SUMMARY FINANCIAL REPORT

2022

Manchester
BUILDING SOCIETY

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	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

The year saw an end to the low base rate environment which had been in place in the UK since 2009. The increase in the Bank of England base rate from 0.10% to 0.25% in December 2021 was followed by a further eight increases with the rate standing at 3.50% by the end of the year. Whilst this allowed the Society to increase its net interest margin slightly, the impact was less beneficial to the Group than to many of our competitors owing to the proportion of our loan portfolio with a fixed interest rate.

We remain conscious of the financial strain on our members from increasing interest rates on mortgages, particularly at a time of high inflation affecting essentials such as food, heating and fuel. We continue to work closely with customers and members who are struggling to make payments on their loans.

In the year, net interest income fell from £6.2m to £5.8m with mortgage balances and savings balances each falling by 14% as part of the Society's managed decline of the balance sheet. Administrative expenses, excluding legal costs recovered, increased by £0.6m. Other operating income of £0.9m (2021: net charge of £0.8m) mainly relates to foreign exchange gains which are partially offset by £0.6m of foreign exchange losses included within the impairment charge. Impairment totalled £2.5m (2021: £1.3m), of which £2.1m (2021: £1.4m) related to the Society's Spanish lifetime book. The worsening economic environment, and in particular the expected impact upon the housing market, has led to the additional provision requirements in 2022.

The Society received £2.4m in the year as a final settlement regarding costs paid during the legal dispute upon which the Supreme Court gave judgment in 2021. Since the judgment was announced, the Society has received a total of £24.2m in damages, costs and interest.

The underlying operating result, (that is, after impairment but before including legal costs recovered) was a loss of £1.3m compared with an underlying loss of £1.0m in the preceding twelve months. After taking account of the legal costs recovered, operating profit totalled £1.1m (2021: £20.8m). Profit after tax amounted to £1.1m (2021: £19.4m).

The Society's 6.75% Permanent Interest Bearing Shares ("PIBS") are classified as equity and as such the cost of financing those PIBS is taken through reserves rather than being shown within the Statement of Comprehensive Income. The charge for the year was £0.7m (2021: £0.3m)

At 31 December 2022, the Group reported retained earnings of £8.5m (2021: £8.1m).

The Society met all of its regulatory capital requirements in the year and made all PIBS coupon payments. Given the continuing decline in the scale of the Society's operations, possible changes in regulatory capital requirements and the risk of external economic stress events, there remains uncertainty over the Society's ability to make PIBS coupon payments in the longer-term.

As we publish our Annual Report and Accounts for 2022, the Society is in advanced talks with Newcastle Building Society regarding a merger of the Societies. Heads of Terms were signed in February 2023, and my Board colleagues and I expect the merger to be concluded later this year.

Previous Annual Reports have drawn attention to the long-term uncertainty surrounding the future of the Society. The Board believes that while the Group's current capital and liquidity position is regulatory-compliant the Group lacks the scale and resilience to endure a major financial or economic stress without raising additional capital. The Board's current projection is that, as a standalone entity, the Society would have recurring losses which will deplete capital reserves each year. Accordingly, the 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. In order to complete the merger in a considered and timely manner, given the limited alternative options open to the Society, the Board has requested that the Prudential Regulation Authority ("PRA") direct the merger under section

SUMMARY CHAIRMAN'S STATEMENT

42B(3)(b) of the Building Societies Act 1986. The PRA have given their consent. The merger can, therefore, proceed via a resolution of the Board and would not require a members' vote.

The opportunities provided to our members and staff by a merger with Newcastle are compelling and the Board remain unanimous in their view that this provides the best possible outcome for our members. It is expected that all eligible members will be sent a Merger Notification Statement with further details of the merger around the end of March 2023.

D.A. Harding
Chairman
28 February 2023

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

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 2022, prepared using International Financial Reporting Standards, all of which will be available to members and depositors free of charge on demand from the head office of Manchester Building Society from 4 April 2023 and at www.themanchester.co.uk.

