MANCHESTER BUILDING SOCIETY GROUP

CONDENSED CONSOLIDATED HALF YEARLY FINANCIAL INFORMATION

30 JUNE 2017

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Introduction

The Directors present their Condensed Consolidated Half Yearly Financial Information of the Group for the six months ended 30 June 2017.

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 regulatory capital through a reduction in the size of its balance sheet. 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 2016 Annual Report and Accounts, the Society has insufficient Common Equity Tier 1 ("CET1") a measure of the quality of capital, 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 its members.

During the first half of 2017 the Board continued to look at options to improve the capital position including the persuit of the Society's legal claim against the previous external auditors, Grant Thornton UK LLP. This is scheduled for the trial to begin in January 2018. The costs associated with this legal action adversely affect the administrative expenses of the Group.

The Society experienced a further increase in the insurance risk on the Spanish loan book, mainly associated with lower growth rates included in an updated forecast of Spanish house price inflation.

The customer redress exercise in respect of instances of non-compliance with the Consumer Credit Act 1974 ("CCA") within the second charge portfolios disclosed on page 57 of the 2016 Annual Report and Accounts is largely completed. Following the actions taken, the estimated cost of redress for non-compliance has been reduced by £330k at 30 June 2017 from that provided at 31 December 2016. The movement on the customer redress provision during the period is set out in Note 10.

As at 30 June 2017 the Society met its Individual Capital Guidance ("ICG") in total capital terms, but will not meet the qualitative standards for the level of CET1 regulatory capital. The latest outlook for the remainder of the year does not significantly change this position. Consequently, the Board considers it is unlikely that the Society will pay 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.

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 2017 of £698k, compared with a loss for the 6 months ended 30 June 2016 of £1,399k.

Mortgage assets reduced by 13% since 30 June 2016 and by 7% since the end of 2016 as the Group continued to make no new advances in order to conserve capital through a reduction in balance sheet size.

The Group's net interest income increased by 7% compared with the same period in 2016, as a £295k release of remediation provisions (compared with a charge through interest income of £223k for the equivalent period in 2016 and £878k charge for the full year 2016). Whilst the level of interest earned on the reducing mortgage book was lower than that of the comparative period in 2016, this was offset by both the lower level of interest paid on retail savings products and the proportionately lower levels of retail funding held in the period. Retail balances at the end of June 2017 were £277m, £39m lower than the position reported at the end of December 2016.

Other operating income at £367k was similar to the comparative period in 2016. The Group's administrative expenditure was £692k (16%) lower than that of the comparative period in 2016 owing to significantly lower professional costs incurred. Partially offsetting these improvements, the Society continued to incur costs in pursuing its claim against Grant Thornton UK LLP, the Society's previous external auditors.

Impairment losses of £1,718k were recorded in the period in respect of the Group's mortgage and loan books, compared with impairment losses of £1,430k in the first half of 2016. The increased loss was principally the result of a charge incurred of £1,890k in respect of the Spanish lifetime portfolio in the period, compared with a £743k reduction in this provision in the first half of 2016. There was a charge in the period of £1,682k in the first half of 2017 in respect of the portfolio driven by lower than expected Spanish house price inflation included in an updated external independent forecast, compared with a charge of £296k in the first half of 2016.

The results for the half year include the full year's charge for the Financial Services Compensation Scheme Levy of £102k.

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 repayment difficulties and applying forbearance as appropriate. At 30 June 2017 there were 17 mortgage accounts where payments were 12 or more months in arrears (31 December 2016: 19). Outstanding balances on these accounts were £6.2m (31 December 2016: £7.3m), with total arrears of £0.9m (31 December 2016: £1.0m), representing 2.1% of total gross mortgage balances (31 December 2016: 2.3%).

The customer redress exercise in respect of instances of non-compliance with the Consumer Credit Act 1974 ("CCA") within our second charge portfolios, which was disclosed on page 57 of the 2016 Annual Report and Accounts was another area of focus and as at the reporting date is largely completed. Following the actions now taken the estimated cost of redress for non-compliance has been reduced by £330k at 30 June 2017 from that provided at 31 December 2016. The movement on the customer redress provision during the period is set out in Note 10.

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 £43k of investment securities were held (31 December 2016: £306k).

Risks and uncertainties

Given the Society does not meet the qualitative standards for the level of CET1 regulatory capital, 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 qualitative standards for the level of CET1 regulatory capital under CRD IV article 142 a Capital Conservation Plan was submitted to the PRA in October 2016, with an update in April 2017. These documents have been discussed with the PRA and they continue an open dialogue with the Society on future developments.

