MANCHESTER BUILDING SOCIETY GROUP

CONDENSED CONSOLIDATED HALF YEARLY FINANCIAL INFORMATION

30 JUNE 2014

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DIRECTORS REPORT

Introduction

The directors are pleased to present the Condensed Consolidated Half Yearly Financial Information for the six months ended 30 June 2014.

Strategic summary

The Group consists of the Society and its two wholly owned subsidiaries: MBS (Mortgages) Limited and MBS (Property) Limited.

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. Offering a safe home for individual and corporate deposits and making mortgage funding available on a cautious, controlled and appropriately remunerated basis allow for a suitable net interest margin to be reported, which in turn funds the increase in reserves. Careful management of the Group's regulatory capital allows the Society to support its mortgage book and to accommodate unforeseen mortgage losses.

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.

Business review

The Group reported a profitable start to 2014, with pre-tax profits of £1,652k for the 6 months ended 30 June 2014 (30 June 2013: £1,250k (restated)).

The Group's net interest income was up by 2% on the comparative period from 2013. Whilst the level of interest earned on the reducing mortgage book was lower than that of the comparative period in 2013, this was compensated for by a far lower level of interest paid on retail savings products, resulting from a reduction in both the level of retail balances held and the overall rate of interest paid on these balances. Retail balances at the end of June 2014 were in line with forecasts; at £411m they were £92m lower than the position reported at the end of December 2013.

No new mortgage lending was undertaken during the first half of the year.

There were no large or unusual charges for impairments during the period. The results for the half year accommodate a full year's charge for the Financial Services Compensation Scheme Levy.

The Group's administrative expenditure was 23% lower than that of the comparative period, arising primarily as a result of the restructuring exercise that was carried out during H2 2013 and which resulted in a reduction in the number of staff employed by the Group.

The Group continues in its efforts to minimise mortgage arrears and to help borrowers in difficulties to resolve their situations, taking a consultative approach with borrowers who experience payment difficulties and applying forbearance as appropriate. At 30 June 2014 there were 17 mortgage accounts where payments were 12 or more months in arrears (31 December 2013: 18). Outstanding balances on these accounts were £6.8m (31 December 2013: £6.0m), representing 1.5% of total mortgage balances (31 December 2013: 1.3%). This is the result of two large mortgage accounts moving into this arrears category.

Total arrears at 30 June 2014 were £0.8m (31 December 2013: £0.7m). These figures represent assets where the Group holds legal title.

As noted in the 2013 Annual Report and Accounts, divestment of £68m of mortgage assets occurred in December 2013 and the consideration received was held in liquid funds at the 2013 year end. The resulting level of liquidity at 31 December 2013 was notably above the Society's business-as-usual levels. During the first six months of 2014, the Group's total assets reduced by 15.6% primarily as a result of reducing the level of excess liquidity over the first six months of 2014, with the most notable reductions occurring in the Society's retail balances as it sought to reduce its levels of liquid funds.

Robust levels of liquidity have been maintained throughout the period. The Society continues to take a cautious approach to the investment of its liquid funds, having significant balances deposited with the Bank of England and other smaller sums within instantly accessible accounts with a number of UK High Street banks.

The Board is pleased to report a profit before tax to the members for the six months ended 30 June 2014. We continue to manage the Society against a backdrop of continuing very low interest rates and early signs of economic recovery. There is an expectation that rates will rise at some point in the next year and that the economic recovery will continue. We remain focussed on ensuring that as the business environment changes we continue to manage the Society in the best interests of members.

Risks and uncertainties

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

Fuller commentary regarding the Board's assessment of the risks that are faced by the Society may be found in the 2013 Annual Report and Accounts. It is the Board's view that the risks and uncertainties that the Society faces have not changed by any great extent since the publication of the 2013 Annual Report and Accounts and accordingly, this latter financial information should be read in conjunction with the Half Yearly Financial Information.

Summarised below are a number of the Group's 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 borrowed (in relation to loans and advances) or any sum that it has deposited with a 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. In relation to loans and advances, credit risk presents as more of a consideration than in relation to the Society'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. The Board's assessment is that the credit risk that the Society faces has not altered since the publication of the 2013 Annual Report and Accounts, with the various loans and mortgage books identified for impairment consideration continuing to perform in a manner similar to that at 31 December 2013.

- ***Insurance risk:*** A particular clause within the contract for the Society's Lifetime mortgage assets meets the definition of an insurance contract; where a borrower dies or goes into long term care and a subsequent redemption receipt is less than the outstanding loan balance, the Society does not have any further ability to recover amounts from the borrower or their estate. In the context of lifetime mortgages, impairment assessments incorporate the insurance risk attaching to the contracts. The insurance provision is a critical accounting estimate and the underlying assumptions associated with the assessment of this risk have not altered since 31 December 2013.