Approved by the Board of Directors of the Society on 28 February 2023 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.

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.

The Group has signed non-binding Heads of Terms with Newcastle Building Society with the objective of the two Societies merging during 2023. Until PRA approval is received and the merger is finalised, the Group will continue to manage down the balance sheet.

Regulatory capital conservation has continued to be a priority. The Group continues to have headroom above its Total Capital Requirements in total capital terms, and meets the qualitative standards for the level of CET 1 regulatory capital. The Society made the coupon payments due on both its issuances of PIBS throughout 2022, though, whilst the Society continues to manage down the size of the balance sheet, there remains some uncertainty over the Society's ability to make PIBS coupon payments in the long-term.

The uncertainties which exist regarding the longer-term prospects of the Group are disclosed in Note 1 on page 26 of the Group's 2022 Annual Report and Accounts.

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FOR THE YEAR ENDED 31 DECEMBER 2022

Business Model

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

Key performance indicators

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

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

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

Review of business performance

The Group's underlying performance in 2022 has been impacted by continued economic uncertainty with inflation reaching levels not seen for forty years and projections of house price reductions in the coming years. At the same time, the Bank of England base rate of interest increased from 0.25% to 3.50% in the year. This has been reflected in increases to both interest receivable and interest payable.

In 2022 the Group reported a profit after tax for the financial year of £1.1m (2021: £19.4m).

In the year the Group reported operating profit before impairments and provisions of £3.6m (2021: £22.1m).

The £18.6m decrease in operating profit before impairments and provisions from 2021 is a result of:

- £19.4m lower damages, income and costs from the legal case that concluded in 2021.
- Net interest income in the year being £0.4m lower than in 2021 due to lower balances as the Society continued a managed reduction in the size of the balance sheet. The benefit the Society has received on interest income from the increased Bank base rate has been offset by additional payable to Savings customers. The interest payable includes £0.4m in relation to PIBS coupon payments (2021: £0.3m).
- Operating costs, excluding legal costs recovered, being £0.6m higher than in 2021 driven by £0.2m of additional staff costs and £0.2m of additional professional fees in relation to the proposed merger with Newcastle Building Society

Partially offset by:

- A £1.7m increase in other operating income and charges with foreign exchange gains of £0.9m in the year compared with exchange losses of £0.8m in 2021. These losses are largely offset within impairment where £0.6m of gains are recognised in 2022 (2021: £0.8m).

The Group recorded a credit impairment charge of £0.4m (2021: £0.2m release) relating to the UK portfolios and an other impairment charge of £2.1m (2021: £1.4m) relating to the Society's Spanish lifetime portfolio.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

PROFITABILITY

The Group reported a post-tax profit for the financial year of £1.1m (2021: £19.4m). The movements, alongside the cost of financing the Equity PIBS, are shown in the Statement of Changes in Equity on page 23 of the Group's 2022 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 2022, £38.2m was deposited with the Bank of England (2021: £37.7m) and £5.0m was deposited with UK clearing banks (2021: £10.6m). No investment securities were held at 31 December 2022 (2021: £nil).

Mortgages and Other Loans: Group mortgage balances, after provisions, were £132.0m (2021: £153.3m), representing a year on year decrease of 13.9% (2021: 14.8% decrease). To protect its regulatory capital position, the Society made no advances during the year (2021: £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 2022, excluding the second charge portfolio, there were 14 mortgage accounts (2021: 17) where payments were 12 or more months in arrears. Outstanding balances on these accounts amounted to £2.9m (2021: £5.4m) representing 2.2% of total gross mortgage balances (2021: 3.5%), with total arrears of £0.4m (2021: £0.8m). 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 was 1 UK property in possession at the end of the year (2021: 4). These figures include the NMB MAC portfolio and The Consumer Loans Company Limited ('CLC') portfolio. As insufficient reliable data exists, arrears banding information is not presented for these second charge portfolios.

