and, as with the accounts for previous years, set out a "material uncertainty" regarding the long-term future of the Society.

Covid-19

2020 was a challenging year for the Society owing to the Covid-19 pandemic and the ultra-low interest rate environment that followed the reduction in Bank Base Rate in March.

As the scale of the pandemic became apparent, the Society moved quickly to maintain its service to members.

The Society offered payment deferrals to customers affected by the pandemic during 2020 and continues to work with customers to ensure that appropriate levels of forbearance are provided where necessary. A total of 334 deferrals were requested and granted in 2020 on £46m of balances. At 31 December 2020, 22 deferrals remained in place.

Legal claim against Grant Thornton UK LLP

In October 2020 the Supreme Court heard the Society's appeal against the decision of the Court of Appeal in the Society's claim against Grant Thornton (UK) LLP, the Society's former auditors. The Society is currently awaiting the judgment. The date on which it will be handed down is unknown.

Strategic future and capital position

The Group continues to have headroom above its Total Capital Requirements in total capital terms, but, as previously stated, does not meet the qualitative standards for the level of CET 1 regulatory capital. As at 31 December 2020 the Society met, and continues to meet the requirement to hold CET 1 Capital in excess of 4.5% of Risk Weighted Assets.

The Board continues to engage with its regulators as to the strategic future for the Society. The Society's 2018 strategic plan was updated in 2020 and the PRA have confirmed that they will monitor the Society's progress against this revised plan.

Permanent Interest Bearing Share ("PIBS") coupon payments April 2021

As a result of the shortfall against qualitative standards for the level of CET 1 regulatory capital, applicable regulatory capital conservation rules mean the Society may be prohibited from making the PIBS coupon payments due in April 2021. The Society last paid these coupons in April 2016 and the Board considers that there continues to be uncertainty over the Society's ability to make future coupon payments. A further announcement will be made in due course regarding the April PIBS coupon payments.

2020 Annual Report & Accounts

The accounts for the 12 months ending 31 December 2020 are available to view on the Society's website:

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

Enquiries

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