- ***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 executive directors every week and considered by the Board each month. Throughout 2013 and 2014, the Group continued to have a significant proportion of its liquid assets deposited with the Bank of England.

- ***Capital risk:*** The Group is required to hold sufficient capital by its regulator; regulatory capital includes retained earnings, PPDS, PIBS and subordinated debt along with elements of the Group's collectively identified provisions and a proportion of its deferred tax asset. The level of capital that the Group is directed to hold by its regulator is driven by the nature of the Group's assets and the regulator's assessment of its risk profile. The Board's view is that the Society's capital risk has not altered since 31 December 2013.

- ***Interest rate risk:*** The Group's mortgage and savings products have different interest rate types and different maturities. 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 or LIBOR) does not always affect every mortgage and savings product that the Society holds. The Society's interest rate risk has remained unaltered since the position reported at 31 December 2013 and the Board continues in its intention not to hedge its remaining fixed rate mortgages using interest rate swaps at this time; this position continues to be monitored regularly.

- ***Currency risk:*** The Group faces currency movement risks on its Euro denominated mortgage balances which represent 10.6% of total mortgage assets as at 30 June 2014. The exchange rate risk arising on these balances is managed and mitigated by transacting exchange rate swaps. The exchange rate risk position is reported to the 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. Since the launch of the Bank of England's Funding for Lending Scheme in 2012, it is apparent that there has been an easing in the rates that retail institutions pay to their saving members and as a consequence, the impact of this has been an improvement in the Society's underlying interest margin during 2013 and into 2014; although the interest margin has been reduced with the sale of the UK Lifetime Mortgage portfolio in December 2013.

Other Matters

Board and staff changes

As announced previously, Mr Robert Dyson, non-executive director, stepped down from the Board at the Society's Annual General Meeting on 16 June 2014.

The Board considers that the current staffing compliment will support existing business levels.

Going Concern

The directors must satisfy themselves that it is reasonable to conclude that the financial statements should be prepared on a going concern basis. The Group's business activities require it to manage carefully its liquidity and capital resources. In managing its key resources through the setting of Board policies and operating procedures, the directors are mindful of the principal risks and uncertainties that the Group faces; these are summarised on pages 4 and 5.

Following the changes in accounting policies during 2013, which led to the restatement referenced in note 2 and as part of the going concern assessment in connection with the financial statements for the year to 31 December 2013, the Board performed scenario analysis to consider eventualities using more pessimistic business and economic assumptions than those used in its Corporate Plan forecasts. Based on the output of the Boards projections, scenario analysis and through its regular discussions with the PRA (which include dialogue relating to its regulatory capital and corporate planning forecasts), the Board concluded that it had a reasonable expectation that the Group would continue to operate on a going concern basis.

In considering the status of the Group at the time of approving the Half Yearly Financial Information the Board has revisited the analysis performed at the last year end, and the assumptions and conclusions have been reviewed for any material changes over the intervening period. The review has highlighted no material changes in the circumstances of the Group.

In consequence the Group continues to adopt the going concern basis in respect of the Half Yearly Financial Information.

Forward-looking statements

Within the half yearly information comments are made about anticipated future events, which the Board believes to be reasonable. As these statements are based on the Group's current view of the UK economy and banking market, the Board can give no assurances that the markets will develop in the way that is drafted and actual outcomes may differ to those that are anticipated.

The Group does not undertake to update any of the statements that it has made about future events prior to reporting of the full year results.

Approval of interim financial statements

The condensed consolidated half yearly financial information was approved by the Board of directors on 20 August 2014.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE CONDENSED CONSOLIDATED HALF YEARLY FINANCIAL INFORMATION

The directors confirm that, to the best of their knowledge:

- The condensed set of consolidated accounts has been prepared in accordance with IAS 34 *Interim Financial Reporting*, as adopted by the European Union.
- The half yearly accounts include the information required by the Financial Conduct Authority Disclosure and Transparency Rules (DTR 4.2.7 and DTR 4.2.8)

The results for the half year ended 30 June 2014 and those comparable figures for the half year ended 30 June 2013 are unaudited. The figures for the year ended 2013 are extracted from the 2013 Annual Report and Accounts, prepared in accordance with IFRS as adopted in the EU, on which the Independent Auditors gave an unqualified opinion.

