MANCHESTER BUILDING SOCIETY GROUP

CONDENSED CONSOLIDATED HALF YEARLY FINANCIAL INFORMATION

30 JUNE 2016

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Introduction

The Directors are pleased to present the Condensed Consolidated Half Yearly Financial Information of the Group for the six months ended 30 June 2016.

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 position of NMB Mortgage Acquisition Company Limited (in administration) ("NMB MAC"), where the Group exerts control notwithstanding that it holds no shares in that entity.

Strategic summary

The Group's strategy since 2013 has been to reduce its risks and conserve its regulatory capital. This strategy was necessary because of events that led to a material write-down of the Society's reserves following a change in the accounting treatment of certain financial assets.

As explained in the 2015 Annual Report and Accounts the Society has insufficient Common Equity Tier 1 ("CET1"), a measure of the quality of capital held necessary to return to lending. As a result the Board has continued to explore options, in discussion with the Prudential Regulation Authority ("PRA"), to secure the future of the Society in the best interests of members.

During the first half of 2016 considerable effort has been made to progress viable alternatives with the Board taking external professional advice as necessary. In addition, the Board has continued to pursue the Society's legal claim against the previous external auditors, Grant Thornton UK LLP. Accordingly the administrative expenses have risen.

The Society experienced further impairment of the Spanish Lifetime book, mainly associated with adverse movements in foreign exchange rates and slower than forecast Spanish house price inflation, and additional costs for the customer redress programme on the second charge loan portfolios.

Net interest income has declined as a consequence of the ongoing run-off of the mortgage portfolio, and this together with the higher administrative costs and further impairment charges have led to a loss of £1.4m for the 6 months ended 30 June 2016.

As at 30 June 2016 the Society met its Individual Capital Guidance ("ICG") but as a result of the loss in the period has a CET1 regulatory capital shortfall against its Combined Buffer requirement. The Society will therefore not be paying the October coupon on the Permanent Interest Bearing Shares ("PIBS") as, in order to conserve capital, such a distribution is prohibited under the Capital Requirements Directive ("CRD IV") article 141. In addition the Society is required by CRD IV article 142 to submit a Capital Conservation Plan to the PRA setting out proposed measures to improve the regulatory capital position.

The Board expects to discuss and consult with the PRA on the Capital Conservation Plan. At present the outcome and timing of this regulatory process is uncertain.

The Group's results for the period are explained in detail in the sections that follow, along with the principal risks and uncertainties that the Group faces.

Business review

The Group recorded a loss after taxation for the six months ended 30 June 2016 of £1,400k, compared to a profit for the 6 months ended 30 June 2015 of £2,083k, however, the results for the first half of 2015 included a profit of £745k made on the disposal of the Group's minority share in New Home Finance Limited in April 2015.

Mortgage assets have reduced by 12% since 30 June 2015 and by 5% since the end of 2015 as the Group continued in the period to make no new advances in order to conserve its capital.

The Group's net interest income reduced by 14% compared to the comparative period in 2015 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 2015, this was compensated for by both the lower level of interest paid on retail savings products and also the proportionately lower levels of retail funding held in the period as liquidity was managed down. Retail balances at the end of June 2016 were £300m, some £25m lower than the position reported at the end of December 2015.

Interest receivable and similar income and thus net interest income in the period is stated after a charge of £223k (6 months ended 30 June 2015: £nil) in respect of the provision for customer redress, whilst for the 12 months ended 31 December 2015 these figures were reduced by a charge of £995k in respect of customer redress.

Other operating income at £381k was £70k higher than in the comparative period in 2015. Mortgage redemption fee income and arrears interest was £93k lower than in the comparative period, in line with the run-off and increased maturity of the mortgage book, however, this was outweighed by exchange gains in the period of £285k compared to £114k in the first half of 2015.

The Group's administrative expenditure was £981k (29%) higher than that of the comparative period in 2015. This is largely due to professional costs incurred in exploring options with a view to securing the future of the Society given its CET1 regulatory capital position and the ongoing run-off of the balance sheet. In addition, the Society has continued to incur costs in pursuing its claim against Grant Thornton UK LLP, the Society's previous external auditors, and has provided a further £193k in respect of other costs associated with the customer redress exercise as explained on page 5.