Every business faces risks as part of its day-to-day operations. 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 2016 Annual Report and Accounts on pages 6 to 7.

During 2016, the UK voted in a referendum to leave the European Union ("EU"). The impact of the UK's decision to leave the EU on government policy, the financial markets and the wider economy remains uncertain. 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 monthly 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 2016 Annual Report and Accounts, with the various loans and mortgage books identified for impairment consideration continuing to perform in a manner similar to that as at 31 December 2016.

- ***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 contract 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 2017 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 not to undertake new lending. The Group has also continued to explore ways in which the regulatory capital position could be improved, including 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.

  The loss in the 6 months ended 30 June 2017 has further reduced CET1 regulatory capital and there continues to be a shortfall against the qualitative standards for the level of CET1 regulatory capital, under CRD IV article 142 the Group is required to submit a Capital Conservation Plan to the PRA which was presented in October 2016, with an update in April 2017, setting out proposed measures to improve the regulatory capital position. The Board continues to discuss and consult with the PRA on the Capital Conservation Plan.

- ***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 or does so in a different manner. 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 16% of total mortgage assets as at 30 June 2017. 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 significant 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 has been reviewed in detail by management.

As disclosed on page 57 of the 2016 Annual Report and Accounts, following this review, and having incorporated legal advice received, at 31 December 2016 the Group held a customer redress provision of £1,690k (30 June 2016: £2,070k) 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 has substantially progressed during the first half of 2017 and was largely completed. As detailed in Note 10, £330k of the charge has been released in respect of the customer redress provision in the 6 months to 30 June 2017.

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 58 of the 2016 Annual Report and Accounts.

Other Matters

Board and staff changes

There have been no changes in the membership of the Board since 31 December 2016.

On 31 March 2017, R.H. Green stepped down from the role of Interim Finance Director. He was replaced as Interim Finance Director by J. Lincoln during May 2017. E. Lord stepped down from his position as Interim Chief Risk & Compliance Officer in May 2017.

Save for these changes, the Officers as at 30 June 2017 remain unaltered from those disclosed at 31 December 2016 on page 60 of the 2016 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 pages 14 to 15, 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 future events, which the Board believes to be reasonable. As these statements are based on the Group's current view of the UK and Spanish economies, 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 30 August 2017.

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 2017 and those comparable figures for the half year ended 30 June 2016 are unaudited. The figures for the year ended 2016 are extracted from the 2016 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 on pages 14 to 15.

The Directors are responsible for the maintenance and integrity of information on the Society's website. Copies of the 2016 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
30 August 2017

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Unaudited 6 months to 30 Jun 17 £000	Unaudited 6 months to 30 Jun 16 £000	Audited 12 months to 31 Dec 16 £000
Interest receivable and similar income		6,266	6,755	13,165
Interest expense and similar charges		(1,774)	(2,549)	(4,693)
Net interest income		4,492	4,206	8,472
Other operating income		367	369	833
Other operating charges		(43)	(45)	(95)
Net gain/(loss) on financial assets designated at fair value through profit and loss		1	(4)	-
Total operating income		4,817	4,526	9,210
Administrative expenses and depreciation		(3,695)	(4,387)	(8,663)
Operating profit before impairment and provisions		1,122	139	547
Impairment losses	7	(1,718)	(1,430)	(3,448)
Financial Services Compensation Scheme levy	10	(102)	(108)	(67)
Loss for the period before taxation		(698)	(1,399)	(2,968)
Income tax expense	4	-	-	(382)
Loss for the period		(698)	(1,399)	(3,350)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited 6 months to 30 June 2017

	Accumulated losses £000	Subscribed capital £000	PPDS £000	Total £000
Balance at 1 January 2017	(9,243)	9,788	17,461	18,006
Transactions with equity holders - interest on PIBS	-	-	-	-
Tax credit re: interest paid to PIBS holders	-	-	-	-
Loss and total comprehensive expense for the period	(698)	-	-	(698)
Balance at 30 June 2017	(9,941)	9,788	17,461	17,308

Unaudited 6 months to 30 June 2016

	Accumulated losses £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	(338)	-	-	(338)
Tax credit re: interest paid to PIBS holders	-	-	-	-
Loss and total comprehensive expense for the period	(1,399)	-	-	(1,399)
Balance at 30 June 2016	(7,292)	9,788	17,461	19,957