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

Non-Current Assets held for Sale: One property is classified as held for sale at 31 December 2022 (2021: 2). This property is in Spain and was previously used as collateral within the Society's Spanish lifetime portfolio. The property is now owned by the Society and is expected to be sold within the next 12 months. The property is held at £0.3m which is the lower of fair value and carrying value.

Other Assets: Included within Other assets is a sum of £1.3m (2021: £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 £129.4m (2021: £150.3m) 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.

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FOR THE YEAR ENDED 31 DECEMBER 2022

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 2022 and 31 December 2021 being:

Tier 1 Capital	Group 31 Dec 21 £000	Movement in 2022 £000	Group 31 Dec 22 £000	Regulatory Movement effective from 1 Jan 2023 £000	Group 1 Jan 23 £000
Accumulated profit	8,229	282	8,511	(75)	8,436
Profit Participating Deferred Shares	17,461	-	17,461	-	17,461
Total CET1 Capital	25,690	282	25,972	(75)	25,897
Permanent Interest Bearing Shares					
Nominal balance	14,788	-	14,788	-	14,788
Amortisation	(13,309)	(1,479)	(14,788)	-	(14,788)
Net Permanent Interest Bearing Shares	1,479	(1,479)	-	-	-
Total Tier 1 Capital	**27,169**	**(1,197)**	**25,972**	**(75)**	**25,897**
Tier 2 Capital					
Subordinated Debt					
Nominal balance	5,000	(5,000)	-	-	-
Amortisation	(4,500)	4,500	-	-	-
Net Subordinated Debt	500	(500)	-	-	-
Permanent Interest Bearing Shares	13,309	1,479	14,788	-	14,788
Total Tier 2 Capital	**13,809**	**979**	**14,788**	**-**	**14,788**
Total Regulatory Capital	**40,978**	**(218)**	**40,760**	**(75)**	**40,685**

Since the end of 2021 Total Regulatory Capital has decreased by £0.2m made up as follows:

- An increase to the retained profit of the regulatory capital group for the year of £0.3m which included £0.7m interest on PIBS as shown in the Statement of Changes in Equity on page 23 of the Annual Report and Accounts, and a reduction to reserves in relation to the transitional arrangements of IFRS 9 – *Financial Instruments* as detailed below and a small adjustment in relation to amortization on intangible fixed assets;
- a reduction of subordinated debt, 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. The subordinated debt was subsequently redeemed in the year

Under the rules applicable from 1 January 2022, Total Regulatory Capital is reduced by £75k compared to the position at 31 December 2022. The available IFRS 9 transitional arrangements, adopted by the Group in 2018, reduced Total Regulatory Capital by an additional £75k from 1 January 2022, thus completing the phased implementation of the impact of the introduction of IFRS 9.

The Group meets all of the quantitative and qualitative requirements regarding the level of regulatory capital it must hold. Prior to June 2021, the Group did not meet the qualitative standards for the level of CET 1 regulatory capital. The Group continues to follow a medium to long-term strategic plan, against which it is monitored by the PRA. The plan shows that the Society remains viable in the medium-term and the Society has significant headroom against this plan. Although largely mitigated by the profits generated in 2021, it is recognised that there are a number of long-term risks to this plan, particularly following a stress event in the economy or financial markets.

The Society made the coupon payments on both its issuances of PIBS in April 2022 and October 2022. This followed the return to such payments in October 2021 for the first time since April 2016 as, in order to conserve capital, such a distribution was previously prohibited under the applicable regulatory capital conservation rules. Whilst the Society continues to manage down the size of the balance sheet, there remains some uncertainty over the Society's ability to make PIBS coupon payments in the medium to long-term.

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

As outlined on pages 6 and 27 of the Group's 2022 Annual Report and Accounts, the Group will adopt IFRS 9 – *Financial Instruments*, as allowable under IFRS 17 – *Insurance Contracts*, in 2023 when valuing its Spanish lifetime portfolio. The impact of the change in accounting methodology is expected to result in a reduction in CET 1 capital of between £3m and £5m. This reduction in CET 1 will not lead to the Group breaching any of its capital requirements.

