SUMMARY FINANCIAL REPORT

2021

Manchester
BUILDING SOCIETY

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SUMMARY CHAIRMAN'S STATEMENT

On 19 April 2022, the Society will reach its centenary and I am pleased to report that it will do so in a better financial position than has been the case for several years.

2021 saw the conclusion of the long-running legal action between the Society and its former auditors, Grant Thornton (UK) LLP ("GT"). In June, the Supreme Court overturned the decision of the lower courts and awarded the Society damages of £13.4m plus costs and interest. By 31 December the Society had received the damages in full and payments on account totalling £8.4m in relation to interest, the return of costs previously paid to GT and its own legal costs. The total sum to be received is yet to be determined.

Trading conditions in the year under review remained challenging owing to the low interest rate environment and uncertainty relating to the Covid-19 pandemic. The Society continued to support customers affected by the pandemic whilst retaining flexible working conditions to allow staff to work from home.

Net interest income in the year fell from £6.4m to £6.2m with mortgage and savings balances each falling by 15% as part of the Society's managed decline of the balance sheet. Administrative expenses, excluding legal costs recovered, increased by £0.6m. Other operating charges of £0.8m (2020: net gains of £0.6m) mainly relate to foreign exchange movements which offset foreign exchange gains included within the impairment charge. Impairment charges totalled £1.3m (2020: £3.1m), relating in the main to the Society's Spanish lifetime book.

The underlying operating result, (that is, after impairment but before including damages and costs recovered) was a loss of £1.0m compared with a loss of £0.3m in the preceding twelve months. After taking account of the damages received and legal costs recovered, operating profit totalled £20.8m. Profit after tax amounted to £19.4m (2020: £0.3m loss).

At 31 December 2021, the Group reported accumulated profits of £8.1m (2020: accumulated losses of £11.0m).

The Society met all its quantitative regulatory capital requirements in the year. The Society also met the qualitative standards for CET1 regulatory capital from June onwards. As a result, Permanent Income Bearing Shares ("PIBS") coupon payments were resumed in October. However, given the continuing decline in the scale of the Society's operations, possible changes in regulatory capital requirements and the risk of external economic stress events, there remains uncertainty over the Society's ability to make PIBS coupon payments in the longer-term.

Having improved the Society's capital position, the Board is currently considering options for the long-term future of the Society. Members of the Board believe that a degree of stability is essential while this review is taking place and all members of the Board will put themselves forward for re-election at the AGM.

SUMMARY CHAIRMAN'S STATEMENT

On behalf of the Board, I should like to thank members of the Society for their continued support. I also wish to thank the Society's staff for the work they have done to maintain high levels of customer service throughout what has been a difficult period for the Society over the last decade and for the country as a whole over the last couple of years.

D.A. Harding
Chairman
23 February 2022

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

This financial statement is a summary of information which is contained in the audited Annual Accounts, the Directors’ Report and Annual Business Statement for the year ended 31 December 2021, prepared using International Financial Reporting Standards, all of which will be available to members and depositors free of charge on demand the head office of Manchester Building Society from 4 April 2022 and at www.themanchester.co.uk.

Approved by the Board of Directors of the Society on 23 February 2022 and signed on its behalf by:

D.A. Harding Chairman	P.A. Lynch Chief Executive	M.A. Winterbottom Finance Director

SUMMARY DIRECTORS’ REPORT

Introduction

The Group consists of the Society and its one wholly owned subsidiary: MBS (Mortgages) Limited.

The Group’s strategy and results for the year are covered in detail in the sections that follow, along with the principal risks and uncertainties that the Group faces.

Strategy

The Society is owned by its members. The means by which its value is preserved is by providing products that meet the financial needs of both existing and potential members.

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 continues to be to move the Group’s risk profile away from those legacy asset positions that carry higher risks and higher regulatory capital risk weightings where possible.

Following the significant improvement to the Group’s capital position during 2021, other strategic options may become available and any such options will be discussed with advisors and regulators, in particular the Prudential Regulatory Authority (“PRA”), and considered by the Board. Until an appropriate alternative is agreed, the Group will continue to manage down the balance sheet.

Regulatory capital conservation has continued to be a priority. The Group continues to have headroom above its Total Capital Requirements in total capital terms, and now meets the qualitative standards for the level of CET 1 regulatory capital. Consequently, the Society made the coupon payments on both its issuances of PIBS in October 2021, for the first time since April 2016 as, in order to conserve capital, 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.

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The uncertainties which exist regarding the longer-term prospects of the Group are disclosed in Note 1 on page 25 of the Group's 2021 Annual Report and Accounts.

Business Model

The principal activities of the Group remain the provision of competitive facilities for personal savings and for servicing its existing mortgage finance book, which primarily supports owner occupation of residential property. The Group does not presently engage in further lending.

Key performance indicators

Key performance indicators ("KPIs") monitored by the Board include the following:

- Capital
- Liquid assets
- Retail balances
- Mortgages and other loans
- Administration expenses
- Profit on ordinary activities before tax

The KPIs are considered in more detail in the sections that follow below, with indications as to why each metric is considered to be of importance in assessing financial performance.

