SUMMARY FINANCIAL REPORT

2020

Manchester
BUILDING SOCIETY

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

CONTENTS

PAGES 2 TO 17 CONSTITUTE THE SUMMARY FINANCIAL STATEMENT

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

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

SUMMARY CHAIRMAN'S STATEMENT

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

As the scale of the pandemic became apparent, the Society moved quickly to maintain its service to members. New systems were introduced to enable staff to work from home and members experiencing a reduction in income were allowed to defer their mortgage payments. About 25% of UK mortgage customers applied to defer payments; almost all have since reverted to regular payments. The Society continued its established policy of forbearance towards mortgage holders facing genuine long-term financial problems and, at the end of the year, had only 6 properties in possession.

The March reduction in Bank Base rate to 0.1% led to a move downwards in market rates generally. Whilst the Society found it necessary to follow this trend, members continue to be offered savings products that are competitive with those of other societies. Virtually all of the Society's savings deposits are covered by the Financial Services Compensation Scheme.

Despite the unprecedented economic background, the Society continued to operate successfully in line with the strategic plan reviewed and acknowledged by the Prudential Regulation Authority ("PRA") in 2018, updated in 2020. Net interest income fell from £7.0m to £6.4m owing to the planned decline in the size of the balance sheet: mortgage balances fell by 8.5% whilst savings balances fell by 11%. Total operating income was £7.0m, compared with £6.9m in the preceding twelve months. Administrative expenses fell by £0.5m. As a result, the Group recorded an operating profit before impairment provisions of £2.8m (2019: profit £2.0m). Impairment charges totalled £3.1m (2019: £2.1m), of which £2.5m (2019: £1.8m) related to the Society's Spanish lifetime book. Overall, the Society and its subsidiary (the 'Group') recorded a post-tax loss of £0.3m (2019: profit £0.6m). At 31 December 2020, the Group had accumulated losses of £11.0m (2019: £10.7m).

The Society met all of its quantitative regulatory capital requirements in the year. However, as in 2019, it did not meet the qualitative standards for CET1 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 October 2020 the Supreme Court heard the Society's appeal against the decision of the Court of Appeal in the Society's claim against Grant Thornton (UK) LLP, the Society's former auditors. The date on which the judgment will be handed down is unknown.

On behalf of the Board, I should like to thank members for their continued support. I also wish to thank the Society's staff for going 'the extra mile' to maintain high levels of customer service while facing fundamental changes to their way of working.

D.A. Harding
Chairman
2 March 2021

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020, 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 2021 and at www.themanchester.co.uk.

Approved by the Board of Directors of the Society on 2 March 2021 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. 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 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.

Regulatory capital conservation has continued to be a priority. The Group continues to have headroom above its Total Capital Requirements 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 the applicable regulatory capital conservation rules.

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 first 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 2020, 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 26 of the Group's 2020 Annual Report and Accounts.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

The uncertainties which exist regarding the longer term prospects of the Group are disclosed in Note 1 on page 26 of the Group's 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 performance in 2020 has been impacted by 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.

As the Group has reacted to the unprecedented circumstances of the last few months it has been necessary for the majority of employees to adapt to new ways of working including an increased proportion of working from home. This has been achieved with minimal impact upon customers.

To assist our customers during this very difficult time, over 25% of our UK mortgage customers requested and were granted a payment deferral on their mortgages in the period.

In 2020 the Group reported a loss for the financial year of £0.3m (2019: profit of £0.6m).

In the year the Group reported operating profit before impairments and provisions of £2.8m (2019: £2.0m).

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

- Other income increasing by £0.8m due to an increase in income from foreign exchange movements. The foreign exchange gain is largely offset by a £0.5m foreign exchange charge in impairment.
- Administrative expenses reducing by £0.5m. This included a £0.3m reduction in professional fees, largely in relation to the Grant Thornton legal case. Other savings were achieved across the cost base including a £0.1m reduction in staff costs and £0.1m on repairs and maintenance.
- Depreciation reduced by £0.1m following the disposal of the Group's head office building in 2019

Partially offset by:

- Net interest income in the year being £0.7m lower than in 2019 due to lower margins following the Bank of England base rate reductions in March 2020 and an 8.5% reduction in Loan balances as the Society continues a managed reduction of the balance sheet.

