

21 February 2023

Newcastle Building Society and Manchester Building Society merger update

The Boards of Newcastle Building Society ('Newcastle') and Manchester Building Society ('Manchester') have agreed heads of terms to merge by way of a transfer of Manchester's engagements to Newcastle.

The Boards of both Societies believe it is in their respective members' best interests to complete the merger in a considered and timely way, to realise the benefits a merger would afford. Manchester has not undertaken new lending since 2013, and faces uncertainty around its long-term future in the absence of a transaction.

A merger would see Manchester savers and borrowers benefit from increased product choice and interest rates that are the same as, or better than, their current ones. As members of the enlarged and expanding Newcastle they would also be part of a mutual which continues to grow strongly, and is currently the UK's eighth largest building society.

Apart from the Manchester Building Society executive directors, all Manchester Building Society employees would have the opportunity to further their careers as a valued and continuing part of a larger organisation. The advantages to both Societies of a merger include greater resilience and additional capital strength, which would enhance Newcastle's growth strategy and its continued commitment to high levels of customer service and delivery of member value.

The prospect of retaining an operational Manchester base could provide additional opportunities for a pipeline of talent into the Newcastle Group, which includes its significant subsidiary fintech business, Newcastle Strategic Solutions. As the UK's leading provider of outsourced savings management platforms, the Solutions subsidiary employs over 700 people.

Chief Executive of Newcastle, Andrew Haigh commented:

"The merger presents an opportunity for both our Societies to come together in a way that truly benefits both sets of members. As a financially robust, purpose-powered business, the move supports Newcastle Building Society in delivering our growth strategy at greater scale and impact, and in a way that offers opportunity for members, and colleagues from both organisations."

Chairman of Manchester, David Harding commented:

"Manchester's Board strongly believes that this merger is in our members' best interests. Our members will become part of a larger, financially robust Society that can offer a range of products and services we

are unable to match as a standalone entity whilst providing staff at Manchester with long-term opportunities within the Newcastle Building Society and Group.”

Since 2013, the Manchester Board has been de-risking and shrinking Manchester’s balance sheet with no new mortgage lending being undertaken. While Manchester’s current capital and liquidity position is regulatory-compliant, the Manchester Board believes Manchester lacks the scale and resilience to endure a major financial or economic stress without raising additional capital. The Manchester Board’s current projection is that the Society would, as a standalone entity, have recurring losses which will deplete capital reserves each year. Accordingly, the Manchester Board has considered a range of strategic options and concluded that the best interests of members would be served by a merger with a larger, stronger building society.

Recognising these risks and the financial uncertainties facing Manchester, the Manchester Board requested that the PRA exercises its power under section 42B(3)(b) of the Building Societies Act 1986 (the ‘Act’). This allows the PRA to direct that, instead of resolving to transfer its engagements by the member resolutions normally required, the transferring society can proceed via Board resolution, if certain conditions are met. These include that – having consulted the FCA – the PRA considers it expedient to give the direction in order to protect the investments of shareholders or depositors. The PRA has approved the request by the Manchester Board to direct that the transfer of its engagements to Newcastle can proceed by a Board resolution, which means that a vote by members of Manchester will not be required.

The Newcastle Board also requested that the PRA consents to Newcastle proceeding with the merger by way of a Board resolution, under section 94(5)(b) of the Act. The PRA has consented to this, which means that a vote by members of Newcastle will not be required.

It is expected that all eligible members of Manchester will be sent a Merger Notification Statement with further details of the merger around the end of March 2023.

Interested parties (which includes the members of both Manchester and Newcastle) will also have the opportunity to make representations, before the PRA decides whether or not to confirm the merger. Details of the process for this will be advertised in due course in accordance with the requirements of the Act.

The merger will not involve a distribution to the members of either Society.

Manchester Permanent Interest Bearing Shares (‘PIBS’) will become PIBS with Newcastle on the merger taking effect with their existing terms and conditions, but subject to Newcastle’s Rules.

If the merger does not proceed as planned, the heads of terms contain provisions which, depending on the circumstances, may require one of the Societies to pay the other's external costs of up to £1 million.

This merger is an important step in maintaining a strong building society sector in the UK, with Newcastle's financial strength providing a solid foundation for the future.

The merger will be conducted in accordance with the process set out in the Act. It is subject to the execution of a legally-binding instrument by each society, the boards of both Societies passing a resolution to proceed with the merger, and the PRA confirming the merger.

If the PRA decides to confirm the merger, it is expected that the merger will become effective on 1st July 2023. The Newcastle Board looks forward to welcoming the members of Manchester as full members of Newcastle if the merger takes place.

- Ends -

This announcement contains inside information for the purposes of article 7 of the market abuse regulation (596/2014/EU) as the same has been retained in UK law as amended by the market abuse (amendment) (EU exit) regulations (SI 2019/310) (UK MAR).

The person responsible for arranging for the release of this announcement on behalf of Manchester Building Society is Mark Winterbottom (Finance Director) and on behalf of Newcastle Building Society is David Samper (Chief Financial Officer).

Further information on the powers contained in sections 42B(3)(b) and 94(5)(b) is available in the PRA's Supervisory Statement 19/15 exercising certain functions under the Building Societies Act 1986.

Newcastle Building Society has c345,000 members and 31 branches. It employs c1400 people and at 31st December 2022 its total assets were c£5.3bn (subject to audit) making it the 8th largest Building Society in the UK

Manchester Building Society has c11,000 members and no branches. It employs 44 people and at 31 December 2022 its total assets were c£0.2bn (subject to audit) making it the 41st largest Building Society in the UK

Addleshaw Goddard LLP has acted as legal adviser to Manchester and TLT LLP has acted as legal adviser to Newcastle

For more information contact

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