MANCHESTER BUILDING SOCIETY GROUP

CONDENSED CONSOLIDATED HALF YEARLY FINANCIAL INFORMATION

30 JUNE 2015

CONTENTS

Introduction

The Directors are pleased to present the Condensed Consolidated Half Yearly Financial Information for the six months ended 30 June 2015.

Strategic summary

The Group consists of the Society and its two wholly owned subsidiaries: MBS (Mortgages) Limited and MBS (Property) Limited; further, under the terms of IFRS 10 Consolidated Financial Statements the Group includes the consolidated positions of NMB Mortgage Acquisition Company Limited (in administration) and Consumer Loans Company Limited (in administration), where the Group exerts control notwithstanding that it holds no shares in either entity.

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 business deposits and making mortgage funding available on a cautious, controlled and appropriately remunerated basis allows 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 period are covered in detail in the sections that follow, along with the principal risks and uncertainties that the Group faces.

Business review

The Board is pleased to report a profit before tax to the members for the six months ended 30 June 2015 of £1,978k (6 months ended 30 June 2014: £1,652k). This includes a profit of £745k following the sale of its shareholding in New Life Home Finance Limited (NLHF), which completed in April 2015.

Mortgage assets have reduced by 15% since 30 June 2014 and by 8% since the end of 2014 as the Group has continued to reduce the scale of its operations in order to conserve its capital.

The Group's net interest income reduced by 11% on the comparative period from 2014 as the balance sheet has continued to reduce in size. Whilst the level of interest earned on the reducing mortgage book was lower than that of the comparative period in 2014, this was compensated for by a 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 in line with market conditions. Retail balances at the end of June 2015 were in line with forecasts; at £348m they were £41m lower than the position reported at the end of December 2014.

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

The Group's administrative expenditure was £475k (16%) higher than that of the comparative period in 2014. This is primarily the result of additional legal and professional fees incurred in connection with a number of one-off projects.

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 2015 there were 16 mortgage accounts where payments were 12 or more months in arrears (31 December 2014: 14). Outstanding balances on these accounts were £6.9m (31 December 2014: £5.4m), representing 1.8% of total mortgage balances (31 December 2014: 0.3%). Total arrears at 30 June 2015 were £0.8m (31 December 2014: £0.8m). These figures represent assets where the Group holds legal title.

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.

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 2014 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 2014 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 2014 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 2014.

- ***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 2014.

- ***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 2014 and 2015, 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. 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 2014.

- ***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 2014 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 11% of total mortgage assets as at 30 June 2015. 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.

- ***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. Management, review and oversight are undertaken via the Board's various committees. The majority of the regulatory requirements that the Group faces are laid down by the PRA and the 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.

Other Matters

Board and staff changes

Mr Christopher Gee, Finance Director, and Mr Joe Smith, Non-Executive Director, stepped down from the Board on 31 March 2015 and 29 April 2015 respectively. Mr Graeme Honeyborne, who held the post of Society Secretary on an interim basis, stepped down from that role on 31 March 2015. Mr Gee was appointed Society Secretary with effect from 1 April 2015.

The Board considers that the current staffing complement 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.

As part of the going concern assessment in connection with the financial statements for the year to 31 December 2014 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 the 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 28 August 2015.

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 2015 and those comparable figures for the half year ended 30 June 2014 are unaudited. The figures for the year ended 2014 are extracted from the 2014 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 2014 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
D.A. Harding JP FCMA	Chairman
P.A. Lynch	Operations Director
F.B. Smith	Non-Executive Director

Signed on behalf of the Board of Directors

D.A. Harding
Chairman
28 August 2015

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	note	Unaudited 6 months to 30 Jun 15 £000	Unaudited 6 months to 30 Jun 14 £000	Audited 12 months to 31 Dec 14 £000
Interest receivable and similar income	*1*	7,985	9,857	18,609
Interest expense and similar charges		(3,066)	(4,331)	(7,973)
Net interest income		4,919	5,526	10,636
Other operating income		311	206	543
Other operating charges		(45)	(26)	(103)
Income from investments		745	-	-
(Loss)/profit from derivatives	*4*	(3)	(8)	9
Net loss on financial assets designated at fair value through profit and loss		(46)	(252)	(314)
Total operating income		5,881	5,446	10,771
Administrative expenses and depreciation		(3,406)	(2,931)	(6,072)
Operating profit before impairment and provisions		2,475	2,515	4,699
Impairment losses	*1,9*	(126)	(313)	33
Financial Services Compensation Scheme levy	*17*	(371)	(550)	(430)
Profit for the period before taxation		1,978	1,652	4,302
Income tax credit/(expense)	*5*	105	(1,031)	150
Profit for the period		2,083	621	4,452