Financial Risk Management Objectives

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

Principal Risks and Uncertainties

The Group are currently working towards a potential merger with Newcastle Building Society. If the merger is completed, all the Group's assets and liabilities will transfer to Newcastle Building Society and the Group will cease to exist. Heads of Terms have been exchanged between the Boards of Manchester and Newcastle and it is proposed that the merger will take place on 1 July 2023. The instrument of transfer has not yet been signed and regulatory approval is required.

The Group meets all quantitative and qualitative requirements for the level of regulatory capital to be held being met at 31 December 2022. Without a merger with another organisation, however, there remains uncertainty regarding the ability of the Society to maintain its regulatory capital compliance as the balance sheet continues to run-off.

During 2022, a combination of the effects of the Covid-19 pandemic, the exit of the United Kingdom (UK) from the European Union ("EU") in 2020 and the ongoing war in Ukraine has led to significant economic uncertainty, not only within the UK, but worldwide. The highest levels of inflation in the UK in forty years has also led to the Bank of England increasing interest base rates from 0.25% at the start of the year to 3.50% at the year end.

High levels of inflation affects the Group directly with an increasing cost base. In addition, the combination of increases in the base rate of interest and high levels of inflation impact upon the ability of borrowing customers to make the payments that are due on their mortgages.

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

Under *IFRS 9 – Financial instruments* impairment is based on expected credit losses ("ECL"). An ECL provision is required for default events in the next 12 months, whilst a lifetime ECL is required when a significant increase in credit risk is identified. The review of credit risk and the calculation of ECL are required to be unbiased and probability weighted, and should include all available relevant information, with assessments of current conditions and forecasts of future economic conditions. As a result the recognition and measurement of impairment is forward looking. Forecasts of economic conditions are uncertain and adverse movements in the forecasts create additional risks for the Group. As outlined below in "Insurance Risk", the Group's Spanish Lifetime portfolio will be accounted for under IFRS 9 from 1 January 2023. This increases the risks associated with this portfolio as it will be recognised at fair value with external factors having a significant impact upon that fair value. Any changes in fair value will be recognised within the Statement of Comprehensive Income.

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

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

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

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

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

The assessment of credit risk and the related impairment provisioning is a critical accounting estimate, impacted by judgments relating to customer affordability and economic circumstances, including the level of interest rates. Prior to the current strategy of no new lending, credit risk was mitigated by appropriate mortgage underwriting and by limiting the Group's exposure to particular market sectors or loans exhibiting particular attributes. Since the cessation of new lending, credit risk has been mitigated through the monitoring of management information, assessment of arrears and forbearance cases, and regular loan provision reviews. The Society continues to work with customers to ensure that appropriate levels of forbearance are provided where necessary. The Group holds two mortgage books (the NMB MAC and CLC books), where previously it held a beneficial interest and these portfolios were administered by third parties. The Group assumed ownership of the CLC portfolio in 2015 and the NMB MAC portfolio in 2018. An assessment has been made of the estimated discounted future cash flows expected to arise from both these portfolios of loans which forms the basis for the impairment provision. Sensitivities in respect of the impairment provision required for these portfolios are given on page 38 of the Group's 2022 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 2022 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 Society currently accounts for its Spanish lifetime portfolio under IFRS 4 – *Insurance Contracts* which allows for the methodology of IAS 39 – *Financial Instruments* to be utilised. For accounting periods beginning on or after 1 January 2023, IFRS 4 will be replaced by IFRS 17 – *Insurance Contracts*. Allowable under the IFRS 17 rules is for a policy choice to adopt instead IFRS 9 – *Financial Instruments* if certain conditions are met. The Society will opt to adopt IFRS 9. This will result in the portfolio being measured at fair value through profit or loss ("FVPL") with movements in fair value being recognised in the income statement. This will lead to increased volatility of the income statement as the fair value calculation relies upon market wide borrowing costs which are outside the Society's control. The expected impact of applying this new accounting policy as of January 1 2023 is set out on page 4 of the Group's 2022 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 2022, the Group continued to have a significant proportion of its liquid assets deposited with the Bank of England.