The Directors are responsible for the maintenance and integrity of information on the Society's website. Copies of the 2013 Annual Report & Accounts and this Half Yearly Financial information may be found at: www.themanchester.co.uk/Main/FinancialInformation

The Board of Directors responsible for the half yearly accounts are listed below:

J. Allen ACIB Dip FS	Non-executive director
H.F. Baines LLB	Vice Chairman
I.A. Dewar FCA	Non-executive director
C.W. Gee FCA	Finance Director
D.A. Harding JP FCMA	Chairman
P.A. Lynch	Operations Director
F.B. Smith	Non-executive director
J. Smith FCCA	Non-executive director

Signed on behalf of the Board of Directors

D.A. Harding
Chairman
20 August 2014

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	note	Unaudited 6 months to 30 Jun 14 £000	Restated Unaudited 6 months to 30 Jun 13 £000	Audited 12 months to 31 Dec 13 £000
Interest receivable and similar income		10,233	12,939	27,354
Interest expense and similar charges		(4,331)	(7,155)	(12,947)
Net interest income		5,902	5,784	14,407
Other operating income		206	415	727
Other operating charges		(26)	(79)	(145)
Profit/(loss) from derivatives	5	(8)	553	(329)
Net loss on financial assets designated at fair value through profit and loss		(252)	(792)	(1,134)
Total operating income		5,822	5,881	13,526
Administrative expenses and depreciation		(2,931)	(3,815)	(5,907)
Operating profit/(loss) before impairment and provisions		2,891	2,066	7,619
Impairment losses	9	(689)	(327)	(8,706)
Financial Services Compensation Scheme levy	17	(550)	(489)	(489)
Profit/(loss) for the period before taxation		1,652	1,250	(1,576)
Income taxation expense	6	(1,031)	(303)	(5,517)
Profit/(loss) for the period		621	947	(7,093)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited 6 months to 30 June 2014

	Retained Earnings £000	Subscribed capital £000	PPDS £000	Total £000
Balance at 1 January 2014	(4,053)	9,788	17,461	23,196
Transactions with equity holders - interest on PIBS	(337)	-	-	(337)
Tax credit re: interest paid to PIBS holders	67	-	-	67
Profit and comprehensive income for the period	621	-	-	621
Balance at 30 June 2014	(3,702)	9,788	17,461	23,547

Unaudited 6 months to 30 June 2013

	Retained Earnings £000	Subscribed capital £000	PPDS £000	Total £000
Reported balance at 1 January 2013	6,171	14,788	-	20,959
Restatements	(2,591)	(5,000)	-	(7,591)
Restated balance at 1 January 2013	3,580	9,788	-	13,368
Issue of PPDS at par	-	-	18,000	18,000
Costs of issue of PPDS	-	-	(539)	(539)
Transactions with equity holders - interest on PIBS	(337)	-	-	(337)
Tax credit re: interest paid to PIBS holders	77	-	-	77
Profit and comprehensive income for the period	947	-	-	947
Balance at 30 June 2013	4,267	9,788	17,461	31,516

Audited 12 months to 31 December 2013

	Retained Earnings £000	Subscribed capital £000	PPDS £000	Total £000
Reported balance at 1 January 2013	6,171	14,788	-	20,959
Restatements	(2,591)	(5,000)	-	(7,591)
Restated balance at 1 January 2013	3,580	9,788	-	13,368
Issue of PPDS at par	-	-	18,000	18,000
Costs of issue of PPDS	-	-	(539)	(539)
Transactions with equity holders - interest on PIBS	(675)	-	-	(675)
Tax credit re: interest paid to PIBS holders	135	-	-	135
Loss and comprehensive income for the year	(7,093)	-	-	(7,093)
Balance at 31 December 2013	(4,053)	9,788	17,461	23,196

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	note	Unaudited 30 Jun 14 £000	Restated Unaudited 30 Jun 13 £000	Audited 31 Dec 13 £000
Assets				
Liquid assets	*7*	110,400	186,976	177,047
Derivative financial instruments		1,465	-	582
Loans and advances to customers	*8*	420,824	554,026	454,047
Investments		250	250	250
Property, plant and equipment		8,302	8,527	8,358
Current tax assets		-	-	356
Deferred tax assets	*10*	3,293	9,967	4,257
Other assets		738	1,572	1,533
Total assets		545,272	761,318	646,430

	note	Unaudited 30 Jun 14 £000	Restated Unaudited 30 Jun 13 £000	Audited 31 Dec 13 £000
Liabilities				
Due to members		410,822	590,882	502,586
Deposits from banks and others	*11*	87,585	114,152	96,828
Derivative financial instruments		186	1,244	620
Other liabilities and charges	*12*	2,432	2,824	2,500
Subordinated liabilities	*13*	15,700	15,700	15,700
Subscribed capital	*14*	5,000	5,000	5,000
Total liabilities		521,725	729,802	623,234
Equity				
Retained earnings		(3,702)	4,267	(4,053)
Subscribed capital	*14*	9,788	9,788	9,788
Profit participating deferred shares	*15*	17,461	17,461	17,461
Total equity		23,547	31,516	23,196
Total equity and liabilities		545,272	761,318	646,430