Audited 12 months to 31 December 2016

	Accumulated losses £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	(338)	-	-	(338)
Tax credit re: interest paid to PIBS holders	-	-	-	-
Loss and total comprehensive expense for the period	(3,350)	-	-	(3,350)
Balance at 31 December 2016	(9,243)	9,788	17,461	18,006

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	Unaudited 30 Jun 17 £000	Unaudited 30 Jun 16 £000	Audited 31 Dec 16 £000
Assets				
Liquid assets	*5*	56,092	54,497	82,120
Derivative financial instruments		14	97	278
Loans and advances to customers	*6*	270,518	312,680	289,452
Property, plant and equipment		5,791	5,878	5,861
Investment property		654	781	839
Current tax assets		-	335	-
Deferred tax assets	*8*	-	382	-
Other assets		3,244	5,047	3,754
Total assets		336,313	379,697	382,304

	Note	Unaudited 30 Jun 17 £000	Unaudited 30 Jun 16 £000	Audited 31 Dec 16 £000
Liabilities				
Due to members		276,863	299,711	315,391
Deposits from banks and others	*9*	19,512	32,986	24,753
Derivative financial instruments		1,058	4,114	1,641
Other liabilities		1,511	1,414	1,455
Provisions for liabilities and charges	*10*	861	2,315	1,858
Subordinated liabilities	*11*	14,200	14,200	14,200
Subscribed capital	*12*	5,000	5,000	5,000
Total liabilities		319,005	359,740	364,298
Equity				
Retained earnings		(9,941)	(7,292)	(9,243)
Subscribed capital	*12*	9,788	9,788	9,788
Profit participating deferred shares	*13*	17,461	17,461	17,461
Total equity		17,308	19,957	18,006
Total equity and liabilities		336,313	379,697	382,304

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited 6 months to 30 Jun 17 £000	Unaudited 6 months to 30 Jun 16 £000	Audited 12 months to 31 Dec 16 £000
Net cash flows (used in)/ from operating activities	(25,978)	(21,876)	5,843
Net cash flows from investing activities	219	(51)	(387)
Net cash flows from financing activities	-	(338)	(338)
Net (decrease)/increase in cash and cash equivalents	(25,759)	(22,265)	5,118
Net (decrease)/increase in cash and cash equivalents	(25,759)	(22,265)	5,118
Cash and cash equivalents at the start of the period	81,804	76,686	76,686
Cash and cash equivalents at the end of the period	56,045	54,421	81,804

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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 2017 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 EU. This financial information should be read in conjunction with the 2016 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 2016 has been extracted from the 2016 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 2017 and the 6 months ended 30 June 2016 are unaudited.

1.2 Basis of preparation: going concern

The Group's interim financial statements for the 6 months ended 30 June 2017 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 being able to return to lending to grow the balance sheet in order to improve 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 2017 the Society met its ICG in total capital terms, but continued to have a shortfall against the qualitative standards for the level of CET1 regulatory capital. The Society as required by CRD IV article 142 submitted a Capital Conservation Plan to the PRA in October 2016 as a result of this shortfall, with an update in April 2017 setting out proposed measures to improve the regulatory capital position.

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

The Board expects to continue to discuss and consult with the PRA on the Capital Conservation Plan over the remainder of the year. 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 2017;
- 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 ongoing 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 not to 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 2016 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 2017.

The Group expects that the accounting policies that will be applied at the time of compiling the 2017 Annual Report and Accounts will be materially the same as for the 2016 Annual Report and Accounts.

The Group has noted that there are a number of further new accounting standards that are not effective for the period commencing 1 January 2017, but which are likely to be adopted over the coming years. The only one of these which is likely to have a material impact on the Group is IFRS9 - Financial Instruments, which will replace most of IAS39 - Financial Intruments: Recognition and Measurement. The effective date is 1 January 2018. At present the Directors are fully assessing the impact of the adoption of the new standard.

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 and loss. Movements in the valuations of derivatives and investment securities are treated as fair value through profit and loss comprehensive income, 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 2017		30 June 2016		31 December 2016	
	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	44,046	44,046	36,047	36,047	67,387	67,387
Loans and advances to credit institutions	12,003	12,003	18,385	18,385	14,427	14,427
Investment securities	43	43	65	65	306	306
Derivative financial instruments	14	14	97	97	278	278
Loans and advances to customers	270,518	259,636	312,680	303,390	289,452	277,550
	326,624	315,742	367,274	357,984	371,850	359,948
Financial liabilities						
Due to members	276,863	276,883	299,711	299,786	315,391	315,378
Other deposits	19,512	19,512	32,986	32,986	24,753	24,753
Derivative financial instruments	1,058	1,058	4,114	4,114	1,641	1,641
Other borrowed funds	14,200	14,200	14,200	14,200	14,200	14,200
Subscribed capital	5,000	1,356	5,000	3,425	5,000	1,425
	316,633	313,009	356,011	354,511	360,985	357,397