The Group recorded a credit impairment charge of £0.6m (2019: £0.3m) relating to the UK portfolios and other impairment of £2.6m (2019: £1.8m) relating to the Society's Spanish lifetime portfolio.

There was no impairment on property, plant and equipment (2019: £0.6m reversal).

The Group did not meet the qualitative standards for the level of CET 1 regulatory capital as at 31 December 2020 and, in order to conserve capital, a distribution to PIBS holders in April 2021 may remain prohibited under the regulatory capital conservation rules.

PROFITABILITY

Result for the year: The Group reported a loss for the financial year of £0.3m (2019: profit of £0.6m). The movements are shown in the Statement of Changes in Equity on page 23 of the Group's 2020 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 2020, £28.7m was deposited with the Bank of England (2019: £34.8m) and £10.2m was deposited with UK clearing banks (2019: £11.9m). No investment securities were held at 31 December 2020 (2019: £nil).

Mortgages and Other Loans: Group mortgage balances, after provisions, were £179.8m (2019: £196.4m), representing a year on year decrease of 8.5% (2019: 10.6% decrease). To improve its regulatory capital position, the Society made no advances during the year (2019: £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 2020, excluding the second charge portfolio, there were 14 mortgage accounts (2019: 17) where payments were 12 or more months in arrears. Outstanding balances on these accounts amounted to £6.1m (2019: £7.4m) representing 3.2% of total gross mortgage balances (2019: 3.5%), with total arrears of £1.2m (2019: £1.3m). 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 6 properties in possession at the end of the year (2019: 9). 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.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

In the year, the Society offered payment deferrals to customers affected by the Covid-19 pandemic. This allowed customers to defer making payments by up to 6 months. Interest continued to accrue during the deferral and the deferral did not result in the loans moving into arrears. A total of 334 deferrals were requested and granted in 2020 on £46m of balances. At 31 December 2020, 22 deferrals remained in place.

Investment property: In previous years the Group held a small number of residential properties as a result of the settlement of impaired mortgage assets. No such properties are held at the year end. In 2019, properties held pending their eventual sale had a fair value of £0.2m. Two properties were disposed of in the year (2019: 3).

Other Assets: Included within Other assets is a sum of £1.5m (2019: £0.9m) 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 £176.2m (2019: £197.8m) 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 2020 and 31 December 2019 being:

	Group 31 Dec 19	Movement in 2020	Group 31 Dec 20	Regulatory Movement effective from 1 Jan 2021	Group 1 Jan 21
Tier 1 Capital	£000	£000	£000	£000	£000
Accumulated losses	(10,411)	(390)	(10,801)	(60)	(10,861)
Profit Participating Deferred Shares	17,461	-	17,461	-	17,461
Total CET1 Capital	7,050	(390)	6,660	(60)	6,600
Permanent Interest Bearing Shares					
Nominal balance	14,788	-	14,788	-	14,788
Amortisation	(10,352)	(1,479)	(11,831)	(1,478)	(13,309)
Net Permanent Interest Bearing Shares	4,436	(1,479)	2,957	(1,478)	1,479
Total Tier 1 Capital	**11,486**	**(1,869)**	**9,617**	**(1,538)**	**8,079**
Tier 2 Capital					
Subordinated Debt					
Nominal balance	14,200	-	14,200	-	14,200
Amortisation	(7,989)	(2,345)	(10,334)	(500)	(10,834)
Net Subordinated Debt	6,211	(2,345)	3,866	(500)	3,366
Permanent Interest Bearing Shares	10,352	1,479	11,831	1,478	13,309
Total Tier 2 Capital	**16,563**	(866)	**15,697**	**978**	**16,675**
Total Regulatory Capital	**28,049**	**(2,735)**	**25,314**	**(560)**	**24,754**

Since the end of 2019 Total Regulatory Capital has decreased by £2.7m made up as follows:

- A decrease to the retained profit of the regulatory capital group for the year of £0.4m 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 £2.3m, 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 £1.8m in the year.