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited 6 months to 30 Jun 14 £000	Restated Unaudited 6 months to 30 Jun 13 £000	Audited 12 months to 31 Dec 13 £000
Net cash flows from operating activities	(65,464)	28,164	19,073
Taxation paid	-	-	-
Net cash flows from investing activities	15,146	39,879	43,271
Net cash flows from financing activities	(337)	17,229	16,386
Net decrease in cash and cash equivalents	(50,655)	85,272	78,730
Net (decrease)/increase in cash and cash equivalents	(50,655)	85,272	78,730
Cash and cash equivalents at the start of the period	153,959	75,229	75,229
Cash and cash equivalents at the end of the period	103,304	160,501	153,959

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The half yearly financial information for the 6 months ended 30 June 2014 has been prepared in accordance with both the Financial Conduct Authority's Disclosure and Transparency Rules and IAS 34 *Interim Financial Reporting*, as adopted by the European Union.

The half yearly financial information set out above does not constitute Accounts within the meaning of the Building Societies Act 1986.

The financial information for the 12 months to 31 December 2013 has been extracted from the 2013 Annual Report and Accounts, prepared in accordance with IFRS as adopted in the EU. In relation to these accounts, the opinion of the external auditors was unqualified and it did not include a reference to any matters to which the auditors sought to draw attention by way of emphasis without qualifying their report.

The half-yearly financial information for the 6 months ended 30 June 2014 and the 6 months ended 30 June 2013 is unaudited.

This financial information should be read in conjunction with the 2013 Annual Report and Accounts.

The Half Yearly Financial Information for the six months ended 30 June 2013 include restatements of previously adopted accounting treatments, as described in detail in the 2013 Annual Report and Accounts and further in Note 2. Accordingly, the financial values for the 6 month period ending 30 June 2013 are annotated as being "restated", as they show a position that is different to that reported in the Half Yearly Financial Information 2013, issued in August 2013.

The half yearly financial information has been prepared consistently with the accounting policies described on pages 18 to 20 of the 2013 Annual Report and Accounts. There are a number of new and amended accounting standards which have been adopted during the period. All of these have been endorsed by the EU; none of these have materially affected the results reported for the 6 months ended 30 June 2014.

The Group expects that these accounting policies will be applied at the time of compiling the 2014 Annual Report and Accounts.

New accounting standards and amendments to IFRS which have been adopted during the period:

- IFRS 10 *Consolidated Financial Statements* – this is a new standard which replaces, inter alia, part of IAS 27 'Consolidated and Separate Financial Statements'. The standard establishes control as the basis for determining which entities are consolidated into the consolidated financial statements and sets out the accounting requirements for the presentation of those statements. This standard has no impact on the Half Year Financial Information (HYFI).

- IFRS 11 *Joint Arrangements* – this is a new standard which replaces, inter alia, IAS 31 'Interest in Joint Ventures'. The standard removes the option to apply the proportionate consolidation method and requires all joint arrangements to use the equity method of accounting. This standard has no impact on the HYFI.

- IFRS 12 *Disclosures of Interests in Other Entities* – this new standard applies to entities which have an interest in a subsidiary, a joint arrangement, an associate or an undisclosed structured entity. The standard is likely to have an impact on disclosures in the full year accounting statements, but not on the HYFI.

- IAS 27 (revised) *Separate Financial Statements* – this revised standard applies to entities which are required to prepare separate financial statements for subsidiaries, associates or jointly controlled entities, and so has no impact on the HYFI.

- IAS 28 (revised) *Investments in Associates and Joint Ventures* – this standard prescribes the accounting for investments in associates and so has no impact on the HYFI.

- Amendment to IAS 32 *Offsetting Financial Assets and Financial Liabilities* – the amendment provides clarification around the rules for offsetting financial assets and financial liabilities. The standard has no impact on the HYFI.

- Amendment to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* – the amendment changes the disclosure requirements for the recoverable amounts of non-financial assets where the amount is based on fair value less costs to sell. The standard has no impact on the HYFI.

- Amendment to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* – the amendment provides an exception to the requirement for hedge accounting to be discontinued in certain circumstances. The standard has no impact on the HYFI.

In addition, IFRIC 21 *Levies* came into force during the period. The Group early-adopted this interpretation in 2013 and the financial results for both the half year and comparative periods are reported in line with this IFRIC.

IFRS 9 'Financial Instruments' has now been finalised. This standard is due to become mandatory for accounting periods ending 31 December 2018, and although now available for early adoption it has not yet been endorsed by the EU. The Group has yet to conduct a full assessment of the impact of this standard.

