MANCHESTER BUILDING SOCIETY GROUP

CONDENSED CONSOLIDATED HALF YEARLY FINANCIAL INFORMATION

30 JUNE 2020

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Introduction

The Directors present their Condensed Consolidated Half Yearly Financial Information of the Group for the 6 months ended 30 June 2020.

At 30 June 2020 the Group consisted of the Society and its wholly owned subsidiary, MBS (Mortgages) Limited. The consolidated 2019 results include a second wholly owned subsidiary, MBS (Property) Limited, which the Society disposed of in August 2019.

Strategic summary

The Group's strategy since 2013 has been to seek to reduce risks and conserve regulatory capital by moving its risk profile away from those legacy asset positions that carried higher risks and higher regulatory capital risk weightings. The strategy was necessary because of events, fully disclosed in the Annual Report and Accounts for the year ended 31 December 2012, that led to a material write-down of the Group's reserves following a change in the accounting treatment of certain financial assets.

The Group continues to have headroom above its Total Capital Requirement ("TCR") in total capital terms but does not meet the qualitative standards for the level of Common Equity Tier 1 regulatory capital ("CET 1"). Consequently, the Society did not pay the coupons on Permanent Interest Bearing Shares ("PIBS") in April 2020 as such a distribution is prohibited under CRD IV article 141.

The Society is following a medium to long term plan which was independently reviewed, and acknowledged by the PRA in 2018 who agreed to monitor the Society against it. The plan was most recently updated in June 2020.

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 6 months ended 30 June 2020 of £0.4m, compared with a profit for the 6 months ended 30 June 2019 of £0.5m.

The Society's performance has been impacted by economic uncertainty in both the UK and worldwide in relation to the ongoing Covid-19 pandemic. The nature of the timing and magnitude of economic recovery remains unclear. It appears likely that a period of higher than usual unemployment and record low interest rates will continue for a period.

As the Society has reacted to the unprecedented circumstances of the last few months it has been necessary for the majority of the Group's employees to adapt to working from home and this has been done with minimal impact upon customers.

To assist our customers during this very difficult time, over 20% of our UK mortgage customers were granted a payment deferral on their mortgages in the period.

Mortgage assets reduced by 4% in the 6 months as the Group continued to make no new advances.

The Group's net interest income decreased by 12% compared with the same period in 2019 due to the reducing size of the balance sheet and the reduction of the Bank of England base rate to historically low levels in March 2020. Retail balances at the end of June 2020 were £188m, 5% lower than at the end of December 2019.

Other operating income for the 6 months ended 30 June 2020 totalled £0.8m, compared to £0.4m for the comparative period in 2019. This includes a £0.7m increase in gains relating to movements in the sterling: euro exchange rate, which is largely offset by amounts included in impairment losses. In the prior year the Group received rental income on its head office building which was sold in August 2019.

The Group's administrative expenditure of £2.1m was £0.4m (17%) lower than in the comparative period in 2019. £0.3m of the reduction related to lower professional fees with additional savings made following the sale of the head office building.

The downturn in the economy as a result of restrictions enforced to help combat the spread of Covid-19 and the latest economic forecasts as the economy begins to recover, resulted in the Group recognising additional provisions at 30 June 2020.

Impairment losses of £2.1m were recorded in the period in respect of the Group's mortgage and loan books, compared to £0.9m in the first half of 2019. £0.7m of the charge related to movements in the sterling: euro exchange rate (largely offset in other income) whilst £0.7m relates to provision assumption changes due to more difficult economic conditions in light of the Covid-19 pandemic. The remaining charge of £0.7m is comparable with the prior year and largely relates to the Spanish lifetime portfolio.

In addition to the payment deferrals mentioned, the Group continued to help borrowers in difficulties to resolve their situations, taking a consultative approach with borrowers who experienced repayment difficulties and applying forbearance as appropriate. At 30 June 2019, excluding the second charge portfolio, there were 15 mortgage accounts where payments were 12 or more months in arrears (31 December 2019: 15). Total arrears were £1.1m (31 December 2019: £1.1m). Previously up-to-date loans with agreed payment deferrals are not deemed to be in arrears.

High levels of liquidity were maintained throughout the period with the Group having significant balances deposited with the Bank of England.