Impairment losses of £1,430k were recorded in the period in respect of the Group's mortgage and loan books, compared to losses of £126k in the first half of 2015. The increased loss was principally due to there being a charge incurred of £743k in respect of the Spanish lifetime portfolio in the period, compared to a £574k reduction in this provision in the first half of 2015. The charge in respect of this portfolio included an exchange loss of £447k in the period as the value of Sterling fell against the Euro, whilst the impairment credit for the first half of 2015 included the benefit of a £439k exchange gain as Sterling strengthened in that period.

Excluding the impact of exchange rate movements on the Spanish provision there was a charge in the period of £296k in the first half of 2016 in respect of the portfolio since actual Spanish house price inflation was below the external independent forecast applied at year end, whilst there was a credit of £135k in the first half of 2015 as the result of improvement in actual house prices in Spain which continued throughout 2015.

The 2015 charge was made up of impairment losses of £748k in respect of loan and mortgage assets, which is stated net of an exchange gain of £281k in respect of the Spanish lifetime portfolio, and an impairment charge of £2,471k in respect of the carrying value of the Group's head office building as explained on pages 43 and 44 of the 2015 Annual Report and Accounts.

The results for the half year include the full year's charge for the Financial Services Compensation Scheme Levy.

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 2016 there were 13 mortgage accounts where payments were 12 or more months in arrears (31 December 2015: 15). Outstanding balances on these accounts were £6.3m (31 December 2015: £5.5m), with total arrears of £0.9m (31 December 2015: £0.8m), representing 1.9% of total gross mortgage balances (31 December 2015: 1.6%). The percentage of assets 12 months or more in arrears has increased because of the declining level of total mortgage assets in the half year and the absence of new lending. However, the underlying arrears performance has been stable. These figures exclude the NMB MAC and CLC second charge portfolios where there is insufficient reliable data to present accurate arrears banding information.

The customer redress exercise in respect of instances of non-compliance with the Consumer Credit Act 1974 ("CCA") within these second charge portfolios, which was disclosed on page 53 of the 2015 Annual Report and Accounts, is in progress but not yet complete. The estimated cost of redress for non-compliance has been increased by £223k at 30 June 2016 from that provided at 31 December 2015. As noted above a further charge of £193k has been recorded in the half year in respect of the operational costs associated with the customer redress exercise. The movement on the customer redress provision during the period is set out in Note 12.

High 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. Within liquid funds only £0.1m (31 December 2015 £0.1m) of investment securities were held.

Risks and uncertainties

Given the CET1 regulatory capital shortfall against the Combined Buffer, the requirement for an increase in CET1 capital in order to return to lending, and the assessed prospects for the business and its capital position without such a return, there is a material uncertainty arising from the continued run-off of the balance sheet. The Board is assessing a number of options to develop a strategy to secure the long term future of the Group. The immediate focus is on measures to improve the capital position of the Group and given the shortfall against the Combined Buffer under CRD IV article 142 a Capital Conservation Plan is required to be submitted to the PRA.

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 Group 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.

A full explanation of the Board's assessment of the risks and uncertainties that are faced by the Group is set out in the 2015 Annual Report and Accounts.

Since the 2015 Annual Report and Accounts were approved the UK has voted in a referendum to leave the European Union ("EU"). The impact of this on government policy, the financial markets and the wider economy is unknown. With regard to the Group's Spanish lifetime portfolio this introduces additional uncertainty and risk which the Board is monitoring; in particular there is added risk and uncertainty in relation to foreign exchange volatility, property values for the Spanish lifetime portfolio and the behavioral impact on Spanish lifetime mortgage borrowers.

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. Credit risk is more of a consideration in relation to loans and advances than in relation to the Group'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, where credit risk is assessed as being very low.

  The assessment of credit risk and the related impairment provisioning is a critical accounting estimate, impacted by judgements relating to customer affordability and the impact of economic circumstances, including the level of interest rates.

  The Board's assessment is that the credit risk that the Group faces has not altered since the publication of the 2015 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 2015.

- ***Insurance risk:*** Impairment assessments incorporate the insurance risk attaching to the Group's lifetime mortgage contracts, which are euro-denominated. The risk arises from a contractual term within the contract for the Group's lifetime mortgage contracts assets which in certain circumstances precludes the Group from pursuing the borrower or their estate for any shortfall on redemption.

- ***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 teams, reported to executive management every week and considered by the Board each month. Throughout 2016, the Group has continued to have a significant proportion of its liquid assets deposited with the Bank of England.

- ***Capital risk:*** In order to conserve capital, the Group has continued to curtail new lending. The Group has also continued to explore ways in which the regulatory capital position could be improved, including by the sale of assets. In the medium term, however, the regulatory capital position is dependent on profitable and sustainable growth or new sources of capital.