2. Restatement

During 2013 PricewaterhouseCoopers LLP ("PwC") were appointed as the Group's external auditors and a detailed review of accounting processes and policies was carried out. This review highlighted two areas where a restatement of a previously adopted accounting treatment was required relating to the Society's Permanent Interest Bearing Shares ("PIBS") and its Spanish Lifetime Mortgage assets. Additionally, during 2013 the Group elected to adopt early the provisions of IFRIC 21, which impacts the recognition of the Financial Services Compensation Scheme ("FSCS") levy and which was also treated as a prior year adjustment in the 2013 Annual Report and Accounts; this has also given rise to a change in the figures reported at 30 June 2013.

These restatements were reported in the Group's 2013 Annual Report and Accounts. They are repeated below, as within this Condensed Half Yearly Financial Statement, the comparative position shown for the period ended 30 June 2013 is different to that reported in last year's Half Yearly Financial Information.

PIBS: IAS 32 *Financial Instruments: Presentation*

The Society issued two tranches of PIBS: one in 1999 and the other in 2005. The Board's ability to cancel interest on the 1999 PIBS is drafted in more narrow terms than those for the 2005 instrument. Regarding IAS 32 – *Financial Instruments: Presentation*, in relation to the 1999 PIBS, the Board does not have an unconditional right to cancel interest payments and accordingly these have been reclassified as a liability rather than as equity. The terms of the 2005 PIBS confer complete discretion on the Society's Board to cancel in part or in whole any interest payment due and accordingly the 2005 PIBS continue to be classified as equity. The impacts of this restatement are as follows:

- Subscribed capital within the liabilities heading has increased by £5m
- Subscribed capital within the equity heading has reduced by £5m
- Interest expense for the half year to June 2013 has increased by £200k, and the profit before tax has consequently decreased by £200k
- There was a credit direct to the statements of changes in equity of £151k being the tax effected interest adjustment.

Lifetime Mortgages: *IFRS 4 Insurance Contracts*

During 2013 the Society had two portfolios of Lifetime Mortgage loans secured on borrowers' residential property, one portfolio in Spain and the other in the UK. It was identified during the 2013 year end audit that a particular clause of the Lifetime Mortgage contract meets the definition of an insurance contract; where a borrower dies or goes into long term care and a subsequent redemption receipt is less than the outstanding loan balance, the Society does not have any further ability to recover amounts from the borrower or their estate. The recognition of an insurance liability based on this insurance risk results in a prior year adjustment. The impact of the restatement on the results for the half year to 30 June 2013 is:

- An increase in provisions of £3,843k in respect of 2012 and earlier years and a reduction in provisions of £316k in respect of the first 6 months of 2013
- A reclassification of arrears and redemption interest in respect of these loans of £175k from Interest and Similar Income to Other Income and Charges

The UK Lifetime Mortgage portfolio was sold during December 2013.

The effect of the restatements on the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Financial Position at 30 June 2013 is shown overleaf.

Consolidated Statement of Comprehensive Income	Original 6 months to 30 June 2013 £000	Reclassification and restatement £000	Restated 6 months to 30 June 2013 £000
Interest receivable and similar income	13,114	(175)	12,939
Interest expense and similar charges	(6,955)	(200)	(7,155)
Net interest income	6,159	(375)	5,784
Other operating income	240	175	415
Other operating charges	(79)	-	(79)
Gain on derivatives	553	-	553
Net loss on financial assets designated at fair value through profit and loss	(792)	-	(792)
Total operating income	6,081	(200)	5,881
Administrative expenses and depreciation	(3,815)	-	(3,815)
Operating profit before impairment and provisions	2,266	(200)	2,066
Impairment losses	(643)	316	(327)
Financial Services Compensation Scheme levy	-	(489)	(489)
Profit for the period before taxation	1,623	(373)	1,250
Income tax expense	(378)	75	(303)
Profit for the period	1,245	(298)	947

Consolidated Statement of Financial Position	Original 6 months to 30 June 2013 £000	Movement relating to earlier periods £000	Movement relating to 6 months ended 30 June 2013 £000	Restated 6 months to 30 June 2013 £000
Assets				
Liquid assets	186,976	-	-	186,976
Derivative financial instruments	-	-	-	0
Loans and advances to customers	557,553	(3,843)	316	554,026
Investments	250	-	-	250
Property, plant and equipment	8,527	-	-	8,527
Deferred income tax assets	9,419	774	(226)	9,967
Other assets	1,572	-	-	1,572
Total assets	764,297	(3,069)	90	761,318
Liabilities				
Due to members	590,882	-	-	590,882
Deposits from banks and others	114,152	-	-	114,152
Derivative financial instruments	1,244	-	-	1,244
Other liabilities	2,959	(478)	343	2,824
Subordinated liabilities	15,700	-	-	15,700
Subscribed capital	-	5,000	-	5,000
Total liabilities	724,937	4,522	343	729,802
Equity				
Reserves	7,005	(2,591)	(147)	4,267
Subscribed capital	14,788	(5,000)	-	9,788
Profit participating deferred shares	17,567	-	(106)	17,461
Total equity	39,360	(7,591)	(253)	31,516
Total equity and liabilities	764,297	(3,069)	90	761,318

3. Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The following methods and assumptions have been applied in determining the fair value of the financial instruments in these reports:

i. Trade investments are measured at cost as the fair value cannot be estimated reliably.

ii. The fair value of derivatives and investment securities are calculated by utilising internal valuation models using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity. External market data is used within these internal valuation models. Derivatives are held for trading. Investment securities are designated at fair value through profit or loss. Movements in the valuations of derivatives and investment securities are treated as fair value through profit and loss, and these financial assets and liabilities are grouped into the fair value hierarchy under level 2.

iii. The fair value of loans and advances to customers at a variable rate of interest is assumed to approximate to their carrying amounts. The fair value of loans and advances at a fixed rate of interest is estimated by internal valuation models. External market data is used within these internal valuation models.

iv. All other financial assets and liabilities are held at amortised cost.

The Group has disclosed within these financial statements all the assets and liabilities for which fair values are required. The Board does not believe it is necessary to place a fair value on the outstanding minimal amount of assets and liabilities on which a fair value has not been placed as these predominantly attract variable rates of interest and therefore their carrying value is deemed to reflect their fair value.

The fair value measurement bases used for assets and liabilities held at fair value may be summarised as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities. None of the Groups financial assets of liabilities are valued using this technique.

Level 2 Valuation techniques where all inputs are taken from observable market data, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 Valuation techniques where significant inputs are not based on observable market data. None of the Groups financial assets of liabilities are valued using this technique.

The fair values of derivatives and investment securities are calculated by utilising internal valuation models using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity. External market data is used within these internal valuation models. Derivatives are held for trading. Investment securities are designated at fair value through profit or loss. Movements in the valuations of derivatives and investment securities are treated as fair value through profit and loss, and these financial assets and liabilities are grouped into the fair value hierarchy under level 2.

A comparison between the carrying values and fair values of the Society's assets and liabilities is shown in the table on the following page.

	30 June 2014		30 June 2013		31 December 2013	
	Carrying Value £000	Fair Value £000	Carrying Value £000	Fair Value £000	Carrying Value £000	Fair Value £000
Financial assets						
Cash and balances with the Bank of England	78,898	78,898	60,491	60,491	95,677	95,677
Loans and advances to credit institutions	23,872	23,872	100,069	100,069	58,313	58,313
Investment securities	7,630	7,630	26,416	26,416	23,057	23,057
Derivative financial instruments	1,465	1,465	-	-	582	582
Loans and advances to customers	420,824	413,644	554,026	545,225	454,047	445,525
Investments	250	250	250	250	250	250
	532,939	525,759	741,252	732,451	631,926	623,404
Financial liabilities						
Due to members	410,822	410,853	590,882	590,485	502,586	502,278
Deposits from banks	2,506	2,506	15,116	15,116	5,543	5,543
Other deposits	85,079	85,079	99,036	99,036	91,285	91,285
Derivative financial instruments	186	186	1,244	1,244	620	620
Other borrowed funds	15,700	15,700	15,700	15,700	15,700	15,700
Subscribed capital	5,000	5,200	5,000	3,850	5,000	4,925
	519,293	519,524	726,978	725,431	620,734	620,351

4. Segmental information

The Group's results are predominantly derived from the Society's principal operations. The Group's other income streams are not sufficiently material to require segmental reporting.

5. Profit/(loss) from derivatives

	Unaudited 6 months to 30 Jun 14 £000	Restated Unaudited 6 months to 30 Jun 13 £000	Audited 12 months to 31 Dec 13 £000
Interest rate swaps: receipts	-	2,874	578
Interest rate swaps: payments	-	(5,392)	(3,095)
Fair value movement of derivatives	(8)	3,071	2,188
Profit/(loss)	(8)	553	(329)

6. Income tax expense

	Unaudited 30 Jun 14 £000	Restated Unaudited 30 Jun 13 £000	Audited 31 Dec 13 £000
Results for the year before tax	1,652	1,250	(1,576)
Tax rate	21.50%	23.25%	23.25%
Expected tax expense	355	291	(366)
Adjustments for non-deductible items	14	15	31
Current year losses for which no deferred tax asset recognised	-	-	1,269
Deferred tax movement closing rate / average rate difference	(20)	(3)	47
Deferred tax change in rate on opening balance	-	-	1,338
Reduction in deferred tax asset recognised	682	-	-
Adjustment in respect of prior years – current tax	-	-	(554)
Adjustment in respect of prior years – deferred tax	-	-	3,752
	1,031	303	5,517