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 relating to the ability of the Group and Society to continue as a going concern due to the continued run-off of the balance sheet. A medium to long term strategic plan was produced which was independently reviewed and acknowledged by the PRA who agreed to monitor the Society against it. An update to this plan was submitted to the PRA in June 2020.

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 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 was set out in the 2019 Annual Report and Accounts on pages 5 to 6. Whilst the key risks remain similar to those identified last year, they have been impacted by the ongoing Covid-19 pandemic which has had a material impact upon UK and worldwide economic conditions.

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 loaned (in relation to loans and advances) or any sum that it has deposited with a banking 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 to customers 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 Group's management of credit risk in respect of loans and advances recognises that as the portfolio runs off it is likely that a greater part of the residual assets will have a higher credit risk profile.

The assessment of credit risk and the related impairment provisioning is a critical accounting estimate, impacted by judgments relating to customer affordability and economic circumstances, including the level of interest rates. Prior to the current strategy of no new lending, credit risk was mitigated by appropriate mortgage underwriting and by limiting the Group's exposure to particular market sectors or loans exhibiting particular attributes. Since the cessation of new lending credit risk has been mitigated through the monitoring of management information, assessment of arrears and forbearance cases, and regular loan provision reviews. The Group holds two mortgage books (the NMB MAC and CLC books), where previously it held a beneficial interest and these portfolios were administered by third parties. An assessment has been made of the estimated discounted future cash flows expected to arise from both these portfolios of loans which forms the basis for the impairment provision.

Economic uncertainty in light of the ongoing Covid-19 pandemic increases credit risk, particularly in relation to uncertainty over future house price growth and of the ability of customers to make payments in full with unknown future employment levels.

Insurance Risk: Impairment assessments incorporate the insurance risk attached to the Group's lifetime mortgage contracts, which are euro-denominated. The risk arises from a contractual term within the relevant mortgage contracts which in certain circumstances precludes the Group from pursuing the borrower or the borrower's estate for any shortfall on redemption. This risk is managed through oversight of the portfolio, including monitoring valuations, the assessment of redemptions and provisioning policy. The insurance provision is a critical accounting estimate, as its assessment is based on expected future outcomes relating to the date on which an account redeems, expected to be on the death of the borrower, a move into care or through non-health related voluntary pre-payment. It is also affected by the assumptions made in relation to house price appreciation and depreciation. This means that the insurance risk provision can move by a material amount dependent upon these assumptions and market conditions.

Economic uncertainty in light of the ongoing Covid-19 pandemic increases insurance risk, particularly in relation to uncertainty over future house price growth.

The introduction of IFRS 17 – *Insurance Contracts* is expected to significantly affect accounting for this lifetime portfolio. IFRS 17 has been delayed and is currently due to be implemented for accounting periods beginning on 1 January 2023.

Liquidity Risk: The Group's strategy is to maintain sufficient funds in unencumbered liquid form at all times to ensure that its liabilities can be met as they fall due. Regular stress testing of liquidity is undertaken by separately using 20 week and 3 month time horizons. The Group operates within closely monitored Board-approved liquidity policy limits, which are reviewed on a daily basis by the Group's Finance and Treasury departments, reported to the Treasury Committee and considered by the Board each month. During the first half of 2020, the Group 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. As explained on page 4, as at 30 June 2020 the Group continued to have headroom above its TCR in total capital terms, but did not meet the qualitative standards for the level of CET 1 regulatory capital. The Group has continued to explore ways in which the CET 1 regulatory capital position could be improved. As at 30 June 2020, the requirement to hold 4.5% of CET 1 capital against Risk Weighted Assets was met but it is recognised that a stress event or other significant loss could result in a future breach. This risk is monitored and under regular review in ongoing discussions with the PRA. As a result of the shortfall against qualitative standards for the level of CET 1 regulatory capital, under CRD IV article 141, in order to conserve capital, the Group has not paid coupons on PIBS since April 2016 and may remain prohibited from making the PIBS coupon payments due in October 2020. The Board considers that there continues to be uncertainty over the Group's ability to make coupon payments thereafter.