  Accordingly, the Group carried out a detailed evaluation of what would be required to return to growth by resuming residential mortgage lending. This included an assessment of additional CET1 capital required to resume lending. In the absence of this, the Group's balance sheet and scale of operations is likely to decline in the immediate future. The Board is continuing to review the long term strategic direction of the Group.

The loss in the 6 months ended 30 June 2016 has further reduced CET1 regulatory capital and there is a shortfall against the Combined Buffer requirement. Accordingly, the Group is required by CRD IV article 142 to submit a Capital Conservation Plan to the PRA setting out proposed measures to improve the regulatory capital position. The Board expects to discuss and consult with the PRA on this Capital Conservation Plan. At present the outcome and timing of this regulatory process is uncertain.

- ***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 Group holds. The Board continues in its intention not to hedge its 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 14% of total mortgage assets as at 30 June 2016. 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 Asset and Liability Committee ("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.

  The Group is also exposed to movements in the value of residential and commercial property in both its mortgage impairment provision requirements and those property assets held at fair value; the Group's investment property and the Group's head office building.

- ***Regulatory Risk:*** The majority of the regulatory requirements that the Group faces are laid down by the PRA and the Financial Conduct Authority ("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.

  Within the NMB MAC and CLC portfolios instances of non-compliance with the CCA have been previously identified. Legal advice in this regard has been incorporated within the assessment of the estimate of discounted future cash flows expected to arise from these loans, which form the basis for the impairment provision.

  In addition to considering the impact of any non-compliance on the recoverability of loan balances and thus impairment provisioning, the Group considers the conduct risk which arises from having originated regulated loans and having acquired regulated loan portfolios. As is the case for all financial institutions there is a risk that aspects of current or historic business might be considered as not being conducted in accordance with all relevant regulation, or the fair and reasonable treatment of customers.

  Certain activities of the Group, particularly the NMB MAC and CLC second charge loan portfolios carry greater levels of conduct risk. The administration of the NMB MAC and CLC portfolios was brought in-house in December 2015 and following that transfer the historic conduct of these portfolios was reviewed in detail by management.

As disclosed on page 53 of the 2015 Annual Report and Accounts, following this review, and having incorporated legal advice received, at 31 December 2015 the Group increased its customer redress provision to £1,695k (30 June 2015: a provision of £463k for refunds was included in Other liabilities) to provide for instances of non-compliance with the CCA within the NMB MAC and CLC portfolios. The provision included an estimate of the potential cost of interest refunds during periods of non-compliance and other costs associated with a customer redress exercise.

The customer redress exercise in respect of these second charge portfolios is in progress but not yet complete. As detailed in the Business review section on page 4, a further charge of £416k has been recorded in respect of the customer redress provision in the 6 months to 30 June 2016

The movement on the customer redress provision during the period is set out in Note 12.

Although a detailed review of these portfolios has been carried out, there is no judicial certainty in the legal position and there is a risk that further conduct issues or cases of non-compliance with regulations could be identified in the future. As a result the actual results could differ materially from our estimates.

Provision has been made where the Group is aware of a specific conduct or regulatory issue and can estimate its impact reliably, further details in respect of the Group's consideration of other potential conduct and regulatory issues is provided on page 54 of the 2015 Annual Report and Accounts.

Other Matters

Board and staff changes

There have been no changes in the membership of the Board since 31 December 2015.

On 10 June 2016, Allan Hodges, who was not a director or employee of the Group, stepped down from the role of Interim Chief Executive which he had held since May 2013. He was replaced, subject to regulatory approval, as Interim Chief Executive by Paul Lynch who is a member of the Board.

There have been no further changes in the senior management team from that disclosed in the 2015 Annual Report and Accounts.

Going Concern

The directors consider that it is appropriate for the accounts to be prepared on a going concern basis of accounting as fully explained in Note 1.2 on page 20, which sets out the risks and uncertainties assessed as part of the preparation of the accounts.

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, financial markets and regulation, 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 27 September 2016.

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 2016 and those comparable figures for the half year ended 30 June 2015 are unaudited. The figures for the year ended 2015 are extracted from the 2015 Annual Report and Accounts, prepared in accordance with IFRS as adopted in the EU, on which the Independent Auditors gave an unqualified opinion but did include an emphasis of matter in relation to the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Further details in relation to this are provided in Note 1.2.