7. Liquid assets

	Unaudited 30 Jun 14 £000	Restated Unaudited 30 Jun 13 £000	Audited 31 Dec 13 £000
Cash and balances with the Bank of England	78,900	60,491	95,677
Loans and advances to credit institutions	23,870	100,069	58,313
Investment securities	7,630	26,416	23,057
	110,400	186,976	177,047

8. Loans and advances to customers

	Unaudited 30 Jun 14 £000	Restated Unaudited 30 Jun 13 £000	Audited 31 Dec 13 £000
Fully secured on residential property	385,381	514,360	416,480
Fully secured on land	33,599	37,440	35,439
Other loans	1,844	2,226	2,128
	420,824	554,026	454,047

9. Impairment losses

	Unaudited 30 Jun 14 £000	Restated Unaudited 30 Jun 13 £000	Audited 31 Dec 13 £000
Impairment charge for the period	689	327	8,706
Impairment provision at the end of the period:			
Loans fully secured on residential property	15,882	9,625	15,608
Other loans	2,702	1,947	2,611
Total	18,584	11,572	18,219

10. Deferred tax assets

	Unaudited 30 Jun 14 £000	Restated Unaudited 30 Jun 13 £000	Audited 31 Dec 13 £000
Tax losses	871	1,528	1,832
Deferred tax movement on timing differences on derivative contracts	2,444	8,216	2,444
Other provisions	(22)	223	(19)
	3,293	9,967	4,257

11. Deposits from banks and others

	Unaudited 30 Jun 14 £000	Restated Unaudited 30 Jun 13 £000	Audited 31 Dec 13 £000
Deposits from banks	2,506	15,116	5,543
Other deposits	85,079	99,036	91,285
	87,585	114,152	96,828

12. Other liabilities and charges

	Unaudited 30 Jun 14 £000	Restated Unaudited 30 Jun 13 £000	Audited 31 Dec 13 £000
FSCS Levy (see Note 17)	825	820	275
Other liabilities	1,607	2,004	2,225
Total	2,432	2,824	2,500

13. Subordinated liabilities

	Unaudited 30 Jun 14 £000	Restated Unaudited 30 Jun 13 £000	Audited 31 Dec 13 £000
Loan (repay 2015) interest: 7.362%	1,500	1,500	1,500
Loan (repay 2022) interest: 3 month LIBOR + 1.75%	5,000	5,000	5,000
Loan (repay 2023) interest: 3 month LIBOR + 2.45%	4,200	4,200	4,200
Loan (repay 2032) interest: 6.7%	5,000	5,000	5,000
	15,700	15,700	15,700

14. Subscribed capital

The Society has two tranches of PIBS in issue. The first tranche was issued in 1999 and is remunerated at 8.00% and the other was issued in 2005 and is remunerated at 6.75%. The two tranches are accounted for differently as they are subject to differing legal arrangements. Both tranches of PIBS are unsecured and rank pari passu with each other. In priority terms, the PIBS holders rank behind the Society's depositing members, its wholesale counterparties and all subordinated note holders.

Classified as a liability:	Unaudited 30 Jun 14 £000	Restated Unaudited 30 Jun 13 £000	Audited 31 Dec 13 £000
8.00% Permanent Interest Bearing Shares	5,000	5,000	5,000
Total	5,000	5,000	5,000

Classified as equity:	Unaudited 30 Jun 14 £000	Restated Unaudited 30 Jun 13 £000	Audited 31 Dec 13 £000
6.75% Permanent Interest Bearing Shares	9,788	9,788	9,788
Total	9,788	9,788	9,788

15. Profit Participating Deferred Shares

	Unaudited 30 Jun 14 £000	Restated Unaudited 30 Jun 13 £000	Audited 31 Dec 13 £000
Nominal value – proceeds received	18,000	18,000	18,000
Less: issue costs	(539)	(539)	(539)
Total	17,461	17,461	17,461

The shares were issued in April 2013, are unsecured and rank pari passu with any other deferred shares comprising Core Equity Tier 1 Capital issued or to be issued by the Society and rank behind any other deferred shares of the Society in issue not comprising Core Equity Tier 1 Capital, including the Society's 1999 and 2005 PIBS.

The PPDS holders rank behind the Society's depositing members, its wholesale counterparties and all subordinated note holders.

The terms of the PPDS allow the Board, at its sole discretion, to declare a dividend of up to 30% of the Society's post tax profits. Dividends are non-cumulative.

