SUMMARY FINANCIAL REPORT

2019

Manchester
BUILDING SOCIETY

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DIRECTORS		
	H.F. Baines	LLB
	I.A. Dewar	FCA
	D.A. Harding	JP BA MPhil FCMA
	J. Lincoln	FCCA ACIB
	P.A. Lynch	
	F.B. Smith	LLB
	M.A. Winterbottom	FCA
CHAIRMAN	D.A. Harding	JP BA MPhil FCMA
SECRETARY	M.A. Winterbottom	FCA

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SUMMARY CHAIRMAN'S STATEMENT

In the year ended 31 December 2019 the Society and its subsidiary (the 'Group') recorded a post-tax profit of £0.6m (2018: loss £0.9m).

Net interest income fell from £8.0m to £7.0m, in line with the decline in the size of the balance sheet as the Group continued to shrink the scale of its operations. Mortgage balances fell by 11% whilst savings balances fell by 12%. After other income and charges, total operating income was £6.9m, compared with £8.9m in the preceding twelve months. Administrative expenses fell by £5.3m owing to tight cost control and lower legal fees relating to the claim for damages made against the Society's previous auditors, Grant Thornton UK LLP ('GT') (details of which were fully explained in the Group's 2012 Annual Report and Accounts). As a result, the Group recorded an operating profit of £2.0m (2018: £1.3m loss) before impairment provisions.

The Group incurred a credit impairment charge of £2.1m in the year (2018: £0.8m) comprising a charge of £1.8m (2018: £0.8m) relating to the Society's Spanish lifetime portfolio and £0.3m (2018: £nil) for provisions on the remainder of the portfolio.

A reversal of a prior provision of £0.6m (2018: £1.1m reversal) followed a revaluation upon the disposal of the Group's head office premises at 125 Portland Street. The Group subsequently leased back one floor of the building which remains the registered office of the Society.

At 31 December 2019, the Group had negative accounting reserves of £10.7m (2018: negative £11.3m).

As in 2018, while the Group met all of its quantitative regulatory capital requirements, it did not meet the qualitative standards for CET 1 regulatory capital. The Society was therefore again prohibited by Capital Requirements Directive IV from paying the coupons on its Permanent Interest Bearing Shares ('PIBS'). The Board considers that uncertainty over the Society's ability to make coupon payments is likely to remain owing to the material uncertainty about the Society's longer-term prospects as set out in Note 1 to the financial statements in the Group's 2019 Annual Report and Accounts.

In January 2019, the Court of Appeal upheld the decision of the High Court to award only nominal damages in respect of the Society's claim against GT. However, the Society sought leave to appeal this decision to the Supreme Court and leave to appeal was granted in July. The case is listed to be heard in October 2020. The Board plan to undertake a further strategic review of the Society's operations once the result of this appeal is known. In the meantime, the Society continues to operate in line with the strategic plan reviewed and acknowledged by the Prudential Regulation Authority ("PRA") in 2018, as updated in 2019.

The Board is acutely aware of the effect of the current low interest rate environment on savers. Market interest rates have continued to fall and, with some reluctance, the Society has found it necessary to follow this trend. Overall, however, the Society continues to offer savings products that are competitive with rates offered by other societies. Virtually all of the Society's savings deposits are covered by the Financial Services Compensation Scheme.

On behalf of the Board, I should like to thank members for their continued support and to thank our staff for their effort and continued commitment to the Society.

D.A. Harding
Chairman
4 March 2020

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019, prepared using International Financial Reporting Standards, all of which will be available to members and depositors free of charge on demand at every office and agent of Manchester Building Society from 4 April 2020 and at www.themanchester.co.uk.

Approved by the Board of Directors of the Society on 4 March 2020 and signed on its behalf by:

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

SUMMARY DIRECTORS' REPORT

Introduction

The Group consists of the Society and its one wholly owned subsidiary: MBS (Mortgages) Limited. A second subsidiary MBS (Property) Limited was disposed of in August 2019. Results for MBS (Property) Limited are consolidated within these financial statements until the date of disposal.

The Group's strategy and results for the year are covered 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 has been to move the Group's risk profile away from those legacy asset positions that carried higher risks and higher regulatory capital risk weighting.