Review of business performance

The Group's 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. The nature of the timing and magnitude of economic recovery remains unclear.

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:

- Legal damages of £13.4m following the judgment of the Supreme Court in favour of the Society.
- 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

Partially offset by:

- Net interest income in the year being £0.2m lower than in 2020 due to lower balances as the Society continued a managed reduction in the size of the balance sheet and lower margins on mortgage products with a full year impact of the reductions which followed the Bank of England base rate reductions in March 2020. The interest payable includes £0.3m in relation to PIBS coupon payments (2020: £nil).
- £0.2m of fair value losses on assets held for sale (2020: £nil).
- 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 (2020: £0.5m charge).
- Operating costs, excluding costs recovered, being £0.6m higher than in 2020 driven by £0.4m of additional IT costs as the Society has undertaken a project to migrate to a new core banking system, £0.1m of additional staff and director costs and £0.1m of additional professional fees following the Supreme Court judgment. Additional internal audit fees of

£0.1m were offset by £0.1m savings on rent and rates where the Society's legacy costs in relation to one floor of its head office building, sold in 2019, have now ceased.

The Group recorded a credit impairment release of £0.2m (2020: £0.6m charge) relating to the UK portfolios and an impairment charge of £1.4m (2020: £2.6m) relating to the Society's Spanish lifetime portfolio.

PROFITABILITY

The Group reported a post-tax profit for the financial year of £19.4m (2020: loss of £0.3m). The movements, alongside the cost of financing the Equity PIBS, are shown in the Statement of Changes in Equity on page 22 of the Group's 2021 Annual Report and Accounts.

FINANCIAL POSITION

Liquid Assets: The Group's liquid assets are deposited with the Bank of England and with UK clearing bank counterparties in instantly accessible bank accounts. Of the Group's total liquid funds at 31 December 2021, £37.7m was deposited with the Bank of England (2020: £28.7m) and £10.6m was deposited with UK clearing banks (2020: £10.2m). No investment securities were held at 31 December 2021 (2020: £nil).

Mortgages and Other Loans: Group mortgage balances, after provisions, were £153.3m (2020: £179.8m), representing a year on year decrease of 14.8% (2020: 8.5% decrease). To improve its regulatory capital position, the Society made no advances during the year (2020: £nil).

Overall, the performance of the core mortgage book continues to be in line with expectations. The Group has continued in its efforts to minimise mortgage arrears and to help borrowers in difficulties, taking a consultative approach with borrowers who experience payment difficulties and applying forbearance as appropriate. At 31 December 2021, excluding the second charge portfolio, there were 17 mortgage accounts (2020: 14) where payments were 12 or more months in arrears. Outstanding balances on these accounts amounted to £5.4m (2020: £6.1m) representing 3.5% of total gross mortgage balances (2020: 3.2%), with total arrears of £0.8m (2020: £1.2m). The percentage of accounts 12 months or more in arrears remained stable despite the declining level of total mortgage assets in the year and the absence of new lending. The underlying arrears performance has also remained stable.

There were 4 UK properties in possession at the end of the year (2020: 6). These figures include the NMB MAC portfolio and The Consumer Loans Company Limited ('CLC') portfolio. As insufficient reliable data exists, arrears banding information is not presented for these second charge portfolios.

Provisions for potential mortgage losses have been calculated after considering expected future credit performance, probabilities of default, arrears and forbearance positions and historic loss experience. Mortgage accounts in arrears by 3 months or more are reviewed regularly, as are impairment provision requirements.

Non-Current Assets held for Sale: Two properties are classified as held for sale at 31 December 2021 (2020: nil). These properties are both in Spain and were previously used as collateral within the Society's Spanish lifetime portfolio. These properties are now owned by the Society and are expected to be sold within the next 12 months. These properties are held at £0.5m which is the lower of fair value and carrying value.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

Other Assets: Included within Other assets is a sum of £1.1m (2020: £1.5m) relating to collateral deposited in the form of cash under credit support annex agreements ("CSA") with the Group's counterparty providers of foreign exchange swaps.

Retail Balances: Retail balances reduced to £150.3m (2020: £176.2m) in line with the overall reduction in the balance sheet. The range of savings products available during the year was carefully managed in order to ensure that a suitable level of funding was held and that the rates offered were appropriately competitive.

Capital: The purpose of the Group's capital is to support its mortgage book and to absorb any losses that may arise, thereby offering members protection as a regulated deposit taker.