Interest Rate Risk: The Group's mortgage and savings products have different interest rate types and differing maturity profiles. 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 Group has more fixed rate mortgage products (notably its lifetime mortgages) than it has fixed rate savings products. Presently, there are no interest rate swaps in place to mitigate the risk. The interest rate risk position is monitored by the Risk Committee and the Board and is managed via the setting of internal policy limits and through the holding of an ascribed level of regulatory capital to mitigate the risk of interest rate movement. The Board has considered this risk by its review of financial projections under differing interest rate scenarios over the long-term. The Group has a natural partial hedge provided by fixed coupons on capital and some savings products.

The Board does not intend to hedge its fixed rate mortgages using interest rate swaps at this time; this position is monitored regularly. A rise in interest rates gives rise to a risk of decreasing margins as a greater portion of the mortgage portfolio than the deposit portfolio is based on fixed rates. Liquidity risk can also be managed through changes in the interest rate of the deposit book.

The UK regulators have reiterated their intention to transition from the London Inter-Bank Offered Rate ("LIBOR") to alternative benchmark rates by the end of 2021. The Society is directly impacted through exposure to LIBOR linked assets and liabilities. Planning is under way to manage the impact of this transition.

Currency Risk: The Group faces currency movement risks on its Euro-denominated mortgage balances which represent 22% of total mortgage assets as at 30 June 2020 (21% at 30 June 2019 and 20% at 31 December 2019). The exchange rate risk arising on these balances is managed and partially mitigated by transacting foreign exchange forward contracts. 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 the Group's investment properties which are held at fair value.

Uncertainty relating to the economic recovery from the shock caused by Covid-19 leads to additional risk.

Political Risk: The UK's exit from the EU in January 2020 continues to create additional uncertainties for the economy, financial markets, housing and mortgage markets, government policy and financial services regulation. The relationship between the UK and EU beyond 31 December 2020 remains unclear. The impact upon borrower behaviour and collateral values within the Spanish lifetime portfolio is uncertain. The Group has taken legal advice and contacted the regulatory authority in Spain and believes that operational risk in relation to the servicing of the loan book is limited.

Regulatory Risk: As a regulated entity, the Group is exposed to risks arising from a failure to adhere to relevant regulation. In order to minimise this risk, the Group has deployed a number of risk management policies and procedures. The Group's Risk Management Framework ("RMF") is designed around the present needs of the Group. The RMF includes the responsibilities of the Board, the Risk Committee, the Conduct and Operational Risk Committee and Management as to how the Group meets, monitors and reports on its regulatory requirements. Oversight of Regulatory Risk is the responsibility of the Compliance function and is led by the Compliance Manager.

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.

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 and redressed where appropriate. 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.

Provision has been made where the Group is aware of a specific conduct or regulatory issue and can estimate its impact.

Other Matters

Board and staff changes

The Directors and Officers as at 30 June 2020 remain unchanged from those disclosed at 31 December 2019 on page 70 of the 2019 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 14, 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. 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 actual outcomes will be in line with these assumptions.

The Group does not undertake to update any of the statements 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 5 August 2020.

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 2020 and those comparable figures for the half year ended 30 June 2019 are unaudited. The figures for the year ended 2019 are extracted from the 2019 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 page 14.

The Directors are responsible for the maintenance and integrity of information on the Society's website. Copies of the 2019 Annual Report & Accounts and this Half Yearly Financial Information may be found at: www.themanchester.co.uk/Main/FinancialInformation

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

H.F. Baines	Vice Chairman
I.A. Dewar	Non-Executive Director
D.A. Harding	Chairman
J. Lincoln	Non-Executive Director
P.A. Lynch	Chief Executive
F.B. Smith	Non-Executive Director
M.A. Winterbottom	Finance Director