Regulatory capital conservation has continued to be a priority. The Group continues to have headroom above its Pillar 1 plus Pillar 2A requirement in total capital terms, but did not meet the qualitative standards for the level of CET 1 regulatory capital. Consequently, the Society has not paid the coupons on PIBS since April 2016 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. The medium to long term strategic plan which was independently reviewed and acknowledged by the Prudential Regulation Authority ("PRA") in 2018 was updated in the year. The PRA have agreed to monitor the Society against the updated plan. As at 31 December 2019, the requirement to hold CET 1 capital in excess of 4.5% of Risk Weighted Assets was met but it is recognised that a stress event or other significant loss could result in a future breach. Potential stress events are detailed on page 25 of the Group's 2019 Annual Report and Accounts.

Following the Court of Appeal's decision to uphold the High Court's judgment in the Group's claim for damages against GT, the Board continued to take legal advice and the Supreme Court has agreed to hear the case in 2020.

The uncertainties which exist regarding the longer term prospects of the Group are disclosed in Note 1 on page 25 of the Group's 2019 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

In 2019 the Group reported a profit for the financial year of £0.6m (2018: loss of £0.9m).

In the year the Group reported operating profit before impairments and provisions of £2.0m (2018: £1.3m loss).

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FOR THE YEAR ENDED 31 DECEMBER 2019

A reconciliation of operating profit before impairments and provisions to profit on ordinary activities before taxation and the profit for the financial year is set out below:

The £3.3m increase in operating profit before impairments and provisions from 2018 is a result of:

- Administrative expenses reducing by £5.3m. This included a £4.6m reduction in costs in relation to the Grant Thornton case. Other savings within the cost base included a £0.3m reduction in staff costs and £0.1m on audit fees.
- Net interest income in the year being £0.9m lower than in 2018 due to an 11% reduction in Loan balances as the Society continues a managed reduction of the balance sheet.
- Other income fell by £1.1m due to a £0.4m reduction in income from foreign exchange movements and a £0.3m reduction in rental income following the sale of the Group's head office building. The 2018 figure included £0.3m damages from the legal claim against Grant Thornton UK LLP.

The Group incurred a credit impairment charge of £2.1m in the year (2018: £0.8m) comprising a charge of £1.8m (2018: £0.8m) relating to the Society's Spanish lifetime portfolio and £0.3m (2018: £nil) for provisions on the remainder of the portfolio.

A reversal of a prior provision of £0.6m (2018: £1.1m reversal) followed a revaluation upon the disposal of the Group's head office premises at 125 Portland Street.

The Group did not meet the qualitative standards for the level of CET 1 regulatory capital as at 31 December 2019 and, in order to conserve capital, a distribution to PIBS holders in April 2020 may remain prohibited under CRD IV article 141.

PROFITABILITY

Result for the year: The Group reported a profit for the financial year of £0.6m (2018: loss of £0.9m). The movements are shown in the Statement of Changes in Equity on page 22 of the Group's 2019 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 2019, £34.8m was deposited with the Bank of England (2018: £33.1m) and £11.9m was deposited with UK clearing banks (2018: £14.9m). No investment securities were held at 31 December 2019 (2018: £nil).

Mortgages and Other Loans: Group mortgage balances, after provisions, were £196.4m (2018: £219.7m), representing a year on year decrease of 10.6% (2018: 12.4% decrease). To improve its regulatory capital position, the Society made no advances during the year (2018: £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 2019, excluding the second charge portfolio, there were 17 mortgage accounts (2018: 15) where payments were 12 or more months in arrears. Outstanding balances on these accounts amounted to £7.4m (2018: £7.0m) representing 3.5% of total gross mortgage balances (2018: 2.8%), with total arrears of £1.3m (2018: £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 9 properties in possession at the end of the year (2018: 8). 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 by assessing impairment indicators, 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.

Investment property: At the year end the Group held a small number of residential properties as a result of the settlement of impaired mortgage assets. The properties are being held, pending their eventual sale, and have a fair value of £0.2m (2018: £0.4m). Three properties were disposed of in the year (2018: two).

Other Assets: Included within Other assets is a sum of £0.9m (2018: £1.1m) 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 £197.8m (2018: £225.9m) 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.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 and 31 December 2018 being:

	Group 31 Dec 18	Movement in 2019	Group 31 Dec 19	Regulatory Movement effective from 1 Jan 2020	Group 1 Jan 20
Tier 1 Capital	£000	£000	£000	£000	£000
Accumulated (losses)/ profits	(10,974)	563	(10,411)	(45)	(10,456)
Profit Participating Deferred Shares	17,461	-	17,461	-	17,461
Total CET1 Capital	6,487	563	7,050	(45)	7,005
Permanent Interest Bearing Shares					
Nominal balance	14,788	-	14,788	-	14,788
Amortisation	(8,873)	(1,479)	(10,352)	(1,479)	(11,831)
Net Permanent Interest Bearing Shares	5,915	(1,479)	4,436	(1,479)	2,957
Total Tier 1 Capital	**12,402**	**(916)**	**11,486**	**(1,524)**	**9,962**
Tier 2 Capital					
Subordinated Debt					
Nominal balance	14,200	-	14,200	-	14,200
Amortisation	(5,584)	(2,405)	(7,989)	(500)	(8,489)
Net Subordinated Debt	8,616	(2,405)	6,211	(500)	5,711
Permanent Interest Bearing Shares	8,873	1,479	10,352	1,479	11,831
Total Tier 2 Capital	**17,489**	(926)	**16,563**	**979**	**17,542**
Total Regulatory Capital	**29,891**	**(1,842)**	**28,049**	**(545)**	**27,504**

Since the end of 2018 Total Regulatory Capital under CRD IV has decreased by £1.8m made up as follows:

- An increase to the retained profit of the regulatory capital group for the year of £0.6m which included a reduction to reserves in relation to the transitional arrangements of IFRS 9 – Financial Instruments which was adopted in 2018 as detailed below;
- a reduction of subordinated debt of £2.4m, 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;
  - amortisation of subordinated debt over a 5 year period, amounting to £1.9m in the year.

Under the CRD IV rules applicable from 1 January 2020, Total Regulatory Capital is reduced by £0.5m compared to the position at 31 December 2019. This is due to Tier 2 Regulatory Capital being 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 £29k from 1 January 2019, and will reduce it by a further £45k from 1 January 2020. These IFRS 9 arrangements continue to be phased over a 5 year period with 15% of the 2018 adverse financial impact taken to CET 1 capital by 2019, increasing to 30% in 2020. The element taken to CET 1 capital will increase annually with 100% recognised by 2023.

As at 31 December 2019 the Group continues to have headroom above its total Pillar 1 plus Pillar 2A requirements in total capital terms as set by the PRA, due to the Society's PIBS (that is Additional Tier 1 capital being amortised into Tier 2 capital) and subordinated debt (that is Tier 2 capital), but did not meet the qualitative standards for the level of CET 1 regulatory capital. Following the Society's CET 1 capital temporarily falling below the required 4.5% of Risk Weighted Assets in 2018, a medium to long term strategic plan was produced which was independently reviewed and acknowledged by the PRA. This plan was updated in 2019 and the PRA agreed to monitor the Society against this revised plan. The PRA continue an open dialogue with the Society on future developments.

In addition, owing to the financial position and challenges faced by the business, there is a risk that the Society will not meet the regulatory requirement to hold 4.5% of CET 1 capital against Risk Weighted Assets in the future. As at 31 December 2019, the requirement was met but a stress event or other significant loss (as detailed on page 25 of the Group's 2019 Annual Report and Accounts) could result in a future breach. This potential risk is monitored and under regular review in ongoing discussions with the PRA.

As a result of the shortfall against qualitative standards for the level of CET 1 capital requirement, under CRD IV article 141, in order to conserve capital, the Society has not paid coupons on PIBS since April 2016 and may remain prohibited from making the PIBS coupon payments due in April 2020. The Board considers that there continues to be uncertainty over the Society's ability to make coupon payments thereafter.

The Group's gross capital ratio increased to 17.1% at 31 December 2019 (2018: 14.7%). The free capital ratio at 31 December 2019 was 16.9% (2018: 11.8%). Definitions of gross capital and free capital may be found in the Annual Business Statement on page 69 of the Group's 2019 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

Given the CET 1 regulatory capital shortfall against qualitative standards for the level of CET 1, the requirement for an increase in CET 1 capital in order to return to lending, and the assessed prospects for the business and its capital position without such a return to lending, there is a material uncertainty to the Society's profitability and capital position arising from the continued run-off of the balance sheet. The Board will continue to consider options to secure the long-term future of the Group and remains in regular contact with the regulators.

In January 2020 the UK left the European Union ("EU"). The medium to long-term impact of this on UK government policy, the financial markets and the wider UK economy remains unknown. 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.

In 2018 the Group adopted *IFRS 9 – Financial instruments* and in 2019 the assumptions used within the calculation of provisions were developed. The most significant impact on the Group was in respect of the measurement of impairment of financial assets. Under IFRS 9, impairment is based on expected credit losses ("ECL") rather than incurred credit losses which is the methodology the Group previously adopted under IAS 39. 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 more forward looking than had previously been the case under IAS 39.