The Board aims to manage capital within the regulatory limits set by the PRA. For regulatory capital purposes the Group is made up of the Society and MBS (Mortgages) Limited, with the regulatory capital positions at 31 December 2021 and 31 December 2020 being:

	Group 31 Dec20	Movement in 2021	Group 31 Dec 21	Regulatory Movement effective from 1 Jan 2022	Group 1 Jan 22
Tier 1 Capital	**£000**	**£000**	**£000**	**£000**	**£000**
Accumulated (losses)/ profit	(10,801)	19,030	8,229	(75)	8,154
Profit Participating Deferred Shares	17,461	-	17,461	-	17,461
Total CET1 Capital	6,660	19,030	25,690	(75)	25,615
Permanent Interest Bearing Shares					
Nominal balance	14,788	-	14,788	-	14,788
Amortisation	(11,831)	(1,478)	(13,309)	(1,479)	(14,788)
Net Permanent Interest Bearing Shares	2,957	(1,478)	1,479	(1,479)	-
Total Tier 1 Capital	**9,617**	**17,552**	**27,169**	**(1,554)**	**25,615**
Tier 2 Capital					
Subordinated Debt					
Nominal balance	14,200	(9,200)	5,000	-	5,000
Amortisation	(10,334)	5,834	(4,500)	(500)	(5,000)
Net Subordinated Debt	3,866	(3,366)	500	(500)	-
Permanent Interest Bearing Shares	11,831	1,478	13,309	1,479	14,788
Total Tier 2 Capital	**15,697**	**(1,888)**	**13,809**	**979**	**14,788**
Total Regulatory Capital	**25,314**	**15,664**	**40,978**	**(575)**	**40,403**

Since the end of 2020 Total Regulatory Capital has increased by £15.7m made up as follows:

- An increase to the retained profit of the regulatory capital group for the year of £19.0m which included £0.3m interest on PIBS as shown in the Statement of Changes in Equity on page 22, a reduction to reserves in relation to the transitional arrangements of IFRS 9 – *Financial Instruments* as detailed below and a small adjustment in relation to amortization on intangible fixed assets;
- a reduction of subordinated debt of £3.4m, consisting of:
    - the continued grandfathering of subordinated debt out of Tier 2 capital over a 9 year period, amounting to £0.5m in the year;
    - Redemption of £2.9m of unamortised subordinated debt (£9.2m gross of which £6.3m was amortised for regulatory capital purposes at 31 December 2020).

SUMMARY FINANCIAL STATEMENT

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Under the rules applicable from 1 January 2022, Total Regulatory Capital is reduced by £0.6m compared to the position at 31 December 2021. Tier 2 Regulatory Capital is reduced by a further £0.5m in respect of continuing Subordinated debt grandfathering. In addition, the available IFRS 9 transitional arrangements, adopted by the Group in 2018, reduced Total Regulatory Capital by an additional £60k from 1 January 2021, and will reduce it by a further £75k from 1 January 2022. These IFRS 9 arrangements continue to be phased over a 5 year period with 50% of the 2018 adverse financial impact taken to CET 1 capital by 2021, increasing to 75% in 2022 and 100% recognised from 2023.

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. Prior to June 2021, the Group did not meet the qualitative standards for the level of CET 1 regulatory capital. 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 following the profits generated in 2021 the Society has significant headroom against this plan. Although largely mitigated by the profits generated in 2021, it is recognised that there are a number of 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 as, in order to conserve capital, 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.

The implementation of Capital Reporting Directive V ("CRD V") and the related Capital Reporting Requirements II ("CRR II") are not anticipated to have a significant impact on the Group's regulatory capital position.

The Group's gross capital ratio increased to 28.8% at 31 December 2021 (2020: 19.2%). The free capital ratio at 31 December 2021 was 28.6% (2020: 18.9%). Definitions of gross capital and free capital may be found in the Annual Business Statement on page 66 of the Group's 2021 Annual Report and Accounts.

Financial Risk Management Objectives

The Group offers savings products and services mortgage products. It undertakes limited interaction with the wholesale money market for cash flow and liquidity management purposes. There are formal structures in place to monitor, report and manage the risks associated with the Group's operations. The Board seeks to manage the risks that the Group faces through a suite of regularly reviewed and approved policies covering: Credit, Liquidity, Financial Risk Management and Operational Risk.

Principal Risks and Uncertainties

The Group's profit in the year resulted in all quantitative and qualitative requirements for the level of regulatory capital to be held being met at 31 December 2021. This may provide strategic options for the Society and the Board continue to assess such options. Without a return to lending or a merger with another organisation, however, there remains long-term uncertainty regarding the ability of the Society to maintain its capital position as the balance sheet continues to run-off. The Board will continue to consider options to secure the long-term future of the Group and remains in regular contact with its advisors and regulators.

The ongoing Covid-19 pandemic has led to continued economic uncertainty within the UK and wordwide. The emergence of the Omicron variant in late 2021 has led to further uncertainty over the nature of the timing and magnitude of economic recovery.

Two years after the UK left the European Union ("EU"), the medium to long-term impact on UK government policy, the financial markets and the wider UK economy remains unclear. The Group's Spanish lifetime portfolio introduces additional uncertainty and risk which the Board is monitoring; in particular there is added risk and uncertainty in relation to foreign exchange volatility, property values for the Spanish lifetime portfolio and the behavioural impact on Spanish lifetime mortgage borrowers. The legal advice taken by the Group remains that operational risk in relation to the servicing of the loan book is limited.