Capital Risk: In order to conserve capital, the Group has not undertaken new lending since 2013. The Group meets all the quantitative and qualitative requirements regarding the level of regulatory capital it must hold. Coupon payments on the Group's PIBS have been paid throughout the year. However, the risk of an external stress event such as a severe downturn in the housing market in either the UK or Spain, a regulatory requirement to hold additional capital or a change in accounting standards means that there remains uncertainty over the Group's ability to make coupon payments in the medium to long-term.

Interest Rate Risk: The Group's mortgage and savings products have different interest rate types and differing maturity profiles. This means that the Group is exposed to movements in interest rates. A movement in an external interest rate (e.g. Bank of England Base Rate) does not always affect every mortgage and savings product that the Group holds. The Group has more fixed rate mortgage products (notably its lifetime mortgages) than it has fixed rate savings products. Presently, there are no interest rate swaps in place to mitigate the risk. The interest rate risk position is monitored by the Risk Committee and the Board and is managed via the setting of internal policy limits and through the holding of an ascribed level of regulatory capital to mitigate the risk of interest rate movement. The Board has considered this risk by its review of financial projections under differing interest rate scenarios over the long-term. 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 25% of total mortgage assets as at 31 December 2022 (2021: 21%). The exchange rate risk arising on these balances is managed and partially mitigated by transacting foreign exchange forward contracts. In 2022 a £0.9m foreign exchange gain within Other Operating Income was largely offset by £0.6m of foreign exchange losses within Other Impairment Losses. The £0.3m 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 have begun to increase following the increases seen in the Bank of England base rate of interest and the end of the Bank of England's Funding for Lending and Term Funding Schemes. This leads to upward pressure on the Society's savings rates to prevent unwanted 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 Group's 2022 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 increasing energy costs in 2022 and the Bank of England's increases to interest base rates each had some impact on slowing the rate of inflation in light of increases due to supply issues caused by the war in Ukraine. The ongoing support to be given and the Bank of England's future strategy on base rates remains uncertain. Unemployment levels and house prices have particular impacts upon the Group's credit risk.

Climate Change Risk: The Society has started to assess how climate change may impact its business. This includes the impact of increased incidents of flooding on the value of some properties within its mortgage portfolio and impacts on borrowers of requirements for minimum efficiency standards for their homes or rental properties. The PRA requires all financial institutions to nominate an individual to be responsible for incorporating the financial risks from climate change into existing risk management practices. The Society's Finance Director has been given this role and no significant risks have been identified but work to develop greater understanding of the risks and develop plans for how it can respond continues.

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

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

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

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

Certain activities of the Group, particularly the NMB MAC and CLC second charge loan portfolios carry greater levels of conduct risk. The administration of the NMB MAC and CLC portfolios was brought in-house in December 2015 and following that transfer the historic conduct of these portfolios was reviewed in detail by management and redressed where appropriate.

Diversity Matters

Gender Analysis: Below is a table summarising permanent, employed members of staff and directors by gender at 31 December 2022, with comparative positions for the previous year end:

	31-Dec-22			31-Dec-21		
	Male	**Female**	**Non-binary**	**Male**	**Female**	**Non-binary**
Directors	5	2		5	2	
Staff	16	27	1	15	25	1
Total	**21**	**29**	**1**	**20**	**27**	**1**

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

Social, Community and Human Rights Issues

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

Employees: The Group's policies ensure that discrimination on the grounds of race, colour, religion, belief, nationality, ethnic origin, gender, 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

Having concluded that a merger with Newcastle Building Society would provide the best outcome for members, the Board are committed to concluding such a merger in as timely a manner as possible.

The Group's Capital position, as outlined on page 4, is such that the Society expects to be able to make PIBS coupon payments in 2023 but the Board recognises that, in the absence of a merger, there is a risk that these payments may not be secure in the medium to long-term.

