

Manchester Building Society Group (“the Society”) Results for the year ended 31 December 2018

	2018	2017
	£000	£000
Total operating income	8,929	9,580
Administrative expenses and depreciation	(10,185)	(7,955)
Operating (loss)/ profit before impairment	<u>(1,256)</u>	<u>1,625</u>
Impairment gains/( losses)	313	(2,376)
Financial Services Compensation Scheme levy	6	(29)
Loss for the period before taxation	<u>(937)</u>	<u>(780)</u>
Tax expense	-	-
Loss for the period	<u>(937)</u>	<u>(780)</u>
Total assets	277,385	304,191

Total operating income reduced by £0.7m through a £1.1m reduction in net interest income, partially offset by a £0.4m increase in other income.

- The £1.1m net interest income reduction was the result of the continued managed run-down of the balance sheet (£0.6m) and lower levels of provision release which had provided a one-off benefit in 2017 (£0.5m).
- Other income includes £0.3m of damages awarded to the Society as a result of the legal claim against the Society’s previous auditors, Grant Thornton UK LLP (“GT”).

Administrative expenses increased by £2.2m owing to additional legal fees relating to the claim for damages made against GT. The fees included a net charge of £2.3m in respect of an interim cost order in favour of GT and an additional sum accrued to cover the directors’ best estimates of any remaining liability. The impact from the increase in legal costs was partially offset by savings within the cost base including a £0.5m reduction in contractor fees.

An impairment gain of £0.3m was recorded for the year. A revaluation of the Group’s head office premises led to a reversal of prior impairment provision of £1.1m. A charge of £0.8m was recorded in respect of the Society’s Spanish lifetime portfolio. There was no net charge for impairment provisions on the remainder of the portfolio.

The Group's reserves reduced in 2018 by £1.3m to negative reserves of £11.3m. The reserve movement includes a £0.3m reduction following the adoption of *IFRS 9 – Financial Instruments* on 1 January 2018.

The Society continues to have a strong liquidity position.

The 2018 accounts have been prepared on a going concern basis of accounting and, as with the accounts for previous years, set out a “material uncertainty” regarding the long-term future of the Society.

### **Legal claim against Grant Thornton UK LLP**

The Society's claim for damages against GT was heard in the High Court in January 2018 and judgment handed down in May 2018. The Court awarded the Society damages of £0.3m, considerably below the amount claimed. The Society appealed this judgment to the Court of Appeal. In January 2019 the Court of Appeal upheld the initial decision.

### **Strategic future and capital position**

The Group continues to have headroom against its total Pillar 1 plus Pillar 2A requirements in total capital terms as set out by the Prudential Regulatory Authority (“PRA”) but, as in 2017, the Group did not meet the qualitative standards for CET 1 regulatory capital. As at 31 December 2018 the Society met, and continues to meet the requirement to hold CET 1 Capital in excess of 4.5% of Risk Weighted Assets.

The Board continues to engage with its regulators as to the strategic future for the Society. In June 2018 a strategic plan was produced by the Society, which was independently reviewed, and against which the PRA will monitor the Society's progress.

### **Permanent Interest Bearing Share (“PIBS”) coupon payments April 2019**

As a result of the shortfall against qualitative standards for the level of CET 1 regulatory capital, the requirements under CRD IV article 141 regarding capital conservation mean the Society may be prohibited from making the PIBS coupon payments due in April 2019. A further announcement will be made in due course regarding the April PIBS coupon payments.

### **2018 Annual Report & Accounts**

The accounts for the 12 months ending 31 December 2018 are available to view on the Society's website:

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

Enquiries

Andy Donald - Maitland 020 7379 5151 [adonald@maitland.co.uk](mailto:adonald@maitland.co.uk)