Under *IFRS 9 – Financial instruments* impairment is based on expected credit losses ("ECL"). An ECL provision is required for default events in the next 12 months, whilst a lifetime ECL is required when a significant increase in credit risk is identified. The review of credit risk and the calculation of ECL are required to be unbiased and probability weighted, and should include all available relevant information, with assessments of current conditions and forecasts of future economic conditions. As a result the recognition and measurement of impairment is forward looking. Forecasts of economic conditions are uncertain and adverse movements in the forecasts create additional risks for the Group.

At the end of 2021, the London Inter-Bank Offered Rate ("LIBOR") ceased to be considered as an appropriate rate for setting interest rates meaning that loans and savings accounts linked to LIBOR need to be transitioned to an alternative benchmark rate. In response, the Society has redeemed its LIBOR linked subordinated debt and has contacted affected mortgage customers to offer an alternative. A small number of mortgage customers have not yet accepted the proposed rate and will remain on "synthetic LIBOR" for a period in line with FCA guidelines.

Every business faces risks as part of its day-to-day operation. The Society has a low appetite for risk and the Board's risk management objectives are to minimise the risks that the Group faces by deploying a range of risk management policies and procedures within an appropriate control environment.

Summarised below are the Group's other key risks and uncertainties:

Credit Risk: The Group is exposed to the risk that it may not receive back in full any sum that has been loaned (in relation to loans and advances) or any sum that it has deposited with a banking counterparty (in relation to liquid assets) when such amounts fall due. The Board monitors credit risk, underlying security values and the level of impairment provisions on a regular basis. Credit risk is more of a consideration in relation to loans and advances to customers than in relation to the Group's liquid assets; the former involve relationships with individuals or small businesses, whilst the latter are far fewer in number, being restricted to either the Bank of England or UK High Street banks, where credit risk is assessed as being very low.

The Group's management of credit risk in respect of loans and advances recognises that as the portfolio runs off it is likely that a greater part of the residual assets will have a higher credit risk profile.

The assessment of credit risk and the related impairment provisioning is a critical accounting estimate, impacted by judgments relating to customer affordability and economic circumstances, including the level of interest rates. Prior to the current strategy of no new lending, credit risk was mitigated by appropriate mortgage underwriting and by limiting the Group's exposure to particular market sectors or loans exhibiting particular attributes. Since the cessation of new lending, credit risk has been mitigated through the monitoring of management information, assessment of arrears and forbearance cases, and regular loan provision reviews. The Society continues to work with customers to ensure that appropriate levels of forbearance are provided where necessary. The Group holds two mortgage books (the NMB MAC and CLC books), where previously it held a beneficial interest and these portfolios were administered by third parties. The Group assumed ownership of the CLC portfolio in 2015 and the NMB MAC portfolio in 2018. An assessment has been made of the estimated discounted future cash flows expected to arise from both these portfolios of loans which forms the basis for the impairment provision. Sensitivities in respect of the impairment provision required for these portfolios are given on page 37 of the Group's 2021 Annual Report and Accounts.

Insurance Risk: Impairment assessments incorporate the insurance risk attached to the Group's lifetime mortgage contracts, which are Euro-denominated. The risk arises from a contractual term within the relevant mortgage contracts which in certain circumstances precludes the Group from pursuing the borrower or the borrower's estate for any shortfall on redemption. This risk is managed through oversight of the portfolio, including monitoring valuations, the assessment of redemptions and provisioning policy. The insurance provision is a critical accounting estimate, as its assessment is based on expected future outcomes relating to the date on which an account redeems, expected to be on the death of the borrower, a move into care or through non-health related voluntary pre-payment. It is also affected by the assumptions made in relation to house price appreciation and depreciation. This means that the insurance risk provision can move by a material amount dependent upon these assumptions and market conditions. Details of the key sensitivities in relation to the insurance provision are given on page 49 of the group's 2021 Annual Report and Accounts. Regular contact is maintained with customers to ensure that the properties are maintained and to understand any changes in circumstances which may lead to additional risk. The introduction of IFRS 17 – *Insurance Contracts* is expected to affect accounting for this lifetime portfolio. IFRS 17 is expected to be implemented for accounting periods beginning on 1 January 2023, although delayed implementation is a possibility.

Liquidity Risk: The Group's strategy is to maintain sufficient funds in unencumbered liquid form at all times to ensure that its liabilities can be met as they fall due. Regular stress testing of liquidity is undertaken by separately using 20 week and 3 month time horizons. The Group operates within closely monitored Board-approved liquidity policy limits, which are reviewed on a daily basis by the Group's Finance and Treasury departments, reported to the Treasury Committee and considered by the Board each month. During 2021, the Group continued to have a significant proportion of its liquid assets deposited with the Bank of England.