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

The Group's latest medium to long-term strategic plan, in the absence of a merger, supports the strategy of reducing the balance sheet so as to conserve regulatory capital. Whilst working towards completing the merger, the Group's focus remains on delivering to that plan.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

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, D.A. Harding, F.B. Smith and M.A. Winterbottom will retire 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 (2021: £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 2022 amounted to 1 day of average supplies (2021: 9 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 2022. 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 2022

Going Concern

The Group is in advanced talks with Newcastle Building Society with regards to a merger by way of a transfer of the Group's engagements to Newcastle. Heads of Terms were exchanged in February 2023 and the merger is expected to be completed within the next twelve months. However, the Instrument of Transfer has not yet been signed and any merger would still require regulatory approval. If regulatory approval is obtained, the PRA will direct the merger following a resolution of the Board without the requirement for a member's vote. Until the Instrument of Transfer is signed, either Newcastle Building Society or the Group could choose not to proceed with the merger, though in some circumstances, doing so may result in a payment of costs being due to the other party.

Should the merger be concluded, all assets, rights, obligations and liabilities of the Group will transfer to Newcastle Building Society and the Group will cease to exist. Following this, the Society's authorisation to continue as a registered entity will be revoked by the FCA with the Group and Society being subsequently dissolved. As such, the merger indicates a material uncertainty which may cast significant doubt on the Group and Society's ability to continue as a going concern.

As the signed Heads of Terms are non-binding, there are a range of potential scenarios that may result in the merger falling through. The Group has not been active in the Mortgage market since 2013 and until the merger is concluded it continues to follow a medium to long-term strategic plan, against which it is monitored by the PRA. The plan shows that the Society remains viable at least through the next twelve months, regardless of whether the merger takes place, and the Society has significant capital headroom against this plan regardless of whether the merger takes place. Additionally, the plan shows that there is sufficient capital headroom, even when taking into account the potential for a stress event in the economy or financial markets such as a downturn in the housing market either in the UK or Spain, additional provision requirements on some of the Group's larger mortgage exposures, or a materially different mortgage repayment profile to that included within the plan. The impact of transitioning to IFRS 9 for the Group's Spanish Lifetime portfolio was also considered in the plan.

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

When satisfying themselves that the Group and Society have adequate resources to continue to operate for the foreseeable future as a going concern, even if the proposed merger with Newcastle Building Society is aborted, the directors have reviewed the latest forecasts and the ability for the plan to be followed.

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

The Board considers the preparation of the financial statements as a going concern to be a critical accounting judgment. The annual accounts do not include the adjustments that would result if the Group and Society were unable to continue as a going concern.

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

Independent Auditors

As PricewaterhouseCoopers LLP have completed 10 years as auditors of the Group, a tender process is required prior to appointing auditors for the 2023 Annual Report and Accounts.

On behalf of the Board of Directors
D.A. Harding
Chairman
28 February 2023

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

RESULTS FOR THE YEAR	**Group 2022 £000**	**Group 2021 £000**	**Society 2022 £000**	**Society 2021 £000**
Net interest income	5,785	6,173	5,640	6,003
Legal damages and interest	-	14,272	-	14,272
Other income and charges	755	(1,005)	795	(367)
Legal costs recovered	2,400	7,540	2,400	7,540
Administrative expenses	(5,389)	(4,854)	(5,355)	(4,828)
Operating profit before impairment and provisions	**3,551**	**22,126**	**3,480**	**22,620**
Impairment losses	(2,493)	(1,289)	(2,509)	(1,162)
Profit for the year before taxation	**1,058**	**20,837**	**971**	**21,458**
Taxation	-	(1,467)	-	(1,467)
Profit for the year	**1,058**	**19,370**	**971**	**19,991**
Payment to equity holders	(675)	(338)	(675)	(338)
Tax credit on payment to equity holders	-	64	-	64
Transfer to reserves	**383**	**19,096**	**296**	**19,717**