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited 6 months to 30 June 2015

	Retained Earnings £000	Subscribed capital £000	PPDS £000	Total £000
Balance at 1 January 2015	(141)	9,788	17,461	27,108
Transactions with equity holders - interest on PIBS	(337)	-	-	(337)
Tax credit re: interest paid to PIBS holders	68	-	-	68
Profit and comprehensive income for the period	2,083	-	-	2,083
Balance at 30 June 2015	1,673	9,788	17,461	28,922

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

Audited 12 months to 31 December 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	(675)	-	-	(675)
Tax credit re: interest paid to PIBS holders	135	-	-	135
Profit and comprehensive income for the year	4,452	-	-	4,452
Balance at 31 December 2014	(141)	9,788	17,461	27,108

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	note	Unaudited 30 Jun 15 £000	Unaudited 30 Jun 14 £000	Audited 31 Dec 14 £000
Assets				
Liquid assets	6	92,675	110,400	104,820
Derivative financial instruments		2,969	1,465	2,146
Loans and advances to customers	7	355,638	420,824	387,372
Investments		-	250	250
Property, plant and equipment		8,231	8,302	8,313
Current tax assets		357	-	356
Deferred tax assets	10	4,715	3,293	4,542
Other assets		845	738	948
Total assets		465,430	545,272	508,747

		Unaudited 30 Jun 15 £000	Unaudited 30 Jun 14 £000	Audited 31 Dec 14 £000
Liabilities				
Due to members		348,442	410,822	389,475
Deposits from banks and others	11	64,668	87,585	68,454
Derivative financial instruments		153	186	-
Other liabilities and charges	12	4,045	2,432	3,010
Subordinated liabilities	13	14,200	15,700	15,700
Subscribed capital	14	5,000	5,000	5,000
Total liabilities		436,508	521,725	481,639
Equity				
Retained earnings		1,673	(3,702)	(141)
Subscribed capital	14	9,788	9,788	9,788
Profit participating deferred shares	15	17,461	17,461	17,461
Total equity		28,922	23,547	27,108
Total equity and liabilities		465,430	545,272	508,747

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited 6 months to 30 Jun 15 £000	Unaudited 6 months to 30 Jun 14 £000	Audited 12 months to 31 Dec 14 £000
Net cash flows from operating activities	(11,549)	(65,464)	(70,655)
Taxation paid	-	-	-
Net cash flows from investing activities	15,450	15,146	7,000
Net cash flows from financing activities	(537)	(337)	(1,071)
Net increase/(decrease) in cash and cash equivalents	3,364	(50,655)	(64,726)
Net increase/(decrease) in cash and cash equivalents	3,364	(50,655)	(64,726)
Cash and cash equivalents at the start of the period	89,233	153,959	153,959
Cash and cash equivalents at the end of the period	92,597	103,304	89,233

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The half yearly financial information for the 6 months ended 30 June 2015 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 2014 has been extracted from the 2014 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 2015 and the 6 months ended 30 June 2014 are unaudited.

During the second half of 2014 the Group changed the method by which it calculates interest receivable in respect of impaired loan assets in order to bring it into line with IAS 39. This resulted in off-setting adjustments to both interest receivable and impairment losses; there was no impact on profit before taxation. The financial information for the 6 months ended 30 June 2014 has been similarly adjusted, reducing the figures for both interest receivable and mortgage losses as previously reported for this period by £376k.

This financial information should be read in conjunction with the 2014 Annual Report and Accounts.

The half yearly financial information has been prepared consistently with the accounting policies described on pages 18 to 21 of the 2014 Annual Report and Accounts. There are no new accounting standards which have been adopted during the period; there have been some minor amendments to existing standards, but none of these have materially affected the results reported for the 6 months ended 30 June 2015.

The Group expects that the accounting policies that will be applied at the time of compiling the 2015 Annual Report and Accounts will be materially the same as for the 2014 Annual Report and Accounts.