Capital Risk: In order to conserve capital, the Group has not undertaken new lending since 2013. Following the profit generated in 2021, the Group meets all of the quantitative and qualitative requirements regarding the level of regulatory capital it must hold. Prior to June 2021, the Group did not meet the qualitative standards for the level of CET 1 regulatory capital and under the applicable regulatory capital conservation rules, in order to conserve capital, the Group had not been permitted to pay coupons on PIBS since April 2016. The coupon payments resumed on both issuances of PIBS in October 2021, however, the risk of an external stress event such as a severe downturn in the housing market in either the UK or Spain, a regulatory requirement to hold additional capital or a change in accounting standards means that there remains some uncertainty over the Group's ability to make coupon payments in the long-term.

Interest Rate Risk: The Group's mortgage and savings products have different interest rate types and differing maturity profiles. This means that the Group is exposed to movements in interest rates. A movement in an external interest rate (e.g. Bank of England Base Rate) does not always affect every mortgage and savings product that the Group holds. The Group has more fixed rate mortgage products (notably its lifetime mortgages) than it has fixed rate savings products. Presently, there are no interest rate swaps in place to mitigate the risk. The interest rate risk position is monitored by the Risk Committee and the Board and is managed via the setting of internal policy limits and through the holding of an ascribed level of regulatory capital to mitigate the risk of interest rate movement. The Board has considered this risk by its review of financial projections under differing interest rate scenarios over the long-term including the possibility of Base Rate becoming negative. The Group has a natural partial hedge provided by fixed coupons on capital and some savings products.

The Board does not intend to hedge its fixed rate mortgages using interest rate swaps at this time; this position is monitored regularly. A rise in interest rates gives rise to a risk of decreasing margins as a greater portion of the mortgage portfolio than the deposit portfolio is based on fixed rates. Liquidity risk can also be managed through changes in the interest rate of the deposit book.

Currency Risk: The Group faces currency movement risks on its Euro-denominated mortgage balances which represent 21% of total mortgage assets as at 31 December 2021 (2020: 20%). The exchange rate risk arising on these balances is managed and partially mitigated by transacting foreign exchange forward contracts. In 2021 a £760k foreign exchange loss within Other Operating Income was largely offset by £762k of foreign exchange gains within Other Impairment Losses. The £2k net gain related to imperfectly matched positions and movements in forward points. The exchange rate risk position is reported to the Asset and Liability Committee (‘ALCO’) and Board each month.

Economic Risk: The Group faces the risk that its interest margin can become subjected to the pressure that is brought to bear from being an institution that is primarily funded through retail deposits. Within this market, there is great competition for attracting retail deposits at sustainable rates of interest. Market rates offered by retail institutions reduced following the launch of the Bank of England’s Funding for Lending and Term Funding Schemes; however, there is a risk that as repayments are required under these schemes there may be upward pressure on rates to prevent savings outflows.

The Group is also exposed to movements in the value of residential and commercial property in both its mortgage impairment provision requirements and the Group’s investment properties which are held at fair value.

The macroeconomic assumptions used in calculation of expected credit losses are shown on page 37 of the Group’s 2021 Annual Report and Accounts.

Political Risk: The UK’s exit from the EU in January 2020 continues to create additional uncertainties for the economy, financial markets, housing and mortgage markets, government policy and financial services regulation. The impact upon borrower behaviour and collateral values within the Spanish lifetime portfolio remains uncertain. The Group has taken legal advice and contacted the regulatory authority in Spain and believes that operational risk in relation to the servicing of the loan book is limited.

The Government’s response to the Covid-19 pandemic resulted in an unprecedented economic downturn, with significant support offered to people affected. Although some recovery has been seen, the medium to long-term impact remains uncertain. Unemployment levels and house prices have particular impacts upon the Group’s credit risk.

Climate Change Risk: The Society has started to assess how climate change may impact its business. This includes the impact of increased incidents of flooding on the value of some properties within its mortgage portfolio and impacts on borrowers of requirements for minimum efficiency standards for their homes or rental properties. The PRA requires all financial institutions to nominate an individual to be responsible for incorporating the financial risks from climate change into existing risk management practices. The Society's Finance Director has been given this role is leading work to develop greater understanding of the risks and develop plans for how it can respond.

Cyber Risk: The Group faces the risks of inappropriate disclosure of personal or sensitive information and inappropriate access to internal data sources. In particular, cyber security threats to the Society and its Members as a result of attacks through the use of computer systems. The Society has appropriate controls in place and uses third party expertise to mitigate this risk. The group holds cyber insurance to further mitigate any potential financial loss or disruption.

Regulatory Risk: As a regulated entity, the Group is exposed to risks arising from a failure to adhere to relevant regulation. In order to minimise this risk, the Group has deployed a number of risk management policies and procedures. The Group's Risk Management Framework ("RMF") is designed around the present needs of the Group. The RMF includes the responsibilities of the Board, the Risk Committee, the Operational Risk and Conduct Committee and Management as to how the Group meets, monitors and reports on its regulatory requirements. Oversight of Regulatory Risk is the responsibility of the Compliance function and is led by the Operational Risk and Compliance Manager.

The majority of the regulatory requirements that the Group faces are laid down by the PRA and the Financial Conduct Authority ("FCA"). The Group monitors developments in all relevant aspects of financial service regulation and undertakes assessments of the present and future impacts of such. Appropriate actions are taken to strengthen controls and amend the Group's strategy to meet changing regulatory requirements.