The Directors are responsible for the maintenance and integrity of information on the Society's website. Copies of the 2015 Annual Report & Accounts and this Half Yearly Financial Information may be found at: www.themanchester.co.uk/Aboutus/FinancialInformation

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

J.P. Allen	Non-Executive Director
H.F. Baines	Vice Chairman
I.A. Dewar	Non-Executive Director
D.A. Harding	Chairman
P.A. Lynch	Interim Chief Executive
F.B. Smith	Non-Executive Director

Signed on behalf of the Board of Directors

D.A. Harding
Chairman
27 September 2016

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Unaudited 6 months to 30 Jun 16 £000	Unaudited 6 months to 30 Jun 15 £000	Audited 12 months to 31 Dec 15 £000
Interest receivable and similar income		6,755	7,985	14,401
Interest expense and similar charges		(2,549)	(3,066)	(5,853)
Net interest income		4,206	4,919	8,548
Other operating income		381	311	613
Other operating charges		(45)	(45)	(92)
Income from investments	4	-	745	745
Loss from derivatives	5	(13)	(3)	(10)
Net loss on financial assets designated at fair value through profit and loss		(4)	(46)	(46)
Total operating income		4,525	5,881	9,758
Administrative expenses and depreciation		(4,387)	(3,406)	(6,841)
Operating profit before impairment and provisions		138	2,475	2,917
Impairment losses	9	(1,430)	(126)	(3,219)
Financial Services Compensation Scheme levy	12	(108)	(371)	(277)
(Loss)/profit for the period before taxation		(1,400)	1,978	(579)
Income tax credit/(expense)	6	-	105	(4,295)
(Loss)/profit for the period		(1,400)	2,083	(4,874)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited 6 months to 30 June 2016

	Retained Earnings £000	Subscribed capital £000	PPDS £000	Total £000
Balance at 1 January 2016	(5,555)	9,788	17,461	21,694
Transactions with equity holders - interest on PIBS	(337)	-	-	(337)
Tax credit re: interest paid to PIBS holders	-	-	-	-
(Loss) and total comprehensive income for the period	(1,400)	-	-	(1,400)
Balance at 30 June 2016	(7,292)	9,788	17,461	19,957

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 total comprehensive income for the period	2,083	-	-	2,083
Balance at 30 June 2015	1,673	9,788	17,461	28,922

Audited 12 months to 31 December 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	(675)	-	-	(675)
Tax credit re: interest paid to PIBS holders	135	-	-	135
(Loss) and total comprehensive income for the year	(4,874)	-	-	(4,874)
Balance at 31 December 2015	(5,555)	9,788	17,461	21,694

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	Unaudited 30 Jun 16 £000	Unaudited 30 Jun 15 £000	Audited 31 Dec 15 £000
Assets				
Liquid assets	7	54,497	92,675	76,773
Derivative financial instruments		97	2,969	403
Loans and advances to customers	8	312,680	355,638	330,618
Property, plant and equipment		5,878	8,231	5,920
Investment property		781	-	781
Current tax assets		335	357	356
Deferred tax assets	10	382	4,715	382
Other assets		5,047	845	1,343
Total assets		379,697	465,430	416,576

		Unaudited 30 Jun 16 £000	Unaudited 30 Jun 15 £000	Audited 31 Dec 15 £000
Liabilities				
Due to members		299,711	348,442	324,630
Deposits from banks and others	11	32,986	64,668	46,959
Derivative financial instruments		4,114	153	679
Other liabilities		1,414	3,460	1,582
Provisions for liabilities and charges	12	2,315	585	1,832
Subordinated liabilities	13	14,200	14,200	14,200
Subscribed capital	14	5,000	5,000	5,000
Total liabilities		359,740	436,508	394,882
Equity				
Retained earnings		(7,292)	1,673	(5,555)
Subscribed capital	14	9,788	9,788	9,788
Profit participating deferred shares	15	17,461	17,461	17,461
Total equity		19,957	28,922	21,694
Total equity and liabilities		379,697	465,430	416,576

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited 6 months to 30 Jun 16 £000	Unaudited 6 months to 30 Jun 15 £000	Audited 12 months to 31 Dec 15 £000
Net cash flows used in operating activities	(21,700)	(11,549)	(26,088)
Taxation received	21	-	-
Net cash flows from investing activities	(51)	15,450	16,116
Net cash flows from financing activities	(535)	(537)	(2,575)
Net increase/(decrease) in cash and cash equivalents	(22,265)	3,364	(12,547)
Net increase/(decrease) in cash and cash equivalents	(22,265)	3,364	(12,547)
Cash and cash equivalents at the start of the period	76,686	89,233	89,233
Cash and cash equivalents at the end of the period	54,421	92,597	76,686

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation and significant accounting policies

1.1 Basis of preparation

This half yearly financial information for the 6 months ended 30 June 2016 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. This financial information should be read in conjunction with the 2015 Annual Report and Accounts.