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 tax

	Unaudited 30 Jun 17 £000	Unaudited 30 Jun 16 £000	Audited 31 Dec 16 £000
Results for the year before tax	(698)	(1,399)	(2,968)
Tax rate	19.25%	20.00%	20.00%
Expected tax credit	(134)	(280)	(594)
Adjustments for non-deductible items	6	7	12
Income not taxable	-	-	(7)
Deferred tax movement closing rate / average rate difference	-	-	36
Current year losses for which no deferred tax asset recognised	241	405	752
Decrease in deferred tax asset recognised	-	-	184
Adjustment in respect of prior years – deferred tax	-	-	(4)
Fixed asset timing differences for which no deferred tax asset recognised	(113)	(132)	3
Actual tax expense	-	-	382

5. Liquid assets

	Unaudited 30 Jun 17 £000	Unaudited 30 Jun 16 £000	Audited 31 Dec 16 £000
Cash and balances with the Bank of England	44,046	36,047	67,387
Loans and advances to credit institutions	12,003	18,385	14,427
Investment securities	43	65	306
	56,092	54,497	82,120

6. Loans and advances to customers

	Unaudited 30 Jun 17 £000	Unaudited 30 Jun 16 £000	Audited 31 Dec 16 £000
Fully secured on residential property	245,808	285,853	263,815
Fully secured on land	23,569	25,773	24,419
Other loans	1,141	1,054	1,218
	270,518	312,680	289,452

7. Impairment losses

	Unaudited 30 Jun 17 £000	Unaudited 30 Jun 16 £000	Audited 31 Dec 16 £000
Impairment losses on loans and advances to customers	1,718	1,430	3,448

	Unaudited 30 Jun 17 £000	Unaudited 30 Jun 16 £000	Audited 31 Dec 16 £000
Impairment provision on loans and advances to customers, at the end of the period:			
Loans fully secured on residential property	18,501	14,639	17,085
Other loans	4,674	4,682	4,688
Total	23,175	19,321	21,773

8. Deferred tax assets

	Unaudited 30 Jun 17 £000	Unaudited 30 Jun 16 £000	Audited 31 Dec 16 £000
Tax losses	2	5	-
Deferred tax movement on timing differences on derivative contracts	24	443	26
Accelerated tax depreciation	(26)	(68)	(26)
Other provisions	-	2	-
	-	382	-

9. Deposits from banks and others

	Unaudited 30 Jun 17 £000	Unaudited 30 Jun 16 £000	Audited 31 Dec 16 £000
Other deposits	19,512	32,986	24,753

10. Provisions for liabilities and charges

FSCS levy	Unaudited 6 months to 30 Jun 17 £000	Unaudited 6 months to 30 Jun 16 £000	Audited 12 months to 31 Dec 16 £000
At start of period	68	137	137
Charge for the period	102	108	67
Provision utilised	-	-	(136)
At end of period	170	245	68

Customer redress	Unaudited 6 months to 30 Jun 17 £000	Unaudited 6 months to 30 Jun 16 £000	Audited 12 months to 31 Dec 16 £000
At start of period	1,690	1,695	1,695
Transferred from/(to) other liabilities/ impairment provision	-	100	(338)
(Release)/charge for the period	(330)	416	878
Provision utilised	(769)	(141)	(545)
At end of period	591	2,070	1,690

Other	Unaudited 6 months to 30 Jun 17 £000	Unaudited 6 months to 30 Jun 16 £000	Audited 12 months to 31 Dec 16 £000
At start of period	100	-	-
Charge for the period	-	-	100
Provision utilised	-	-	-
At end of period	100	-	100
Total provisions for liabilities and charges at the end of the period	861	2,315	1,858

(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 2016-17 had been provided at the end of 2016. The charge for the half year to 30 June 2017 is in respect of the expected management expenses levy for the FSCS scheme year 2017-18. 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 5 and the Regulatory risk section on Page 7.