In addition to considering the impact of any non-compliance on the recoverability of loan balances and thus impairment provisioning, the Group considers the conduct risk which arises from having originated regulated loans and having acquired regulated loan portfolios. As is the case for all financial institutions there is a risk that aspects of current or historic business might be considered as not being conducted in accordance with all relevant regulation, or the fair and reasonable treatment of customers.

Certain activities of the Group, particularly the NMB MAC and CLC second charge loan portfolios carry greater levels of conduct risk. The administration of the NMB MAC and CLC portfolios was brought in-house in December 2015 and following that transfer the historic conduct of these portfolios was reviewed in detail by management and redressed where appropriate. Although a detailed review of these portfolios has been carried out, there is no judicial certainty in the legal position and there is a risk that further conduct issues or cases of non-compliance with regulations could be identified in the future.

Provision has been made where the Group is aware of a specific conduct or regulatory issue and can estimate its impact. Further details in respect of the Group's consideration of other potential conduct and regulatory issues are provided in Note 30 of the Group's 2021 Annual Report and Accounts.

SUMMARY FINANCIAL STATEMENT

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Diversity Matters

Gender Analysis: Below is a table summarising permanent, employed members of staff and directors by gender at 31 December 2021, with comparative positions for the previous year end:

	31-Dec-21			31-Dec-20		
	Male	**Female**	**Non-binary**	**Male**	**Female**	**Non-binary**
Directors	5	2		5	2	
Staff	15	25	1	15	26	1
Total	20	27	1	20	28	1

Given the size and scale of the Group's operations and its headcount, it does not have any members of staff that would be considered for separate disclosure as "Senior Managers" in the above table.

Social, Community and Human Rights Issues

Stakeholders: The Group's members, staff and other stakeholders are key to its success and it is committed to its policy of ensuring that all are treated fairly and equally at all times.

Employees: The Group's policies ensure that discrimination on the grounds of race, colour, religion, belief, nationality, ethnic origin, sex, sexual orientation, marital status, age, part time status and membership (or otherwise) of a trade union is not tolerated. Further, the Group also holds to its policy on disability. This is achieved via a wider policy approach to equal opportunity in the workplace. Training and development opportunities are presented to staff to allow them to acquire relevant professional qualifications, which, in turn, assist the Group in achieving its goals.

Outlook

The profit generated in 2021 has had a material positive impact upon the Group's Capital position as outlined on page 4. Whilst the risks that the Group faces remain unchanged, the threats caused by these risks has diminished.

The ongoing impact of the Covid-19 pandemic and the governmental response to it continue to generate additional uncertainty and risk to the economy as a whole and to the Group. Following the UK's departure from the European Union, the impact on UK government policy, the financial markets and the wider UK economy in the medium to long-term remains uncertain. The Board will continue to monitor these risks, in particular with regard to the Group's Spanish lifetime portfolio.

The Group's latest medium to long-term strategic plan supports the strategy of reducing the balance sheet so as to conserve regulatory capital. The Group's focus remains on delivering to that plan whilst the Board, in conjunction with its advisors and regulators, considers other strategic options.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

Directors

H.F. Baines	Vice Chairman
I.A. Dewar	Non-executive director
D.A. Harding	Chairman
J. Lincoln	Non-executive director
P.A. Lynch	Chief Executive
F.B. Smith	Non-executive director
M.A. Winterbottom	Finance Director

At the Annual General Meeting, in line with the UK Corporate Governance Code, all directors will retire and being eligible, will offer themselves for re-election.

Three of the non-executive directors will complete terms of nine years during 2022. Given the strategic decisions that the Society will need to make in the coming year, the existing directors have been asked to remain in position beyond nine years. In line with the principles of the UK Corporate Governance Code, all directors will retire and being eligible, will offer themselves for re-election at the Society's 2022 Annual General Meeting.

At the year-end no director had an interest in any shares or debentures of the Society or its connected undertaking.

Other matters

Charitable & political donations

The Society made charitable donations totalling £1k (2020: £1k) during the year. No contributions were made for political purposes.

Pillar 3 Disclosure

The Society's Pillar 3 disclosure is available to read on its website at
https://www.themanchester.co.uk/Main/FinancialInformation

Supplier payment policy & practice

The Group's policy concerning the payment of its trade creditors is as follows:

a) to agree the terms of payment with a supplier;
b) to ensure that suppliers are aware of the terms of payment;
c) to pay invoices in conformity with the Group's contractual and other legal obligations.

Trade creditors at 31 December 2021 amounted to 9 days of average supplies (2020: 13 days).