2. 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. The fair value of the Permanent Interest Bearing Shares which are classified as liabilities (see note 13) is based on the market price for those instruments. This liability is grouped into the fair value hierarchy under level 1, as set out below.

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, as set out below.

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. These financial assets are grouped into the fair value hierarchy under level 2, as set out below.

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.

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.

A comparison between the carrying values and fair values of the Society's assets and liabilities is shown in the following table (see over).

	30 June 2015		30 June 2014		31 December 2014	
	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	63,202	63,202	78,898	78,898	63,053	63,053
Loans and advances to credit institutions	29,395	29,395	23,872	23,872	26,206	26,206
Investment securities	78	78	7,630	7,630	15,561	15,561
Derivative financial instruments	2,969	2,969	1,465	1,465	2,146	2,146
Loans and advances to customers	355,638	350,791	420,824	413,644	387,372	382,068
Investments	-	-	250	250	250	250
	451,282	446,435	532,939	525,759	494,588	489,284
Financial liabilities						
Due to members	348,442	348,421	410,822	410,853	389,475	389,512
Deposits from banks	1,507	1,507	2,506	2,506	1,508	1,508
Other deposits	63,161	63,161	85,079	85,079	66,946	66,946
Derivative financial instruments	153	153	186	186	-	-
Other borrowed funds	14,200	14,200	15,700	15,700	15,700	15,700
Subscribed capital	5,000	5,937	5,000	5,200	5,000	6,000
	432,463	433,379	519,293	519,524	478,629	479,666

3. 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.

4. (Loss)/profit from derivatives

	Unaudited 6 months to 30 Jun 15 £000	Unaudited 6 months to 30 Jun 14 £000	Audited 12 months to 31 Dec 14 £000
Fair value movement of derivatives	(3)	(8)	9
(Loss)/profit	(3)	(8)	9

5. Income tax

	Unaudited 30 Jun 15 £000	Unaudited 30 Jun 14 £000	Audited 31 Dec 14 £000
Results for the year before tax	1,978	1,652	4,302
Tax rate	20.25%	21.50%	21.50%
Expected tax expense	401	355	925
Adjustments for non-deductible items	14	14	28
Non-taxable profit on disposal of shares	(151)	-	-
Deferred tax movement closing rate / average rate difference	(1)	(20)	(67)
(Increase) / reduction in deferred tax asset recognised	(173)	682	(1,269)
Current period timing difference	(195)	-	
Adjustment in respect of prior years – deferred tax	-	-	233
Actual tax (credit) / expense	(105)	1,031	(150)

6. Liquid assets

	Unaudited 30 Jun 15 £000	Unaudited 30 Jun 14 £000	Audited 31 Dec 14 £000
Cash and balances with the Bank of England	63,202	78,900	63,053
Loans and advances to credit institutions	29,395	23,870	26,206
Investment securities	78	7,630	15,561
	92,675	110,400	104,820

7. Loans and advances to customers

	Unaudited 30 Jun 15 £000	Unaudited 30 Jun 14 £000	Audited 31 Dec 14 £000
Fully secured on residential property	324,760	385,381	354,437
Fully secured on land	29,301	33,599	31,278
Other loans	1,577	1,844	1,657
	355,638	420,824	387,372

8. Investments

During April 2015 the Society completed the sale of its shareholding in New Life Home Finance Limited to Legal and General Group plc for consideration of £995k. The profit on sale is shown under 'income from investments' on the income statement.

9. Impairment losses

	Unaudited 30 Jun 15 £000	Unaudited 30 Jun 14 £000	Audited 31 Dec 14 £000
Impairment charge/(credit) for the period	126	313	(33)
Impairment provision at the end of the period:			
Loans fully secured on residential property	14,453	15,506	14,601
Other loans	3,158	2,702	3,188
Total	17,611	18,208	17,789

10. Deferred tax assets

	Unaudited 30 Jun 15 £000	Unaudited 30 Jun 14 £000	Audited 31 Dec 14 £000
Tax losses	613	871	349
Deferred tax movement on timing differences on derivative contracts	4,118	2,444	4,236
Other provisions	(16)	(22)	(43)
	4,715	3,293	4,542