Signed on behalf of the Board of Directors

D.A. Harding
Chairman
5 August 2020

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited 6 months to 30-Jun-20 £000	Unaudited 6 months to 30-Jun-19 £000	Audited 12 months to 31-Dec-19 £000
Interest receivable and similar income		4,434	5,072	9,999
Interest expense and similar charges		(1,293)	(1,503)	(2,965)
Net interest income		3,141	3,569	7,034
Other operating income		801	393	(57)
Other operating charges		(65)	(46)	(121)
Net gain on financial assets designated at fair value through profit and loss		-	1	-
Total operating income		3,877	3,917	6,856
Administrative expenses and depreciation		(2,122)	(2,547)	(4,829)
Operating profit before impairment and provisions		1,755	1,370	2,027
Expected credit losses	*7*	(386)	(120)	(272)
Other impairment losses	*7*	(1,762)	(801)	(1,814)
Reversal of previous impairment on property, plant and equipment	*7*	-	-	640
Financial Services Compensation Scheme levy	*11*	-	5	11
(Loss) / Profit for the period before taxation		(393)	454	592
Income tax expense	*4*	-	-	-
(Loss) / Profit for the period		(393)	454	592

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited 6 months to 30 June 2020

	Retained earnings £000	Subscribed capital £000	PPDS £000	Total £000
Closing Balance at 31 December 2019	(10,667)	9,788	17,461	16,582
Loss and total comprehensive expense for the period	(393)	-	-	(393)
Balance at 30 June 2020	(11,060)	9,788	17,461	16,189

Unaudited 6 months to 30 June 2019

	Retained earnings £000	Subscribed capital £000	PPDS £000	Total £000
Closing Balance at 31 December 2018	(11,259)	9,788	17,461	15,990
Profit and total comprehensive income for the period	454	-	-	454
Balance at 30 June 2019	(10,805)	9,788	17,461	16,444

Audited 12 months to 31 December 2019

	Retained earnings £000	Subscribed capital £000	PPDS £000	Total £000
Closing Balance at 31 December 2018	(11,259)	9,788	17,461	15,990
Profit and total comprehensive income for the period	592	-	-	592
Balance at 31 December 2019	(10,667)	9,788	17,461	16,582

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Unaudited 30 Jun 20 £000	Unaudited 30 Jun 19 £000	Audited 31 Dec 19 £000
Assets				
Liquid assets	*5*	43,411	43,495	46,770
Derivative financial instruments		26	104	1,660
Loans and advances to customers	*6*	187,764	208,999	196,380
Property, plant and equipment		437	188	475
Investment property		137	155	155
Current tax assets	*4*	-	-	-
Deferred tax assets	*8*	-	-	-
Other assets		3,763	2,492	1,668
Assets in disposal groups classified as held for sale	*9*	-	6,908	-
Total assets		235,538	262,341	247,108

	Note	Unaudited 30 Jun 20 £000	Unaudited 30 Jun 19 £000	Audited 31 Dec 19 £000
Liabilities				
Due to members		187,783	211,399	197,847
Deposits from banks and others	*10*	9,748	12,183	11,164
Derivative financial instruments		1,629	941	27
Other liabilities		971	1,942	2,270
Provisions for liabilities and charges	*11*	18	31	18
Subordinated liabilities	*12*	14,200	14,200	14,200
Subscribed capital	*13*	5,000	5,000	5,000
Liabilities directly associated with assets in disposal groups classified as held for sale	*9*	-	201	-
Total liabilities		219,349	245,897	230,526
Equity				
Retained earnings		(11,060)	(10,805)	(10,667)
Subscribed capital	*13*	9,788	9,788	9,788
Profit participating deferred shares	*14*	17,461	17,461	17,461
Total equity		16,189	16,444	16,582
Total equity and liabilities		235,538	262,341	247,108

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 6 months to 30 Jun 20 £000	Unaudited 6 months to 30 Jun 19 £000	Audited 12 months to 31 Dec 19 £000
Net cash flows (used in) operating activities	(3,316)	(4,572)	(8,464)
Net cash flows (used in) / from investing activities	(47)	1	7,171
Net cash flows from / (used in) financing activities	7	3	(1)
Net (decrease) in cash and cash equivalents	(3,356)	(4,568)	(1,294)
Net (decrease) in cash and cash equivalents	(3,356)	(4,568)	(1,294)
Cash and cash equivalents at the start of the period	46,767	48,061	48,061
Cash and cash equivalents at the end of the period	43,411	43,493	46,767

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 2020 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 2019 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 2019 has been extracted from the 2019 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 2020 and the 6 months ended 30 June 2019 are unaudited.

1.2 Basis of preparation: going concern

The Group's interim financial statements for the 6 months to 30 June 2020 have been prepared on a going concern basis as explained below.