16. Capital calculations

	Transitional unaudited 6 months to 30 Jun 14 £000	Transitional restated unaudited 6 months to 30 Jun 13 £000	Transitional audited 12 months to 31 Dec 13 £000
Tier 1 Capital			
Common Equity Tier 1 Capital (CET 1)			
Retained Earnings	(1,374)	6,649	(1,374)
Profit Participating Deferred Shares	17,461	17,461	17,461
Deductions from CET 1	(1,703)	(7,985)	(2,866)
Total CET 1 Capital	14,384	16,125	13,221
Other Tier 1 Capital			
Permanent Interest Bearing Shares	11,831	14,788	14,788
Total Tier 1 Capital	26,215	30,913	28,009
Tier 2 Capital			
Subordinated Debt	12,360	14,500	14,500
Collective Provision	3,016	2,048	3,745
Total Tier 2 Capital	15,376	16,548	18,245
Total Regulatory Capital	41,591	47,461	46,254
Risk Weighted Assets	241,218	375,710	299,650

On 1 January 2014 the Basel II regulation, under which capital calculations were previously based, was replaced by the CRD IV regulation. This has introduced a number of changes to the capital framework which impact how our capital is calculated.

In particular, the extent to which remunerated capital instruments may be included within regulatory capital has changed. For the Group, the impact is that certain elements that were previously included within its regulatory capital, being PIBS and certain tranches of subordinated debt, are now amortised over a 10 year period. Additionally, deferred tax assets arising from losses are deducted from regulatory capital; deferred tax assets arising from timing differences may continue to be classified within regulatory capital subject to certain regulatory criteria.

The Capital calculations shown overleaf are based on the new regulation and are presented on the transitional basis, recognising the amortisation profile. As a result of the above, noting that the new capital treatments only came into effect on 1 January 2014, the comparative figures for the year ended 31 December 2013 and the 6 months ended 30 June 2013 have been calculated as if the new treatments had applied retrospectively, i.e. that they are calculated consistently with the newly adopted treatments, effective at 30 June 2014 and not those capital treatments that applied at that time.

The Society has assessed the impact of the ongoing amortisation of capital instruments and is satisfied that it will continue to meet its regulatory requirements without the need to issue further capital instruments.

17. Financial Services Compensation Scheme

FSCS Provision for liabilities and charges	Unaudited 6 months to 30 Jun 14 £000	Restated unaudited 6 months to 30 Jun 13 £000	Audited 12 months to 31 Dec 13 £000
At start of period	275	331	331
Charge for the period	550	489	489
Provision utilised	-	-	(545)
At end of period	825	820	275

The Society's provision for FSCS charges arises from its operation as a UK deposit taker. During 2013 the FSCS announced that there was likely to be a shortfall in their overall level of recoverability; it indicated that it would levy this shortfall on deposit-taking institutions over the next three years. The provision at the end of 2013 includes the expected management expenses levy for the FSCS scheme year 2013/2014. The shortfall capital levy for the FSCS scheme year 2012/2013, was received during 2013 and recognised as a charge in the Statement of Comprehensive Income for 2013. No provision is made for scheme years beyond these periods. The levy is paid during Q3 each year and the Society does not expect to recover any sums paid. The charge for the six months ended 30 June 2014 has been estimated by reference to the previous period's charge, as up to date data from the FSCS is not available. The Society has adopted early the provisions of IFRIC 21, further details of which may be found in notes 1 and 2.

18. Related party transactions

The Group is controlled by Manchester Building Society and consists of the Society and its two wholly owned subsidiaries: MBS (Mortgages) Ltd and MBS (Property) Ltd. The Society continued to provide loan funding to its subsidiaries during the half year ended 30 June 2014 in a manner similar to that disclosed in the 2013 Annual Report and Accounts. Accordingly, transactions with related parties are entered into in the normal course of business; related party transactions for the half year to 30 June 2014 are similar in nature to those for the year ended 31 December 2013.

The key management personnel remain unaltered from those disclosed at 31 December 2013, save for Mr Dyson, who resigned on 16 June 2014.

19. Financial commitments and contingencies

There is no material change to Group's financial commitments or its contingent liabilities from the position reported in the 2013 Annual Report and Accounts

20. Events after the end of the reporting period

There have been no events occurring after the end of the reporting period that would have impacted upon the results reported.

21. Other Ratios

	Unaudited 6 months to 30 Jun 14 %	Restated Unaudited 6 months to 30 Jun 13 %	Audited 12 months to 31 Dec 13 %
Gross capital as a percentage of shares and borrowings	8.88	7.41	7.32
Liquid funds as a percentage of shares and borrowings	22.15	26.52	29.54
Wholesale deposits as a percentage of shares and borrowings	9.88	11.02	8.81
Profit/(Loss) after tax as a percentage of mean total assets *(expressed on an annualised basis)*	0.19	0.24	(1.00)
Group management expenses as a percentage of mean total assets *(expressed on an annualised basis)*	0.88	0.78	0.83
Leverage ratio	4.22	3.73	4.27