Capital Requirements (Country-by-Country) Reporting

In compliance with the reporting obligations set out in Article 89 of the European Union's Capital Requirements Directive IV (CRD IV), which have been implemented in the UK by the Capital Requirements (Country-by-Country) Reporting Regulations, the Group will publish additional information in respect of the year ended 31 December 2021. This information is included within the annual report and accounts and will be available on the Society's website: www.themanchester.co.uk.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

Going Concern

The directors consider that it is appropriate for the accounts to be prepared on a going concern basis of accounting as fully explained in Note 1 on page 25 of the Group's 2021 Annual Report and Accounts, which sets out the risks and uncertainties assessed as part of the preparation of the accounts.

The Group has not been active in the Mortgage market since 2013. The capital generated during 2021, primarily as a result of the damages awarded by the Supreme Court which overturned the decisions of the lower courts in relation to the Society's legal case against their former auditors, resulted in the qualitative standards for the level of CET 1 capital being met for the first time since 2016. The Board have subsequently focused upon assessing the strategic options that may be available to the Society given its current capital position. There is currently no plan in place to return to lending, though this is something which may be revisited as part of the ongoing review of strategic options. Until the review of strategic options concludes, the current strategy of the Board, therefore, continues to be the management of a long-term run-off of the balance sheet.

The Group continues to follow a medium to long-term strategic plan, against which the PRA monitor the Society. The plan shows that the Society remains viable in the medium-term and following the profits generated in 2021 the Society has significant headroom against this plan. Although largely mitigated by the profits generated in 2021, it is recognised that there are a number of long-term risks to this plan, particularly following a stress event in the economy or financial markets. Such stress events may include a downturn in the housing market either in the UK or Spain, additional provision requirements on some of the Group's larger mortgage exposures, or a materially different mortgage repayment profile to that included within the plan.

The stresses that have been considered by the directors when assessing the Group's ability to continue as a going concern recognise the economic uncertainty caused by the Covid-19 pandemic, Brexit and increased levels of inflation.

The financial impact of additional provision requirements in potential stresses on the UK loan portfolios is shown in the Group's 2021 Annual Report and Accounts on page 37 and for the Spanish portfolio on page 49.

The Board expects to continue to work closely with its advisors and the regulators during 2022 to develop and implement its strategic plan. Implementation may involve third parties and require regulatory approval and as such may carry execution risk.

When satisfying themselves that the Group and Society have adequate resources to continue to operate for the foreseeable future as a going concern, the directors have reviewed the latest forecasts and the ability for the plan to be followed.

Having due regard to these matters, the Board continues to adopt the going concern basis of accounting in preparing the financial statements.

The Board considers the preparation of the financial statements as a going concern to be a critical accounting judgment.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

Independent Auditors

In accordance with Section 77 of the Building Societies Act 1986 a resolution for the re-appointment of PricewaterhouseCoopers LLP will be proposed at the Annual General Meeting.

On behalf of the Board of Directors
D.A. Harding
Chairman
23 February 2022

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

RESULTS FOR THE YEAR	**Group 2021 £000**	**Group 2020 £000**	**Society 2021 £000**	**Society 2020 £000**
Net interest income	6,173	6,352	6,003	6,128
Legal damages and interest	14,272	-	14,272	-
Other income and charges	(1,005)	670	(367)	1,201
Legal costs recovered	7,540	-	7,540	-
Administrative expenses	(4,854)	(4,239)	(4,828)	(4,204)
Operating profit before impairment and provisions	**22,126**	**2,783**	**22,620**	**3,125**
Impairment losses	(1,289)	(3,127)	(1,162)	(3,087)
Profit / (loss) for the year before taxation	**20,837**	**(344)**	**21,458**	**38**
Taxation	(1,467)	-	(1,467)	-
Profit / (loss) for the year	**19,370**	**(344)**	**19,991**	**38**
Payment to equity holders	(338)	-	(338)	-
Tax credit on payment to equity holders	64	-	64	-
Transfer to/ (from) reserves	**19,096**	**(344)**	**19,717**	**38**

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL POSITION AT THE END OF THE YEAR	Group 2021 £000	Group 2020 £000	Society 2021 £000	Society 2020 £000
Assets:				
Liquid assets	48,293	38,876	48,292	38,875
Mortgages	153,100	179,591	150,034	175,863
Other loans	200	234	200	234
Derivative financial instruments	712	193	712	193
Fixed and other assets	2,301	2,638	2,593	2,971
Total assets	**204,606**	**221,532**	**201,831**	**218,136**
Liabilities:				
Shares	150,254	176,212	150,254	176,212
Borrowings	7,036	8,836	7,036	8,836
Other liabilities	1,973	921	1,965	913
Derivative financial instruments	9	125	9	125
Subordinated capital	5,000	14,200	5,000	14,200
Subscribed capital	5,000	5,000	5,000	5,000
Subscribed capital*	9,788	9,788	9,788	9,788
Profit participating deferred shares*	17,461	17,461	17,461	17,461
Retained earnings / (accumulated losses)*	8,085	(11,011)	5,318	(14,399)
Total equity and liabilities	**204,606**	**221,532**	**201,831**	**218,136**

*Classifies as equity

SUMMARY OF KEY FINANCIAL RATIOS	Group 2021 %	Group 2020 %	Society 2021 %	Society 2020 %
Gross capital as a percentage of shares and borrowings	28.8	19.2	27.1	17.3
Liquid assets as a percentage of shares and borrowings	30.7	21.0	30.7	21.0
Profit/ (loss) for the year as a percentage of mean total assets	9.1	(0.1)	9.5	0.0
Management expenses (including legal costs recovered) as a percentage of mean total assets	(1.3)	1.8	(1.3)	1.8
Management expenses (excluding legal costs recovered) as a percentage of mean total assets	2.3	1.8	2.3	1.8

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 losses, Permanent Interest Bearing Shares, Profit Participating Deferred 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. By their nature, liquid assets are readily realisable into cash and thereby 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 its 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.