The Group has not been active in the Mortgage market since 2013 and at present has insufficient capital to return to lending. There is currently no plan in place to return to lending, though this is something which may be revisited should the capital position improve to a level where such activity may be appropriate. The current strategy of the Board, therefore, continues to be the management of a long-term run-off of the balance sheet.

Following the Society's CET 1 capital temporarily falling below the required 4.5% of Risk Weighted Assets in 2018, a medium to long term strategic plan was produced which was independently reviewed and acknowledged by the PRA. This plan was updated in 2019 and the PRA agreed to monitor the Society against this revised plan. A further update was produced in June 2020. The plan shows that the Society remains viable in the medium-term and is able to rebuild its regulatory capital ratios in the medium-term. It is recognised that there are a number of risks to this plan, particularly following a stress event in the economy or financial markets. Such stress events may include a downturn in the housing market either in the UK or Spain, additional provision requirements on one or more of the Group's larger mortgage exposures, significant unexpected expenses or a materially different mortgage repayment profile to that included within the plan.

The current uncertainty surrounding the Covid-19 pandemic has created a stress event in the economy and has resulted in increased provision requirements for the Society at 30 June 2020. This stress has been considered by the Directors when assessing the Group's ability to continue as a going concern.

The Board expects to continue to work closely with its regulators to develop and implement its strategic plan. Implementation may involve third parties and require regulatory approval and as such may carry execution risk.

When satisfying themselves that the Group and Society have adequate resources to continue to operate for the foreseeable future as a going concern, the directors have reviewed the plan and the ability for it to be followed. The directors are reliant on the regulators' position regarding the plan remaining unchanged.

Whilst the Group continues to have a shortfall against qualitative standards for the level of CET 1 capital, at 30 June 2020 the requirement to hold CET 1 Regulatory Capital of at least 4.5% of total Risk Weighted Assets was met. The Group continues to have headroom above its TCR. The liquidity position also remains strong with significant headroom above both its policy and operational limits.

Having due regard to these matters and after taking into consideration the material uncertainties above, which may cast significant doubt over the Group's ability to continue as a going concern, 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 25 to 30 of the 2019 Annual Report and Accounts.

The Group expects that the accounting policies that will be applied at the time of compiling the 2020 Annual Report and Accounts will be materially the same as for the 2019 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.

Wherever possible, fair values have been calculated using unadjusted quoted market prices in active markets for identical instruments held by the Group. Where quoted market prices are not available, or are unreliable, fair values have been determined using valuation techniques which, to the extent possible, use market observable inputs, but in some cases use non-market observable inputs.

Valuation techniques used include discounted cash flow analysis and pricing models and, where appropriate, comparison to instruments with characteristics similar to those of the instruments held by the Group.

Because a variety of estimation techniques are employed and significant estimates made, comparisons of fair values between financial institutions may not be meaningful. Readers of these financial statements are thus advised to use caution when using this data to evaluate the Group's financial position.

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 Group's 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 2020		30 June 2019		31 December 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	£000	£000	£000	£000	£000	£000
Financial assets						
Cash and balances with the Bank of England	32,648	32,648	37,676	37,676	34,831	34,831
Loans and advances to credit institutions	10,763	10,763	5,819	5,819	11,939	11,939
Loans and advances to customers	187,764	178,446	208,999	200,503	196,380	188,420
Other Assets	26	26	104	104	204	204
	231,201	221,883	252,598	244,102	243,354	235,394
Financial liabilities						
Due to members	187,783	187,775	211,399	211,423	197,847	197,824
Other deposits	9,748	9,748	12,183	12,183	11,164	11,164
Subordinated liabilities	14,200	14,200	14,200	14,200	14,200	14,200
Subscribed capital	5,000	1,225	5,000	900	5,000	950
Other liabilities	1,629	1,629	941	941	2,194	2,194
	218,360	214,577	243,723	239,647	230,405	226,332

(i) Market prices have been used to determine the fair value of listed investment securities.

