

This announcement contains inside information

Manchester Building Society Results for the year ended 31 December 2016

Manchester Building Society ('the Society') reports a loss of £3.4m for the 12 months ending 31 December 2016.

	2016 £000	2015 £000
Total operating income	9,210	9,758
Administrative expenses and depreciation	(8,663)	(6,841)
Operating profit before impairment	547	2,917
Impairment losses	(3,448)	(3,219)
Financial Services Compensation Scheme levy	(67)	(277)
(Loss) for the period before taxation	(2,968)	(579)
Tax (expense)	(382)	(4,295)
(Loss) for the period	(3,350)	(4,874)
Total assets	382,304	416,576

2016 results summary:

The decline in total operating income reflects the continued planned reduction in the size of the loan book which fell 12% from £331m to £289m although that was largely mitigated by a 9% reduction in funding from £372m to £340m.

Administrative expenses increased by £1.8m mainly as a result of professional fees associated with:

- the ongoing legal claim against Grant Thornton LLP, the Society's previous external auditors;
- a proposed merger with another mutual society which, in the event, did not take place;
- an exercise at the request of the Prudential Regulation Authority ("PRA") to evaluate the capital required to re-enter the residential mortgage market; and
- the preparation of a Capital Conservation Plan to meet the requirements of Capital Requirements Directive IV ("CRD IV") article 142 as explained below.

Impairment losses were £3.4m, approximately half of which relates to the €57m Spanish lifetime mortgage portfolio, originated between 2008 and 2010, that was impacted by adverse external factors including exchange rates, property valuations and forecast house prices in Spain. Additional loan impairment provisions were also required on the rest of the portfolio.

The Society's reserves reduced further in 2016 by £3.7m to negative reserves of £9.2m.

The Society continues to have a strong liquidity position.

The 2016 accounts have been prepared on a going concern basis of accounting and, as with the 2015 accounts, set out a "material uncertainty" regarding the long-term future of the Society.

Strategic future and capital position

The Society met its Individual Capital Guidance ("ICG") in total capital terms as at 31 December 2016. However, as a result of the loss in the year the Society continues to have a Common Equity Tier 1 ("CET 1") regulatory capital shortfall against its Combined Buffer requirement. As a result of this shortfall under CRD IV the Society was required to submit a Capital Conservation Plan to the PRA in October 2016 that considered potential measures to address the shortfall.

The Board continues to discuss and consult with the PRA on the strategic future and capital position of the Society. At the request of the PRA, the Capital Conservation Plan is being revised and updated to reflect the 2016 results and review further the potential measures for addressing the shortfall to the CET1 capital requirements. The outcome and timing of the regulatory process is uncertain.

The Society is not currently engaged in merger discussions with other mutual organisations.

The Board continues to explore the possibility of entering into one or more transactions with non-mutual organisations. In the event that an offer were received from a non-mutual organisation for all or part of the Society's operations, the Board would consider whether the transaction was in the interest of members as a whole, mindful that, while retail savers and borrowers were unlikely to be impacted greatly, there may be implications for the holders of the Society's Profit Participating Deferred Shares ("PPDS"), PIBS and subordinated debt.

In addition, taking account of the Society's need to address its CET1 capital shortfall, the Board is evaluating whether to make an offer to buy back or convert the PIBS and other capital instruments. Any offer, if made, would reflect the current financial position of the Society and the material uncertainty regarding its long-term prospects.

Regulatory compliance of second charge loan portfolios

During 2016 the Society initiated a project to ensure regulatory compliance of two acquired second charge loan portfolios, NMB Mortgage Acquisition Company Limited (in administration) ("NMB MAC") and The Consumer Loans Company Limited ("CLC"), the operational administration of which was brought in-house in December 2015.

The Society incurred a £0.9m charge in 2016 for customer redress in relation to this remediation (2015: £1.2m).

The remediation of these portfolios is ongoing and the completion of this work in 2017 is an important step towards either a disposal of those assets or a corporate transaction for the Society.

Legal claim against Grant Thornton UK LLP

The Board has continued to take legal advice regarding the Society's claim for damages against the previous external auditors, Grant Thornton UK LLP. Although the outcome of litigation is inherently uncertain, having taken account of this legal advice, the Board is firmly of the opinion that it is in the best interests of members to pursue this claim. If the matter progresses to trial, the trial will not be before 2018.

Permanent Interest Bearing Share ("PIBS") coupon payments April 2017

As announced separately today, the Society will not be paying the April 2017 coupon on the two tranches of PIBS in issue as, in order to conserve capital, such a distribution is prohibited under the CRD IV article 141.

Commenting on the results, David Harding, Chairman said:

"The ongoing run-off of the Society's assets, legacy loan portfolio exposures and professional costs incurred in the development of strategic options to secure the Society's future continue to impact financial performance."

"The strategic future of the Society remains a focus for the Board. There is an ongoing discussion with PRA regarding the material uncertainty of the long-term prospects of the Society, taking account of the current capital position and risks faced by the business."

2016 Annual Report & Accounts

The accounts and the Pillar 3 disclosure for the 12 months ending 31 December 2016 are available to view on the Society's website:

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

The person responsible for arranging the release of this announcement on behalf of Manchester Building Society is Christopher Gee, Society Secretary.

Enquiries

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