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

11. Subordinated liabilities

	Unaudited 30 Jun 17 £000	Unaudited 30 Jun 16 £000	Audited 31 Dec 16 £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

12. 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 17 £000	Unaudited 30 Jun 17 £000	Audited 31 Dec 16 £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 17 £000	Unaudited 30 Jun 16 £000	Audited 31 Dec 16 £000
6.75% Permanent Interest Bearing Shares	9,788	9,788	9,788
Total	9,788	9,788	9,788

13. Profit Participating Deferred Shares

	Unaudited 30 Jun 17 £000	Unaudited 30 Jun 16 £000	Audited 31 Dec 16 £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.

14. Capital

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

On 11 April 2016, the Society received an Individual Capital Guidance ("ICG") from the PRA setting out the amount of regulatory capital the Society is required to hold. Following the receipt of the 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.

	Unaudited 6 months to 30 Jun 17 Total Group £000	Unaudited 6 months to 30 Jun 16 Total Group £000	Audited 12 months to 31 Dec 16 Total Group £000
Tier 1 Capital			
Common Equity Tier 1 Capital (CET1)			
Accumulated Losses	(9,941)	(7,292)	(9,243)
Profit Participating Deferred Shares	17,461	17,461	17,461
Total CET1 Capital	7,520	10,169	8,218
Other Tier 1 Capital			
Permanent Interest Bearing Shares			
-Nominal balance	14,788	14,788	14,788
-Amortisation	(7,394)	(5,915)	(5,915)
Net Permanent Interest Bearing Shares	7,394	8,873	8,873
Total Tier 1 Capital	14,914	19,042	17,091

Tier 2 Capital			
Subordinated Debt			
-Nominal balance	14,200	14,200	14,200
-Amortisation	(2,895)	(2,000)	(2,000)
Net Subordinated Debt	11,305	12,200	12,200
Collective Provisions	401	2,057	1,923
Permanent Interest Bearing Shares	7,394	5,915	5,915
Total Tier 2 Capital	19,100	20,172	20,038
Total Regulatory Capital	34,014	39,214	37,129

Since the start of 2017 Total Regulatory Capital under CRD IV has decreased by £3,115k from £37,129k to £34,014k.

The decrease results from ongoing operations, made up as follows:

- a reallocation of collective to specific provisions of £1,522k;
- the retained loss of the regulatory capital group for the half year of £698k;
- the continued grandfathering of Subordinated debt out of Tier 2 capital over a 9 year period, amounting to £500k in the half year;
- amortisation out of Tier 2 capital of an additional portion of Subordinated debt which now has less than five years to its maturity date, amounting to £395k in the half year.

On 11 April 2016, the Society received new 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 a shortfall against the qualitative standards for the level of CET1 regulatory capital. Accordingly the Society was required under CRD IV article 142 to submit a Capital Conservation Plan to the PRA setting out proposed measures to improve the regulatory capital position which it did in October 2016 and updated in April 2017. The Board expects to continue to discuss and consult with the PRA on the Capital Conservation Plan over the remainder of the year.

15. 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 2017 in a manner similar to that disclosed in the 2016 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 2017 are similar in nature to those for the year ended 31 December 2016.

On 31 March 2017, R.H. Green stepped down from the role of Interim Finance Director. He was replaced as Interim Finance Director by J. Lincoln during May 2017. E. Lord stepped down from his position as Interim Chief Risk & Compliance Officer in May 2017.

Save for these changes, the Officers as at 30 June 2017 remain unaltered from those disclosed at 31 December 2016 on page 60 of the 2016 Annual Report and Accounts.

Where the services of key management personnel are provided by entities controlled by them, then transactions with these entities are approved by the Remuneration and Nominations Committee.

16. Financial commitments

There is no material change to the Group's financial commitments from the position reported in the 2016 Annual Report and Accounts

17. 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 in Note 10, provision has been made, where the Group is aware of a specific conduct issue and can estimate its impact reliably.

As disclosed on page 58 of the 2016 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 2016 Annual Report and Accounts.

18. 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.

19. Other Ratios

	Unaudited 6 months to 30 Jun 17 %	Unaudited 6 months to 30 Jun 16 %	Audited 12 months to 31 Dec 16 %
Gross capital as a percentage of shares and borrowings	12.32	11.77	10.94
Liquid funds as a percentage of shares and borrowings	18.93	16.38	24.14
Loss after tax as a percentage of mean total assets *(expressed on an annualised basis)*	(0.39)	(0.70)	(0.84)
Group management expenses as a percentage of mean total assets *(expressed on an annualised basis)*	2.06	2.20	2.17
Leverage ratio	4.11	4.99	4.21

The definitions for the above ratios are explained in detail on page 59 of the 2016 Annual Report and Accounts.