(ii) The fair value of derivatives and investment securities that are not listed are calculated by utilising internal valuation models using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity. External market data is used within these internal valuation models. Derivatives are held for trading. Investment securities are designated at fair value through profit or loss. Movements in the valuations of derivatives and investment securities are treated as fair value through profit and loss, and these financial assets and liabilities are grouped into the fair value hierarchy under level 2.

(iii) The fair value of Investment Properties is determined by using available index data and reflects the market value at the balance sheet date and revaluations performed in the year.

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 20 £000	Unaudited 30 Jun 19 £000	Audited 31 Dec 19 £000
Results for the period before tax	(393)	454	592
Tax rate	19.00%	19.00%	19.00%
Expected tax (credit) / expense	(75)	86	112
Adjustments for non-deductible items	-	12	16
Income not taxable	-	-	(121)
Deferred tax movement closing rate/ average rate difference	-	-	(5)
Current period profits and losses for which no deferred tax asset recognised	169	(14)	153
Decrease in deferred tax asset recognised	-	-	(155)
Fixed asset timing difference for which no deferred tax asset recognised	(94)	(84)	-
Profits of period covered by brought forward losses in respect of which no deferred tax asset recognised	-	-	-
Actual tax expense	-	-	-

5. Liquid assets

	Unaudited 30 Jun 20 £000	Unaudited 30 Jun 19 £000	Audited 31 Dec 19 £000
Cash and balances with the Bank of England	32,648	37,676	34,831
Loans and advances to credit institutions	10,763	5,819	11,939
	43,411	43,495	46,770

6. Loans and advances to customers

	Unaudited 30 Jun 20 £000	Unaudited 30 Jun 19 £000	Audited 31 Dec 19 £000
Gross Balances			
Fully secured on residential property	194,643	210,991	199,863
Fully secured on land	17,712	20,265	19,831
Other loans	269	565	379
	212,624	231,821	220,073
Provisions			
Fully secured on residential property	22,293	20,080	20,760
Fully secured on land	2,530	2,709	2,901
Other loans	37	33	32
	24,860	22,822	23,693
Net Balances			
Fully secured on residential property	172,350	190,911	179,103
Fully secured on land	15,182	17,556	16,930
Other loans	232	532	347
	187,764	208,999	196,380

7. Impairment losses

	£000	£000	£000
Expected credit losses			
Impairment losses on loans and advances to customers on residential property and land	386	132	284
Amounts recovered on loans and advances to customers on residential property and land, written off in prior periods	-	(12)	(12)
Total expected credit losses	**386**	**120**	**272**
Other impairment losses			
Impairment losses on loans and advances to customers on lifetime mortgages	1,762	801	1,814
Total other impairment losses	**1,762**	**801**	**1,814**
Reversal of previous impairment on Property, Plant and Equipment	-	-	(640)
Total impairment losses	**2,148**	**921**	**1,446**

Expected Credit losses relate to the Group's UK mortgage portfolios. The calculation methodology remains unchanged from that disclosed on pages 35 to 37 of the 2019 Annual Report and Accounts. The charge in the 6 months to June 2020 is driven by a more pessimistic economic outlook. The key assumptions used in calculating the provisions are:

	Unaudited 30-Jun-20				**Unaudited 30-Jun-19**				**Audited 31-Dec-19**			
Scenario weighting	30%	39%	30%	1%	30%	39%	30%	1%	30%	39%	30%	1%
Assumptions (5 year average)	**Upturn**	**Base**	**Mild Downturn**	**Severe Downturn**	**Upturn**	**Base**	**Mild Downturn**	**Severe Downturn**	**Upturn**	**Base**	**Mild Downturn**	**Severe Downturn**
House price index	4.2%	1.7%	(3.2%)	(10.0%)	5.1%	3.3%	(0.7%)	(6.2%)	5.0%	2.4%	(2.5%)	(9.1%)
Consumer price index	1.7%	1.4%	0.8%	0.2%	2.3%	1.8%	1.0%	0.3%	2.1%	1.7%	1.1%	0.6%
Uk Unemployment rate	4.2%	4.4%	6.7%	7.9%	3.3%	3.6%	5.7%	6.3%	3.5%	3.7%	5.1%	5.5%
LIBOR (3 month)	1.2%	0.3%	0.3%	(0.0%)	2.0%	1.5%	0.8%	0.8%	1.6%	1.1%	0.7%	0.9%
Bank base rate	1.0%	0.2%	0.0%	(0.4%)	1.7%	1.4%	0.5%	0.1%	1.4%	1.0%	0.5%	0.3%

No material provision requirement has been identified for significant increases in credit risk in relation to customers who have been granted payment deferrals.