Under the rules applicable from 1 January 2021, Total Regulatory Capital is reduced by £0.5m compared to the position at 31 December 2020. 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 £45k from 1 January 2020, and will reduce it by a further £60k from 1 January 2021. These IFRS 9 arrangements continue to be phased over a 5 year period with 30% of the 2018 adverse financial impact taken to CET 1 capital by 2020, increasing to 50% in 2021. The element taken to CET 1 capital will increase annually with 100% recognised by 2023.

As at 31 December 2020 the Group continues to have headroom above its Total Capital 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 again in 2020. The PRA has agreed to monitor the Society against the 2020 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 2020, the requirement was met but a stress event or other significant loss 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 the applicable regulatory capital conservation rules, in order to conserve capital, the Society may remain prohibited from making the PIBS coupon payments due in April 2021. The Board considers that there continues to be uncertainty over the Society's ability to make coupon payments thereafter. The Society last made a coupon payment in April 2016.

The implementation of CRD V and the related 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 19.2% at 31 December 2020 (2019: 17.1%). The free capital ratio at 31 December 2020 was 18.9% (2019: 16.9%). Definitions of gross capital and free capital may be found in the Annual Business Statement on page 68 of the Group's 2020 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 regarding the ability of the Society to improve 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 the regulators.

The ongoing Covid-19 pandemic has created economic uncertainty within the UK and wordwide. The nature of the timing and magnitude of economic recovery remains unclear.

In January 2020 the UK left the European Union ("EU"). A trade deal with the EU was agreed in December 2020 but 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. 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.

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.

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 continues 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 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 offered payment deferrals to customers affected by the Covid-19 pandemic during 2020 and continues to work with customers to ensure that appropriate levels of forbearance are provided where necessary. Details of the deferrals provided are outlined on page 31 of the Group's 2020 Annual Report and Accounts. 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 38 of the Group's 2020 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 2020 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 2020, 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 pages 6 and 7, as at 31 December 2020 the Group continues to have headroom above its Total Capital 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 2020, 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, in order to conserve capital, the Group has not paid coupons on PIBS since April 2016 and under the applicable regulatory capital conservation rules may remain prohibited from making the PIBS coupon payments due in April 2021. 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 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 20% of total mortgage assets as at 31 December 2020 (2019: 20%). The exchange rate risk arising on these balances is managed and partially mitigated by transacting foreign exchange forward contracts. In 2020 a £738k foreign exchange gain within Other Operating Income was partially offset by £533k of foreign exchange losses within Other Impairment Losses. The £205k 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 38 of the 2020 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 has resulted in an unprecedented economic downturn, with significant support offered to people affected. The ongoing response will help determine the medium to long-term impact. 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 and will lead work develop greater understanding of the risks and develop plans for how we could respond.

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.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020 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 2020, with comparative positions for the previous year end:

	31 December 2020		31 December 2020	
	Male	Female	Male	Female
Directors	5	2	5	2
Staff	17	27	17	27
Total	22	29	22	29

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 Covid-19 pandemic and the ongoing governmental response introduces additional uncertainty and risk to the economy as a whole and to the Group. Whilst the trade deal agreed with the European Union in December 2020 mitigates some of the risks associated with 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 unknown. The Board will continue to monitor these risks, 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 2020

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 Harding, Mr Lynch and Mrs Smith 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 (2019: £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 2020 amounted to 13 days of average supplies (2019: 11 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 2020. 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 2020

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 26 of the Group's 2020 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 most recently updated in 2020 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 Covid-19 pandemic has created a stress event in the economy and has resulted in increased provision requirements for the Society in 2020. The assumptions included within these include scenarios that are consistent with the actions taken by the UK government in response to the Covid-19 pandemic in December 2020 and January 2021. The ongoing implications of this event remain uncertain with governmental responses to the pandemic developing over time. The stresses that have been considered by the directors when assessing the Group's ability to continue as a going concern include the impacts that might be expected should there be a further economic downturn as a result of the pandemic in 2021 and beyond.