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 2015 has been extracted from the 2015 Annual Report and Accounts, prepared in accordance with IFRS as adopted in the EU. In relation to these accounts, the opinion of the Independent Auditors was unqualified but did include an emphasis of matter in relation to the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Further details in relation to this are provided in Note 1.2 below.

The half yearly financial information for the 6 months ended 30 June 2016 and the 6 months ended 30 June 2015 are unaudited.

1.2 Basis of preparation: going concern

The Group's interim financial statements for the 6 months ended 30 June 2016 have been prepared on a going concern basis as explained below.

The long term continuing operation of the Society and the Group is dependent on successfully returning to lend to grow the balance sheet in order to maintain profitability and rebuild regulatory capital. At present the Society has insufficient capital to return to lending and continues to manage a long term run-off of the balance sheet.

As at 30 June 2016 the Society met its ICG but has a CET1 regulatory capital shortfall against its Combined Buffer requirement. Accordingly the Society is required by CRD IV article 142 to submit a Capital Conservation Plan to the PRA setting out proposed measures to improve the regulatory capital position.

As part of this Capital Conservation Plan the Board is developing a number of options which individually or in combination aim to secure the future of the Society, enable it to continue to meet capital requirements and improve the quality of its regulatory capital. These options include improving its capital position including through a capital injection from other parties, or securing its future through merger or alternative means.

The Board expects to discuss and consult with the PRA on the Capital Conservation Plan. The preferred options to improve the regulatory capital position may involve third parties and as such carry execution risk. At present the outcome and timing of this regulatory process is uncertain.

Although the above represents material uncertainties which may cast significant doubt about the Society's and Group's ability to continue as a going concern in the longer term, in the Board's opinion the going concern basis is appropriate.

In order to satisfy themselves that the Society and Group have adequate resources to continue to operate for the foreseeable future as a going concern, the directors have taken into account the following:

- The Group's underlying financial performance and projections;
- The Group's current level of liquidity;
- The Group's financial position as at 30 June 2016;
- The Group's financial projections of income, expenditure, assets, liabilities, liquidity and regulatory capital, including sensitivity analysis. These projections, based on a managed run-off of the balance sheet without a return to lending, indicate that the underlying operations of the Group may not be profitable in the short to medium term. In the medium term it is likely that the net interest margin will be insufficient to cover operating costs and loan impairment charges, resulting in operating losses;
- The ongoing legal claim against and prospects of recovery from Grant Thornton UK LLP, the previous external auditors;
- The planned redress of customers in respect of the acquired NMB MAC and CLC portfolios;
- The challenge of meeting the CET1 regulatory capital requirements and the measures available to the Society to improve the regulatory capital position;
- Ongoing discussions with the PRA and other stakeholders regarding the development of a plan to secure the future of the Society and its strategic direction;
- The operational risks faced by the Society to develop and deliver the strategic plans;
- The Group's principal risks and uncertainties as set out on pages 5 to 8.

Should there be a material stress event in the economy or to financial markets that adversely impacts the Society, or the current options available to the Society are shown to not be viable, then there is less certainty as to the going concern position of the Society.

Having due regard to these matters and after taking into consideration the material uncertainties above, the Board continues to adopt the going concern basis of accounting in preparing the financial statements.

1.3 Basis of preparation: accounting policies

The half yearly financial information has been prepared consistently with the accounting policies described on pages 20 to 24 of the 2015 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 2016.

The Group expects that the accounting policies that will be applied at the time of compiling the 2016 Annual Report and Accounts will be materially the same as for the 2015 Annual Report and Accounts.

2. Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between knowledgeable, willing market participants at the measurement date.

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 14) 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 economic purposes. 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 fair value measurement basis used is 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 or liabilities are valued using this technique.