Other impairment losses relate to the Group's Spanish lifetime portfolio. £0.7m of losses related to exchange rate movements which were offset within other operating income. Of the remaining charge, £0.4m is directly driven by assumed lower levels of prepayments in 2020 due to the current economic environment and £0.6m relates to underlying insurance risk as outlined on page 5.

8. Deferred tax assets

	Unaudited 30 Jun 20	Unaudited 30 Jun 19	Audited 31 Dec 19
	£000	£000	£000
Tax losses	-	2	-
Deferred tax movement on timing differences on derivative contracts	-	1	-
Accelerated tax depreciation	-	(3)	-
Other provisions	-	-	-
Total	-	-	-

9. Assets in disposal groups classified as held for sale

The group's land and buildings, being its head office, was owned by MBS (Property) Limited ("MBSP"). Heads of terms to sell MBSP were signed in March 2019 and the sale completed in August 2019. At 30 June 2019 the assets and liabilities of MBSP were classified as "held for sale" as required by *IFRS 5 – Non-current assets held for sale and discontinued operations*. The items within this disposal group were measured at carrying value, being the lower of carrying value and fair value less disposal costs.

The assets and liabilities within the disposal group were as follows:

	Unaudited 30 Jun 20 £000	Unaudited 30 Jun 19 £000	Audited 31 Dec 19 £000
Assets			
Property Plant & Equipment	-	6,642	-
Other Assets	-	266	-
	-	6,908	-
Liabilities			
Other Liabilities	-	201	-
	-	201	-

10. Deposits from banks and others

	Unaudited 30 Jun 20 £000	Unaudited 30 Jun 19 £000	Audited 31 Dec 19 £000
Other deposits	9,748	12,183	11,164
Total	9,748	12,183	11,164

11. Provisions for liabilities and charges

FSCS levy	Unaudited 30 Jun 20 £000	Unaudited 30 Jun 19 £000	Audited 31 Dec 19 £000
At start of period	-	11	11
Release for the period	-	(6)	(11)
Provision utilised	-	-	-
At end of period	-	5	-

Customer redress	Unaudited 30 Jun 20 £000	Unaudited 30 Jun 19 £000	Audited 31 Dec 19 £000
At start of period	18	25	25
Release for the period	-	-	(7)
Provision utilised	-	-	-
At end of period	18	25	18

Other	Unaudited 30 Jun 20 £000	Unaudited 30 Jun 19 £000	Audited 31 Dec 19 £000
At start of period	-	2	2
Release for the period	-	(1)	-
Provision utilised	-	-	(2)
At end of period	-	1	-
Total provisions for liabilities and charges at the end of the period	18	31	18

(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.

No provision is required at 30 June 2020.

(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, which is detailed on page 67 of the 2019 Annual Report and Accounts. This redress exercise was completed in 2017. Attempts to contact some customers have been unsuccessful to date, and the £18k provision is retained at 30 June 2020 in relation to these customers.

(iii) Other provision

The other provision related to the result of the BoS v Rea decision, which is detailed on page 67 of the 2019 Annual Report and Accounts. The remediation exercise in relation to this provision was completed during 2018.

12. Subordinated liabilities

	Unaudited 30 Jun 20 £000	Unaudited 30 Jun 19 £000	Audited 31 Dec 19 £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
Total	14,200	14,200	14,200

13. 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 20 £000	Unaudited 30 Jun 19 £000	Audited 31 Dec 19 £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 20 £000	Unaudited 30 Jun 19 £000	Audited 31 Dec 19 £000
6.75% Permanent Interest Bearing Shares	9,788	9,788	9,788
Total	9,788	9,788	9,788

14. Profit Participating Deferred Shares

	Unaudited 30 Jun 20 £000	Unaudited 30 Jun 19 £000	Audited 31 Dec 19 £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.

15. Capital

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

The Group calculates and reports its regulatory capital on a "Total Group" basis with the regulatory capital group being made up of the Society and MBS (Mortgages) Limited.