5. The management expense ratio measures the proportion that administration expenses bears to the average of total assets during the year.

INDEPENDENT AUDITORS' STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

INDEPENDENT AUDITORS' STATEMENT ON THE SUMMARY FINANCIAL STATEMENT TO THE MEMBERS OF MANCHESTER BUILDING SOCIETY

We have examined the Summary Financial Statement of Manchester Building Society (the 'Society') set out on pages 3 to 18, which comprises Summary Directors' Report, Results for the Year, the Financial Position as at 31 December 2021, Summary of Key Financial Ratios and Notes to the Summary Financial Statement.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Summary Financial Statement, in accordance with the Building Societies Act 1986.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full Annual Accounts, the Annual Business Statement and the Directors' Report and its compliance with the relevant requirements of Section 76 of the Building Societies Act 1986 and the regulations made under it.

We also read the other information contained in the Summary Annual Report 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 only the Summary Chairman's Statements and Summary Directors' Report.

This statement, including the opinion, has been prepared for and only for the Society's members as a body in accordance with Section 76 of the Building Societies Act 1986 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion

Our examination involved agreeing the balances in the Summary Financial Statement to the full Annual Accounts. Our report on the Society's full Annual Accounts describes the basis of our audit opinion on those Annual Report and Accounts, the Annual Business Statement and the Directors' Report.

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 2021 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986, and the regulations made under it.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
23 February 2022

SUMMARY DIRECTORS' REMUNERATION REPORT

Introduction

The purpose of this report is to provide details of the Group's policy on the remuneration of its executive and non-executive directors and to explain the process for setting the level of directors' remuneration.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee is responsible for the remuneration policy for all of the directors; it also reviews the remuneration of certain managers. All recommendations made by the Remuneration and Nominations Committee are considered by the full Board. The Committee has regard to best practice as set out in the UK Corporate Governance Code and with the PRA Remuneration Code to the extent that it is relevant to the Group, given that the Society is a mutual institution.

Executive directors

Remuneration levels are set for the executive directors so as to reward and retain the skills and commitment necessary to manage the development of the Group within a competitive and challenging business sector. In accordance with best practice, the Remuneration and Nominations Committee reviews the remuneration arrangements for the executive directors on a periodic basis and compares his or her range of benefits to those available within similar organisations. The Committee's objective is to promote suitable risk management arrangements, avoiding remuneration structures that promote excessive risk taking.

The executives' remuneration arrangements include:

- salaries, reviewed by the Committee on an annual basis;
- membership of the Group personal pension scheme, on the same terms as other eligible employees of the Group;
- taxable private health care.

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

SUMMARY DIRECTORS' REMUNERATION REPORT

Executive directors

	Salary £000	Pension Contributions £000	Bonus £000	Benefits £000	Total £000
2021					
P.A. Lynch	170	21	10	1	202
M.A. Winterbottom	120	14	10	1	145
	290	35	20	2	347
2020					
P.A. Lynch	170	21	-	3	194
M.A. Winterbottom	121	14	-	-	135
	291	35	-	3	329

Non-executive directors

Non-executive directors are remunerated by way of fees, which are recommended to the Remuneration and Nominations Committee by the Executive Directors and approved by 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; they do not have any pension arrangements through the Group.

A summary of the non-executive directors' remuneration is shown below:

	Fees 2021 £000	Fees 2020 £000
H.F. Baines	40	40
I.A. Dewar	35	35
D.A. Harding	80	80
J. Lincoln	35	35
F.B. Smith	35	35
	225	225

Non-executive directors are not appointed under service contracts. Their appointment is terminable by 1 month's notice on either side. In the event of the Society merging with another society whilst D.A. Harding is the Chairman of the Board, he is entitled to 6 months' fees under his letter of appointment.

SUMMARY DIRECTORS' REMUNERATION REPORT

Total directors' emoluments

	2021 £000	2020 £000
Executive directors	347	329
Non-executive directors	225	225
Total directors' emoluments	572	554

All directors

The Group does not make mortgage loans available to any director. The above arrangements applied throughout 2021.

CONTACT DETAILS

Savings Customer Services

Telephone	0161 923 8065
Post	Manchester Building Society 125 Portland Street Manchester M1 4QD

Mortgage Customer Services

Telephone	0161 923 8030
Post	Manchester Building Society 125 Portland Street Manchester M1 4QD

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Manchester
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