A comparison between the carrying values and fair values of the Society's financial assets and liabilities is shown in the following table:

	30 June 2016		30 June 2015		31 December 2015	
	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	36,047	36,047	63,202	63,202	55,861	55,861
Loans and advances to credit institutions	18,385	18,385	29,395	29,395	20,838	20,838
Investment securities	65	65	78	78	74	74
Derivative financial instruments	97	97	2,969	2,969	403	403
Loans and advances to customers	312,680	303,390	355,638	350,791	330,618	324,374
	367,274	357,984	451,282	446,435	407,794	401,550
Financial liabilities						
Due to members	299,711	299,786	348,442	348,421	324,630	324,645
Deposits from banks	-	-	1,507	1,507	2,002	2,002
Other deposits	32,986	32,986	63,161	63,161	44,957	44,957
Derivative financial instruments	4,114	4,114	153	153	679	679
Other borrowed funds	14,200	14,200	14,200	14,200	14,200	14,200
Subscribed capital	5,000	3,425	5,000	5,937	5,000	5,975
	356,011	354,511	432,463	433,379	391,468	392,458

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. Income from investments

	Unaudited 6 months to 30 Jun 16 £000	Unaudited 6 months to 30 Jun 15 £000	Audited 12 months to 31 Dec 15 £000
Profit on sale of shareholding in New Life Home Finance Limited	-	745	745

In April 2015 the Group sold its minority share in New Life Home Finance Limited to Legal and General Group plc.

5. Loss from derivatives

	Unaudited 6 months to 30 Jun 16 £000	Unaudited 6 months to 30 Jun 15 £000	Audited 12 months to 31 Dec 15 £000
Fair value movement of derivatives	(13)	(3)	(10)

6. Income tax

	Unaudited 30 Jun 16 £000	Unaudited 30 Jun 15 £000	Audited 31 Dec 15 £000
Results for the year before tax	(1,400)	1,978	(579)
Tax rate	20.00%	20.25%	20.25%
Expected tax expense	(280)	401	(117)
Adjustments for non-deductible items	7	14	517
Income not taxable	-	(151)	(146)
Deferred tax movement closing rate / average rate difference	-	(1)	(11)
Current year losses for which no deferred tax asset recognised	405	-	587
(Increase) / reduction in deferred tax asset recognised	-	(173)	3,454
Current period timing differences for which no deferred tax asset recognised	(132)	(195)	11
Actual tax (credit) / expense	-	(105)	4,295

7. Liquid assets

	Unaudited 30 Jun 16 £000	Unaudited 30 Jun 15 £000	Audited 31 Dec 15 £000
Cash and balances with the Bank of England	36,047	63,202	55,861
Loans and advances to credit institutions	18,385	29,395	20,838
Investment securities	65	78	74
	54,497	92,675	76,773

8. Loans and advances to customers

	Unaudited 30 Jun 16 £000	Unaudited 30 Jun 15 £000	Audited 31 Dec 15 £000
Fully secured on residential property	285,853	324,760	302,441
Fully secured on land	25,773	29,301	26,802
Other loans	1,054	1,577	1,375
	312,680	355,638	330,618

9. Impairment losses

	Unaudited 30 Jun 16 £000	Unaudited 30 Jun 15 £000	Audited 31 Dec 15 £000
Impairment losses on loans and advances to customers	1,430	126	748
Impairment of property, plant and equipment	-	-	2,471
Total impairment losses for the period	1,430	126	3,219
Impairment provision on loans and advances to customers, at the end of the period:			
Loans fully secured on residential property	14,639	14,453	13,611
Other loans	4,682	3,158	4,401
Total	19,321	17,611	18,012

10. Deferred tax assets

	Unaudited 30 Jun 16 £000	Unaudited 30 Jun 15 £000	Audited 31 Dec 15 £000
Tax losses	5	613	5
Deferred tax movement on timing differences on derivative contracts	443	4,118	445
Accelerated tax depreciation	(68)	-	(70)
Other provisions	2	(16)	2
	382	4,715	382

11. Deposits from banks and others

	Unaudited 30 Jun 16 £000	Unaudited 30 Jun 15 £000	Audited 31 Dec 15 £000
Deposits from banks	-	1,507	2,002
Other deposits	32,986	63,161	44,957
	32,986	64,668	46,959

12. Provisions for liabilities and charges

FSCS levy	Unaudited 6 months to 30 Jun 16 £000	Unaudited 6 months to 30 Jun 15 £000	Audited 12 months to 31 Dec 15 £000
At start of period	137	214	214
Charge for the period	108	371	277
Provision utilised	-	-	(354)
At end of period	245	585	137

Customer redress	Unaudited 6 months to 30 Jun 16 £000	Unaudited 6 months to 30 Jun 15 £000	Audited 12 months to 31 Dec 15 £000
At start of period	1,695	-	-
Transferred from other liabilities/impairment provision	100	-	463
Charge for the period	416	-	1,232
Provision utilised	(141)	-	-
At end of period	2,070	-	1,695
Total provisions for liabilities and charges at the end of the period	2,315	585	1,832

(i) Financial Services Compensation Scheme ("FSCS levy")

The Society's provision for FSCS charges arises from its operation as a UK deposit taker. The FSCS levy consists of two parts- a management expenses levy, which covers the interest cost of running the scheme, and a capital levy to cover the cost of the compensation paid, net of any recoveries.