	Unaudited 30 Jun 20 Total Group £000	Unaudited 30 Jun 19 Total Group £000	Audited 31 Dec 19 Total Group £000
Tier 1 Capital			
Common Equity Tier 1 Capital (CET1)			
Accumulated Losses (after applying IFRS 9 transitional arrangements)	(10,851)	(11,004)	(10,411)
Profit Participating Deferred Shares	17,461	17,461	17,461
Total CET1 Capital	6,610	6,457	7,050
Other Tier 1 Capital			
Permanent Interest Bearing Shares			
-Nominal balance	14,788	14,788	14,788
-Amortisation	(11,830)	(10,352)	(10,352)
Net Permanent Interest Bearing Shares	2,958	4,436	4,436
Total Tier 1 Capital	9,568	10,893	11,486
Tier 2 Capital			
Subordinated Debt			
-Nominal balance	14,200	14,200	14,200
-Amortisation	(9,406)	(7,062)	(7,989)
Net Subordinated Debt	4,794	7,138	6,211
Collective Provisions	-	-	-
Permanent Interest Bearing Shares	11,830	10,352	10,352
Total Tier 2 Capital	16,624	17,490	16,563
Total Regulatory Capital	26,192	28,383	28,049

Since the start of 2020 Total Regulatory Capital under CRD IV has decreased by £1,857k from £28,049k to £26,192k.

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

- A reduction of £393k due to the retained loss of the regulatory group for the period;
- a reduction of £45k regarding the transitional rules covering the implementation of IFRS 9;
- 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 £919k in the half year.

As at 30 June 2020 the Society met its TCR 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 a number of subsequent updates setting out proposed measures to improve the regulatory capital position. In June 2018, following the Society's CET 1 capital falling below the required 4.5% of Risk Weighted Assets, a new medium to long term strategic plan was produced which was independently reviewed and acknowledged by the PRA who agreed to monitor the Society against it. This plan was subsequently updated, most recently in June 2020. The PRA continue an open dialogue with the Society on future developments.

16. Related party transactions

The Group is controlled by Manchester Building Society and at 30 June 2020 consisted of the Society and its wholly owned subsidiary, MBS (Mortgages) Ltd. The Society continued to provide loan funding to its subsidiary during the half year ended 30 June 2020 in a manner similar to that disclosed in the 2019 Annual Report and Accounts. Accordingly, transactions with this related party is entered into in the normal course of business; related party transactions, for the half year to 30 June 2020 are similar in nature to those for the year ended 31 December 2019. The Society sold its other subsidiary, MBS (Property) Ltd during August 2019, when this company ceased to be a member of the group.

The Officers as at 30 June 2020 remain unaltered from those disclosed at 31 December 2019 on page 70 of the 2019 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.

17. Financial commitments

There is no material change to the Group's financial commitments from the position reported in the 2019 Annual Report and Accounts.

18. 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 11, provision has been made where the Group is aware of a specific conduct issue and can estimate its impact reliably.

As disclosed on page 67 of the 2019 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

The Group's appeal to the Supreme Court in its case against former auditors, Grant Thornton UK LLP, is scheduled for October 2020, with the judgment known some time later. This may result in further damages being awarded to the Society. The likelihood and amount of any potential award are not known at this time.

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 20 %	Unaudited 6 months to 30 Jun 19 %	Audited 12 months to 31 Dec 19 %
Gross capital as a percentage of shares and borrowings	17.9	15.9	17.1
Liquid funds as a percentage of shares and borrowings	22.0	19.5	22.4
(Loss)/ Profit after tax as a percentage of mean total assets *(expressed on an annualised basis)*	(0.3)	0.3	0.2
Group management expenses as a percentage of mean total assets *(expressed on an annualised basis)*	1.7	1.8	1.8
Leverage ratio	3.7	3.8	4.0

The definitions for the above ratios are explained in detail on page 69 of the 2019 Annual Report and Accounts.

The Society has utilised available transitional arrangements in relation to the impact of adopting IFRS 9 on regulatory capital and the figures above reflect these arrangements. Had the transitional arrangements not been adopted, the leverage ratio would have been 3.6%.