11. Deposits from banks and others

	Unaudited 30 Jun 15 £000	Unaudited 30 Jun 14 £000	Audited 31 Dec 14 £000
Deposits from banks	1,507	2,506	1,508
Other deposits	63,161	85,079	66,946
	64,668	87,585	68,454

12. Other liabilities and charges

	Unaudited 30 Jun 15 £000	Unaudited 30 Jun 14 £000	Audited 31 Dec 14 £000
FSCS Levy (see Note 17)	585	825	214
Other liabilities	3,460	1,607	2,796
Total	4,045	2,432	3,010

13. Subordinated liabilities

	Unaudited 30 Jun 15 £000	Unaudited 30 Jun 14 £000	Audited 31 Dec 14 £000
Loan (repay 2015) interest: 7.362% (note)	-	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
	14,200	15,700	15,700

Note: the subordinated loan which paid a fixed interest rate of 7.362% was repaid in March 2015.

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 15 £000	Unaudited 30 Jun 14 £000	Audited 31 Dec 14 £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 15 £000	Unaudited 30 Jun 14 £000	Audited 31 Dec 14 £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 15 £000	Unaudited 30 Jun 14 £000	Audited 31 Dec 14 £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

	Transitional unaudited 6 months to 30 Jun 15 £000	Transitional unaudited 6 months to 30 Jun 14 £000	Transitional audited 12 months to 31 Dec 14 £000
Tier 1 Capital			
Common Equity Tier 1 Capital (CET 1)			
Retained Earnings	754	(1,374)	754
Profit Participating Deferred Shares	17,461	17,461	17,461
Deductions from CET 1	(2,755)	(1,703)	(3,030)
Total CET 1 Capital	15,460	14,384	15,185
Other Tier 1 Capital			
Permanent Interest Bearing Shares	10,352	11,831	11,831
Total Tier 1 Capital	25,812	26,215	27,016
Tier 2 Capital			
Subordinated Debt	12,700	12,360	13,255
Collective Provision	2,612	3,016	2,850
Permanent Interest Bearing Shares	4,436	-	2,958
Restriction on Tier 2 Capital	(389)	-	-
Total Tier 2 Capital	19,359	15,376	19,063
Total Regulatory Capital	45,171	41,591	46,079
Risk Weighted Assets	208,927	241,218	228,027

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.

The Capital calculations shown above are based on the new regulations and are presented on the transitional basis, recognising the amortisation profile.

Additional new rules came into effect on 1 January 2015. The Society held sufficient capital in tier 1 and tier 2 to meet all of the new requirements save for one. The requirement that was not met compares the Society's CET1 capital to the overall capital that the PRA requires the Society to hold; as a result of the mix of the Society's capital it fell marginally short of this requirement. The Board's financial projections indicate that this position will correct itself during 2015.

17. Financial Services Compensation Scheme

	Unaudited 6 months to 30 Jun 15	Unaudited 6 months to 30 Jun 14	Audited 12 months to 31 Dec 14
FSCS Provision for liabilities and charges	£000	£000	£000
At start of period	214	275	275
Charge for the period	371	550	430
Provision utilised	-	-	(491)
At end of period	585	825	214

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 2014 includes the expected management expenses levy for the FSCS scheme year 2014/2015. The shortfall capital levy for the FSCS scheme year 2013/2014, was received during 2014 and recognised as a charge in the Statement of Comprehensive Income for 2014. 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.

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 2015 in a manner similar to that disclosed in the 2014 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 2015 are similar in nature to those for the year ended 31 December 2014.

The key management personnel remain unaltered from those disclosed at 31 December 2014 save for Messrs Gee and Smith, who resigned from the Board on 31 March 2015 and 29 April 2015 respectively; and Mr Honeyborne, whose contract came to an end on 31 May 2015.

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 2014 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 15 %	Unaudited 6 months to 30 Jun 14 %	Audited 12 months to 31 Dec 14 %
Gross capital as a percentage of shares and borrowings	11.65	8.88	10.44
Liquid funds as a percentage of shares and borrowings	22.43	22.15	22.89
Wholesale deposits as a percentage of shares and borrowings	7.22	9.88	7.91
Profit after tax as a percentage of mean total assets *(expressed on an annualised basis)*	0.33	0.19	0.77
Group management expenses as a percentage of mean total assets *(expressed on an annualised basis)*	1.42	0.88	1.05
Leverage ratio	5.26	4.22	4.60