The expected management expenses levy for the FSCS scheme year 2015-16 had been provided at the end of 2015. The charge for the half year to 30 June 2016 is in respect of the expected management expenses levy for the FSCS scheme year 2016-17. This charge represents the expected full cost of the FSCS levy for the financial year.

No provision is made for scheme years beyond these periods. The levy is paid during the third quarter each year and the Society does not expect to recover any sums paid.

(ii) Customer redress provision

The customer redress provision is held in relation to a customer redress exercise in respect of instances of non-compliance with the CCA within the NMB MAC and CLC second charge portfolios. Fuller details of this exercise, which is in progress but not yet complete, may be found within the Business review section on Page 4 and the Regulatory risk section on Page 7.

The Directors consider the customer redress provision to be a critical accounting estimate.

13. Subordinated liabilities

	Unaudited 30 Jun 16 £000	Unaudited 30 Jun 15 £000	Audited 31 Dec 15 £000
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: 6.70%	5,000	5,000	5,000
	14,200	14,200	14,200

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. PIBS coupons are non-cumulative.

Classified as a liability:	Unaudited 30 Jun 16 £000	Unaudited 30 Jun 15 £000	Audited 31 Dec 15 £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 16 £000	Unaudited 30 Jun 15 £000	Audited 31 Dec 15 £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 16 £000	Unaudited 30 Jun 15 £000	Audited 31 Dec 15 £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 Common 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 Common 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

The Board manages capital within the regulatory limits set by the PRA.

On 11 April 2016, the Society received a new ICG from the PRA setting out the amount of regulatory capital the Society is required to hold.

Following the receipt of this new ICG, on 13 July 2016 the PRA granted permission for the Group to calculate and report its regulatory capital on a "Total Group" basis with the regulatory capital group being made up of the Society, MBS (Mortgages) Limited and MBS (Property) Limited. Prior to this regulatory capital had been calculated and reported on a "Solo Group" basis with the regulatory capital group being made up of the Society and MBS (Mortgages) Limited.

To present the effect of this change the regulatory capital position at 30 June 2016 set out below is on a Total Group basis, whilst the positions at 30 June 2015 and 31 December 2015 are on a Solo Group basis.

	Unaudited 6 months to 30 Jun 16 Total Group £000	Unaudited 6 months to 30 Jun 15 Solo Group £000	Audited 12 months to 31 Dec 15 Solo Group £000
Tier 1 Capital			
Common Equity Tier 1 Capital (CET1)			
Retained Earnings	(7,292)	754	(3,125)
Profit Participating Deferred Shares	17,461	17,461	17,461
Deductions	-	(2,755)	(1)
Total CET1 Capital	10,169	15,460	14,335
Other Tier 1 Capital			
Permanent Interest Bearing Shares			
-Nominal balance	14,788	14,788	14,788
-Amortisation	(5,915)	(4,437)	(4,437)
Net Permanent Interest Bearing Shares	8,873	10,351	10,351
Total Tier 1 Capital	19,042	25,811	24,686
Tier 2 Capital			
Subordinated Debt			
-Nominal balance	14,200	14,200	14,200
-Amortisation	(2,000)	(1,500)	(1,500)
Net Subordinated Debt	12,200	12,700	12,700
Collective Provision	2,057	2,612	2,155
Permanent Interest Bearing Shares	5,915	4,436	4,437
Restriction on Tier 2 Capital	-	(389)	-
Total Tier 2 Capital	20,172	19,359	19,292
Total Regulatory Capital	39,214	45,170	43,978

Since the start of 2016 Total Regulatory Capital under CRD IV has decreased by £4,764k from £43,978k to £39,214k.

£2,463k of this decrease results from the change in the regulatory capital from a Solo Group to a Total Group basis, as follows:

- there is a requirement to deduct the historic retained losses of MBS (Property) Limited as at 31 December 2015, amounting to £2,430k;
- a reduction in the allowed collectively identified provisions of £34k; and
- a reduction of £1k in the required deduction from CET1 Capital.