The financial impact of additional provision requirements in potential stresses on the UK loan portfolios is shown in the Group's 2020 Annual Report and Accounts on page 38 and for the Spanish portfolio on page 50.

The Board expects to continue to work closely with its regulators during 2021 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 2020 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 Capital Requirements in total capital terms. 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.

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

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
2 March 2021

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

RESULTS FOR THE YEAR	**Group 2020 £000**	**Group 2019 £000**	**Society 2020 £000**	**Society 2019 £000**
Net interest income	6,352	7,034	6,128	6,782
Other income and charges	670	(178)	1,201	218
Fair value gains	-	-	-	-
Administrative expenses	(4,239)	(4,829)	(4,204)	(4,687)
Operating profit before impairment and provisions	**2,783**	**2,027**	**3,125**	**2,313**
Impairment losses	(3,127)	(1,446)	(3,087)	(2,082)
Financial Services Compensation Scheme Levy	-	11	-	11
(Loss)/ profit for the year before taxation	**(344)**	**592**	**38**	**242**
Taxation	-	-	-	-
(Loss)/ profit for the year	**(344)**	**592**	**38**	**242**
Payment to equity holders	-	-	-	-
Transfer (from)/ to reserves	**(344)**	**592**	**38**	**242**

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL POSITION AT THE END OF THE YEAR	Group 2020 £000	Group 2019 £000	Society 2020 £000	Society 2019 £000
Assets:				
Liquid assets	38,876	46,770	38,875	46,769
Mortgages	179,591	196,033	175,863	191,880
Other loans	234	347	234	347
Derivative financial instruments	193	1,660	193	1,660
Fixed and other assets	2,638	2,298	2,971	2,642
Total assets	**221,532**	**247,108**	**218,136**	**243,298**
Liabilities:				
Shares	176,212	197,847	176,212	197,847
Borrowings	8,836	11,164	8,836	11,164
Other liabilities	921	2,288	913	2,248
Derivative financial instruments	125	27	125	27
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*	(11,011)	(10,667)	(14,399)	(14,437)
Total equity and liabilities	**221,532**	**247,108**	**218,136**	**243,298**

*Classifies as equity

SUMMARY OF KEY FINANCIAL RATIOS	Group 2020 %	Group 2019 %	Society 2020 %	Society 2019 %
Gross capital as a percentage of shares and borrowings	19.2	17.1	17.3	15.3
Liquid assets as a percentage of shares and borrowings	21.0	22.4	21.0	22.4
(Loss)/ profit for the year as a percentage of mean total assets	(0.1)	0.2	0.0	0.1
Management expenses as a percentage of mean total assets	1.8	1.8	1.8	1.8

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020

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 17 , which comprises the Summary Directors' Report, Results for the Year, the Financial Position as at 31 December 2020, 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 and Summary Directors' Remuneration 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 2020 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 2020

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 pages 12 to 14 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 runoff and the ongoing development of plans to secure the business. These conditions, along with the other matters explained on pages 12 to 14, 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
2 March 2021

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
2020					
P.A. Lynch	170	21	-	3	194
M.A. Winterbottom	121	14	-	-	135
	291	35	-	3	329
2019					
P.A. Lynch	170	21	-	11	202
M.A. Winterbottom	109	13	-	-	122
	279	34	-	11	324

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:

Non-executive directors	Fees 2020 £000	Fees 2019 £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

	2020 £000	2019 £000
Executive directors	329	324
Non-executive directors	225	225
Total directors' emoluments	554	549

All directors

The Group does not make mortgage loans available to any director. The above arrangements applied throughout 2020.

CONTACT DETAILS

Agencies

The Society's only agency will permanently close on 12 March 2021. 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

NOTES

NOTES

NOTES

NOTES

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