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL POSITION AT THE END OF THE YEAR	**Group 2022 £000**	**Group 2021 £000**	**Society 2022 £000**	**Society 2021 £000**
Assets:				
Liquid assets	43,239	48,293	43,238	48,292
Mortgages	131,928	153,100	129,189	150,034
Other loans	115	200	115	200
Derivative financial instruments	12	712	12	712
Fixed and other assets	2,975	2,301	2,976	2,593
Total assets	**178,269**	**204,606**	**175,530**	**201,831**
Liabilities:				
Shares	129,389	150,254	129,389	150,254
Borrowings	6,195	7,036	6,195	7,036
Other liabilities	1,012	1,973	1,127	1,965
Derivative financial instruments	956	9	956	9
Subordinated capital	-	5,000	-	5,000
Subscribed capital	5,000	5,000	5,000	5,000
Subscribed capital*	9,788	9,788	9,788	9,788
Profit participating deferred shares*	17,461	17,461	17,461	17,461
Retained earnings / (accumulated losses)*	8,468	8,085	5,614	5,318
Total equity and liabilities	**178,269**	**204,606**	**175,530**	**201,831**

*Classifies as equity

SUMMARY OF KEY FINANCIAL RATIOS	**Group 2022 %**	**Group 2021 %**	**Society 2022 %**	**Society 2021 %**
Gross capital as a percentage of shares and borrowings	30.0	28.8	27.9	27.1
Liquid assets as a percentage of shares and borrowings	31.9	30.7	31.9	30.7
Profit for the year as a percentage of mean total assets	0.6	9.1	0.5	9.5
Management expenses (including legal costs recovered) as a percentage of mean total assets	1.6	(1.3)	1.6	(1.3)
Management expenses (excluding legal costs recovered) as a percentage of mean total assets	2.8	2.3	2.8	2.3

SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

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 2022

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

We have examined the Summary Financial Statement of Manchester Building Society (the 'Society') set out on pages 3 to 18, which comprises Summary Directors' Report, Results for the Year, the Financial Position as at 31 December 2022, Summary of Key Financial Ratios and Notes to the Summary Financial Statement.

Respective responsibilities of directors and auditors

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

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

We also read the other information contained in the Summary Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement. The other information comprises only the Summary Chairman's 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 Statements and 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 2022 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986, and the regulations made under it.

Material Uncertainty relating to going concern

In forming our opinion on the Summary financial statements, which is not modified, we have considered the adequacy of the disclosures on page 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 the proposed merger with Newcastle Building Society. If the merger is successful, the Society may cease to exist within the next twelve months.

INDEPENDENT AUDITORS' STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

These conditions, along with the other matters explained on page 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.

In auditing the Summary Financial Statement, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
28 February 2023

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
2022					
P.A. Lynch	175	21	10	1	207
M.A. Winterbottom	123	15	10	1	149
	298	36	20	2	356
2021					
P.A. Lynch	170	21	10	1	202
M.A. Winterbottom	120	14	10	1	145
	290	35	20	2	347

Non-executive directors

Non-executive directors are remunerated by way of fees, which are recommended to the Remuneration and Nominations Committee by the Executive Directors and approved by the Board on an annual basis. The level of fees is assessed on the basis of responsibility, experience, skill and time commitment and by comparison with other building societies and regional financial institutions.

Non-executive directors do not receive any other benefits; they do not have any pension arrangements through the Group.

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

	Fees 2022 £000	Fees 2021 £000
H.F. Baines	43	40
I.A. Dewar	38	35
D.A. Harding	85	80
J. Lincoln	38	35
F.B. Smith	38	35
	242	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

	2022 £000	2021 £000
Executive directors	355	347
Non-executive directors	242	225
Total directors' emoluments	597	572

All directors

The Group does not make mortgage loans available to any director. The above arrangements applied throughout 2022.

CONTACT DETAILS

Savings Customer Services

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

Mortgage Customer Services

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

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