

Manchester Building Society (“the Society”) Results for the year ended 31 December 2022

	2022	2021
	£000	£000
Net Interest Income	5,785	6,173
Legal damages and interest	-	14,272
Other operating income and charges	755	(1,005)
Total operating income	6,540	19,440
Legal costs recovered	2,400	7,540
Administrative expenses and depreciation	(5,389)	(4,854)
Operating profit before impairment	3,551	22,126
Impairment losses	(2,493)	(1,289)
Profit/(Loss) for the period before taxation	1,058	20,837
Tax expense	-	(1,467)
Profit/(Loss) for the period	1,058	19,370
Total assets	178,269	204,606

The Society recovered a further £2.4m in 2022 following the judgment in The Society’s favour in its legal case against its former auditors that concluded in 2021. This represented final settlement and was in addition to the £21.8m of damages, interest and costs recovered that was recognised in 2021.

Underlying performance in 2022 was impacted by continued economic uncertainty, particularly in relation to expected house price reductions in the UK and slower than expected growth in Spain.

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

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

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

- The one-off £21.8m received in relation to the damages, costs and interest received in 2021 in relation to the legal case against its former auditors, which was not replicated, with just the final settlement of £2.4m recognised in 2022.
- £0.4m lower net interest income owing to the continued managed balance sheet reduction. Higher interest receivable on mortgages following Bank of England base rate increases in the year has been offset by higher interest payable on savings products. Interest payable includes £0.4m in relation to Permanent Interest Bearing Shares (“PIBS”) coupon payments (2021: £0.3m)
- £0.6m increase in operating costs, excluding costs recovered, driven by additional staff costs and additional professional fees in relation to the Society’s proposed merger with Newcastle Building Society.

This has been 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 gains are largely offset within impairment where £0.6m of losses are recognised in 2022 compared with a £0.8m of gains in 2021.

The Society recorded impairment of £2.5m (2021: £1.3m) being £2.1m relating to the Society’s Spanish lifetime portfolio and £0.4m relating to the UK portfolios.

The Society’s reserves increased in 2022 by £0.4m to accumulated profits of £8.5m. This reserves movement includes £0.7m reduction relating to interest paid on Equity PIBS.

Owing to a change in accounting standards, the Society is required to revise the accounting methodology for its Spanish lifetime mortgage portfolio in 2023. The Society estimates that this change will result in a charge of between £3m and £5m being taken to reserves upon implementation. The new methodology will lead to higher levels of volatility within the Income Statement in future years.

The Society continues to have a strong liquidity position.

Strategic future and capital position

On 21 February 2023, the Society announced that it had agreed heads of terms to merge by way of a transfer of the Society’s engagements to Newcastle Building Society. The merger is subject to the execution of a legally-binding instrument by each society, and the Prudential Regulation Authority (“PRA”) confirming the merger.

The Board believes that while the Society’s current capital and liquidity position is regulatory-compliant the Society 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.

Until the merger is concluded, the Society continues to follow a medium to long-term strategic plan, monitored by the PRA. The plan shows that the Society remains viable in the medium-term but the long-term future of the Society remains uncertain in the absence of the merger transaction.

The Society made coupon payments on both its issuances of PIBS in 2022. As a standalone entity, 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.

2022 Annual Report & Accounts

The accounts for the 12 months ending 31 December 2022 are available to view on the Society's website:

<http://manchesterbuildingsociety.co.uk/Main/FinancialInformation>

Enquiries

Sam Cartwright – H/Advisors Maitland

020 7379 5151

scartwright@maitland.co.uk