The UK regulators have reiterated their intention to transition from the London Inter-Bank Offered Rate ("LIBOR") to alternative benchmark rates by the end of 2021. The Society is directly impacted through exposure to LIBOR linked assets and liabilities. Planning is under way to manage the impact of this transition.

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 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 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. 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 38 of the Group's 2019 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 50 of the Group's 2019 Annual Report and Accounts.

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 2019, 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 continued not to undertake new lending. As explained on page 4 of the Group's 2019 Annual Report and Accounts, as at 31 December 2019 the Group continues to have headroom above its Pillar 1 plus Pillar 2A requirement in total capital terms, but did not meet the qualitative standards for the level of CET 1 regulatory capital. The Group has continued to explore ways in which the CET 1 regulatory capital position could be improved. As at 31 December 2019, the requirement to hold 4.5% of CET 1 capital against Risk Weighted Assets was met but it is recognised that a stress event or other significant loss could result in a future breach. This risk is monitored and under regular review in ongoing discussions with the PRA. As a result of the shortfall against qualitative standards for the level of CET 1 regulatory capital, under CRD IV article 141, in order to conserve capital, the Group has not paid coupons on PIBS since April 2016 and may remain prohibited from making the PIBS coupon payments due in April 2020. The Board considers that there continues to be uncertainty over the Group's ability to make coupon payments thereafter.

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 or LIBOR) 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. 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 20% of total mortgage assets as at 31 December 2019 (2018: 20%). The exchange rate risk arising on these balances is managed and partially mitigated by transacting foreign exchange forward contracts. 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 38 of the 2019 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 is 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.

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 Conduct and Operational Risk 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 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 on page 68 of the Group's 2019 Annual Report and Accounts.

Diversity Matters

Gender Analysis: Below is a table summarising permanent, employed members of staff and directors by gender at 31 December 2019, with comparative positions for the previous year end:

	31 December 2019		31 December 2018	
	Male	Female	Male	Female
Directors	5	2	5	2
Staff	17	27	19	28
Total	22	29	24	30

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 impact of the UK vote to leave the EU on UK government policy, the financial markets and the wider UK economy in the medium to long-term remains unknown and this introduces additional uncertainty and risk which the Board will continue to monitor, in particular with regard to the Group's Spanish lifetime portfolio.

The Group will continue to be managed in run-off for the foreseeable future and will remain in discussion with the PRA with regard to the long-term future of the Group. The capital position of the Group, in particular the shortfall against the qualitative standards for the level of CET 1 regulatory capital and the risk of not meeting the regulatory requirement of holding 4.5% CET 1 capital against Risk Weighted Assets, will remain a focus for the Board.

The 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 is on delivering to that plan.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

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 Mr Baines and Mr Harding will retire by rotation and being eligible, will offer themselves for re-election.

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 (2018: £5k) 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 2019 amounted to 11 days of average supplies (2018: 2 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 2019. This information will be included within the annual report and accounts and will be available on the Society's website: www.themanchester.co.uk.

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FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 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 and at present has insufficient capital to return to lending. There is currently no plan in place to return to lending, though this is something which may be revisited should the capital position improve to a level where such activity may be appropriate. The current strategy of the Board, therefore, continues to be the management of a long-term run-off of the balance sheet.

Following the Society's CET 1 capital temporarily falling below the required 4.5% of Risk Weighted Assets in 2018, a medium to long term strategic plan was produced which was independently reviewed and acknowledged by the PRA. This plan was updated in 2019 and the PRA agreed to monitor the Society against this revised plan. The plan shows that the Society remains viable in the medium-term and is able to rebuild its regulatory capital ratios in the medium-term. It is recognised that there are a number of 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 one or more of the Group's larger mortgage exposures, significant unexpected expenses or a materially different mortgage repayment profile to that included within the plan.

The Board expects to continue to work closely with its regulators during 2020 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 plan and the ability for it to be followed. The directors are reliant on the regulators' position regarding the plan remaining unchanged.

Whilst the Group continues to have a shortfall against qualitative standards for the level of CET 1 capital, at 31 December 2019 the requirement to hold CET 1 Regulatory Capital of at least 4.5% of total Risk Weighted Assets was met. The Group continues to have headroom above its total Pillar 1 plus Pillar 2A requirements in total capital terms as set by the PRA. The liquidity position also remains strong with significant headroom above both its policy and operational limits.

Having due regard to these matters and after taking into consideration the material uncertainties above, which may cast significant doubt over the Group's ability to continue as a going concern, the Board continues to adopt the going concern basis of accounting in preparing the financial statements.