£2,301 of the decrease results from ongoing operations, made up as follows:

- the retained loss of the revised regulatory capital group for the half year of £1,737k;
- the continued amortisation of Subordinated debt out of Tier 2 capital over a 9 year period, amounting to £500k in the half year; and
- reduction in the allowed collectively identified provisions of £64k.

As at 31 December 2015 the Society held sufficient capital in Tier 1 and Tier 2 to meet all of the regulatory capital requirements then in place. However, one regulatory expectation that was not met compares the Society's actual CET1 capital to the level of CET1 capital that the PRA expects the Society to hold. The Society had also fallen marginally short of this expectation as at 31 December 2014 due to the mix of capital held and during 2015 had continued to focus on rebuilding its capital position. However, the significant write downs in respect of both the intercompany loan with MBS (Property) Limited and the deferred tax asset, combined with increased customer redress provisioning depleted CET1 regulatory capital further. As a consequence there was a shortfall of £1.6m against this CET1 expectation as at 31 December 2015. Under the new regulatory capital regime effective 1 January 2016, at that date there was a £2.8m shortfall.

On 11 April 2016, the Society received new Individual Capital Guidance ("ICG") from the PRA setting out the amount of regulatory capital the Society is required to hold. As at 30 June 2016 the Society met the new ICG. Due to the loss incurred in the 6 months ended 30 June 2016 there was CET1 regulatory capital shortfall against the Combined Buffer requirement. Accordingly the Society is required by CRD IV article 142 to submit a Capital Conservation Plan to the PRA setting out proposed measures to improve the regulatory capital position. The Board expects to discuss and consult with the PRA on the Capital Conservation Plan. At present the outcome and timing of this regulatory process is uncertain.

17. 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 2016 in a manner similar to that disclosed in the 2015 Annual Report and Accounts. Accordingly, transactions with these related parties are entered into in the normal course of business; related party transactions, for the half year to 30 June 2016 are similar in nature to those for the year ended 31 December 2015.

On 10 June 2016, Allan Hodges, stepped down from the role of Interim Chief Executive. He was replaced, subject to regulatory approval, as Interim Chief Executive by Paul Lynch who is a member of the Board. Save for this change, the key management personnel remain unaltered from those disclosed at 31 December 2015.

Where the services of key management personnel are provided by entities controlled by them, then transactions with these entities are consistent with those disclosed in the 2015 Annual Report and Accounts.

18. Financial commitments

There is no material change to the Group's financial commitments from the position reported in the 2015 Annual Report and Accounts

19. Contingent liabilities and assets

(i) Contingent liabilities

Given the high level of scrutiny regarding financial institutions' treatment of customers and business conduct from regulatory bodies and other sources there is a risk that certain aspects of the Group's current or historic business, including, amongst other things, CCA regulated loans, may be determined by the FCA and other regulatory bodies or the courts as, in their opinion, not being conducted in accordance with applicable laws or regulations, or fair and reasonable treatment.

As detailed in the Regulatory risk section on page 7 and Note 12, provision has been made, where the Group is aware of a specific conduct issue and can estimate its impact reliably.

As disclosed in page 54 of the 2015 Annual Report and Accounts there is a risk that other aspects of the Group's business might be considered as not having been conducted in accordance with all relevant regulation, or the fair and reasonable treatment of customers. It is also not possible to rule out the possibility of other instances of non-compliance with CCA or other regulations which have not been identified. No provisions against these risks are included in these accounts.

(ii) Contingent assets

There is no material change to the Group's contingent asset, in relation to its claim against Grant Thornton UK LLP, from the position reported in the 2015 Annual Report and Accounts.

19. Events after the end of the reporting period

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

20. Other Ratios

	Unaudited 6 months to 30 Jun 16 %	Unaudited 6 months to 30 Jun 15 %	Audited 12 months to 31 Dec 15 %
Gross capital as a percentage of shares and borrowings	11.77	11.65	11.01
Liquid funds as a percentage of shares and borrowings	16.38	22.43	20.66
Wholesale deposits as a percentage of shares and borrowings	3.54	7.22	4.97
(Loss)/profit after tax as a percentage of mean total assets *(expressed on an annualised basis)*	(0.70)	0.33	(1.05)
Group management expenses as a percentage of mean total assets *(expressed on an annualised basis)*	2.20	1.42	1.48
Leverage ratio	4.99	5.26	5.60