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
4 March 2020

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

RESULTS FOR THE YEAR	Group 2019 £000	Group 2018 £000	Society 2019 £000	Society 2018 £000
Net interest income	7,034	7,959	6,782	7,658
Other income and charges	(178)	969	218	1,032
Fair value gains	-	1	-	1
Administrative expenses	(4,829)	(10,185)	(4,687)	(9,919)
Operating profit/ (loss) before impairments and provisions	**2,027**	**(1,256)**	**2,313**	**(1,228)**
Impairment losses	(1,446)	313	(2,082)	(1,640)
Financial Services Compensation Scheme Levy	11	6	11	6
Profit/ (loss) for the year before taxation	**592**	**(937)**	**242**	**(2,862)**
Taxation	-	-	-	-
Profit/ (loss) for the year	**592**	**(937)**	**242**	**(2,862)**
Payment to equity holders	-	-	-	-
Transfer to/ (from) reserves	**592**	**(937)**	**242**	**(2,862)**

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL POSITION AT THE END OF THE YEAR	Group 2019 £000	Group 2018 £000	Society 2019 £000	Society 2018 £000
Assets:				
Liquid assets	46,770	48,072	46,769	48,020
Mortgages	196,033	218,975	191,880	214,229
Other loans	347	765	347	765
Derivative financial instruments	1,660	30	1,660	30
Fixed and other assets	2,298	9,543	2,642	10,675
Total assets	**247,108**	**277,385**	**243,298**	**273,719**
Liabilities:				
Shares	197,847	225,919	197,847	225,919
Borrowings	11,164	13,682	11,164	13,682
Other liabilities	2,288	2,263	2,248	2,020
Derivative financial instruments	27	331	27	328
Subordinated capital	14,200	14,200	14,200	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
Accumulated losses ##	(10,667)	(11,259)	(14,437)	(14,679)
Total equity and liabilities	**247,108**	**277,385**	**243,298**	**273,719**

Classifies as equity

SUMMARY OF KEY FINANCIAL RATIOS	Group 2019 %	Group 2018 %	Society 2019 %	Society 2018 %
Gross capital as a percentage of shares and borrowings	17.1	14.7	15.3	13.3
Liquid assets as a percentage of shares and borrowings	22.4	20.1	22.4	20.0
Loss for the year as a percentage of mean total assets	0.2	(0.3)	0.1	(0.9)
Management expenses as a percentage of mean total assets	1.8	3.5	1.8	3.4

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019

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 2 to 16, which comprises the Summary Directors' Report, Results for the Year, the Financial Position as at 31 December 2019, 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 Financial 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 Statement, Summary Directors' Report, Summary Directors' Remuneration Report and the other items listed on the contents page.

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 Accounts, the Annual Business Statement and the Directors' Report.

Opinion

In our opinion the Summary Financial Statement is consistent with the full Annual Accounts of Manchester Building Society for the year ended 31 December 2019 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986, and the regulations made under it.

INDEPENDENT AUDITORS' STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures on page 13 concerning the Society and Group's ability to continue as a going concern. The directors have set out the risks and uncertainties for the business given its continued run-off and the ongoing development of plans to secure the business. These conditions, along with the other matters explained on page 13, indicate the existence of a material uncertainty which may cast significant doubt about the Society and Group's ability to continue as a going concern. The Summary Financial Statement does not include the adjustments that would result if the Society and Group were unable to continue as a going concern.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
4 March 2020

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 benefits which include a car allowance and 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
2019					
P.A. Lynch	170	21	-	11	202
M.A. Winterbottom	109	13	-	-	122
	279	34	-	11	324
2018					
P.A. Lynch	163	20	-	11	194
M.A. Winterbottom (appointed 1 July 2018)	50	6	-	-	56
	213	26	-	11	250

Non-executive directors

Non-executive directors are remunerated by way of fees, which are recommended by the Remuneration and Nominations Committee to 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 2019 £000	Fees 2018 £000
H.F. Baines	40	40
I.A. Dewar	35	35
D.A. Harding	80	80
J. Lincoln (appointed 1 July 2018)	35	18
F.B. Smith	35	33
	225	206

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

	2019 £000	2018 £000
Executive directors	324	250
Non-executive directors	225	206
Total directors' emoluments	549	456

All directors

The Group does not make mortgage loans available to any director. The above arrangements applied throughout 2019.

CONTACT DETAILS

Agencies

From 1 February 2020, the Society has one agency. Details can be found on our website at: www.themanchester.co.uk

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

125 Portland Street
Manchester M1 4QD
Tel 0161 923 8090
Web www.themanchester.co.uk