MANCHESTER BUILDING SOCIETY GROUP

CONDENSED CONSOLIDATED HALF YEARLY FINANCIAL INFORMATION

30 JUNE 2021

CONTENTS

DIRECTORS' REPORT

Introduction

The Directors present their Condensed Consolidated Half Yearly Financial Information of the Group for the 6 months ended 30 June 2021.

At 30 June 2021 the Group consisted of the Society and its wholly owned subsidiary, MBS (Mortgages) Limited.

Strategic summary

Events, fully disclosed in the Annual Report and Accounts for the year ended 31 December 2012, led to a material write-down of the Group's reserves following a change in the accounting treatment of certain financial assets.

Subsequently, 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 Society has continued to have headroom above its Total Capital Requirement ("TCR") in total capital terms but did not meet the qualitative standards for the level of Common Equity Tier 1 regulatory capital ("CET 1") prior to June 2021. Consequently, the Society did not pay the coupons on its Permanent Interest Bearing Shares ("PIBS") in April 2021 as such a distribution was prohibited under the applicable regulatory capital conservation rules.

The Society has pursued legal proceedings against its former auditors, Grant Thornton (UK) LLP, since the write down booked in 2012. In June 2021, the Society's appeal against the decisions of the High Court and Court of Appeal was upheld by the Supreme Court. As a result of this judgment the Society was awarded damages of £13.4m. In addition, the Society is entitled to receive further sums in relation to interest and costs. In August 2021, an interim payment of £8.4m was received in relation to interest and costs. The value and timing of any final payment on interest and costs is currently unknown.

The profit generated by the award of the damages and the interim interest and cost payment has been verified as required under the UK Capital Requirements Regulation and can be recognised within the Society's regulatory capital, meaning that the Society now meets the required qualitative standards for the level of CET 1 capital as at 30 June 2021. Any additional interest and costs awarded to the Society will be recognised as the quantum becomes more certain.

With this increase in CET 1 capital, the Board expects to be able to resume payment of the Society's PIBS. However, the Society remains at risk that an external stress event such as a severe downturn in the housing market in either the UK or Spain, a regulatory requirement to hold additional capital or a change in accounting standards, could result in a further breach. There remains, therefore, uncertainty over the Group's ability to make coupon payments in the medium to long term.

A review of the strategic direction to be taken by the Group following the Supreme Court judgment is being undertaken by the Directors, alongside its regulators and advisors, to establish what it will mean for the Manchester's ongoing strategy. At present, however, the Society continues to follow a medium to long term plan which was independently reviewed, and acknowledged by the PRA in 2018 and most recently updated in November 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 profit after taxation for the 6 months ended 30 June 2021 of £20.4m, compared with a loss for the 6 months ended 30 June 2020 of £0.4m.

The recorded profit includes £21.8m in relation to the award made to the Society by the Supreme Court following the legal action that it took against its former auditors, Grant Thornton (UK) LLP ("GT") and associated costs and interest. Damages and interest of £14.3m are included within income whilst £7.5m in relation to the interim cost payment received from GT is included as a negative expense. This interim cost payment covers both costs previously paid to GT following the judgments of the lower courts and costs incurred in pursuing the legal action. The Society also expects to be awarded additional costs and interest, but these have not been recognised at 30 June 2021 as their values are still to be determined.

The Society's underlying performance has continued to be 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 higher than usual unemployment and record low interest rates will continue for a period.

Whilst a core team has operated from the Group's head office building, the majority of the Society's employees have continued to predominantly work from home throughout the period. Despite this new way of working, customer service levels have been maintained at the usual high standards.

Mortgage assets reduced by 7% in the 6 months ended 30 June 2021 as the Group continued to make no new advances.

The Group's net interest income of £3.1m remained in line with the same period in 2020 despite the reducing size of the balance sheet and the historically low Bank of England base rate environment. Both interest income and interest expenditure reduced by £0.6m compared with the comparable period. Retail balances at the end of June 2021 were £166m, 6% lower than at the end of December 2020.

Other operating income for the 6 months ended 30 June 2021 was £nil, compared to £0.8m for the comparative period in 2020. Other operating charges in the period were £0.5m compared with £0.1m in the comparative period. A £0.5m loss relating to movements in the Sterling:Euro exchange rate has been recognised compared with a £0.7m gain at 30 June 2020. The exchange rate losses/gains largely offset within impairment in each period.

The Group's administrative expenditure of £2.3m was £0.2m (8%) higher than in the comparative period in 2020 with £0.2m of costs being recognised in relation to the migration of the Society's core banking system.

An Expected Credit Loss release of £0.1m was recorded in the period in respect of the Group's UK mortgage and loan books, compared to a charge of £0.4m in the first half of 2020.

An Other Impairment Losses charge of £0.2m was recorded in the period in respect of the Group's Spanish mortgage and loan books, compared to a charge of £1.8m in the first half of 2020. The charge included a £0.5m release (June 2020: £0.7m charge) relating to the Sterling:Euro exchange rate (largely offset in other income).

The Group continued to offer mortgage payment deferrals in line with the Government scheme and also helped borrowers in financial difficulties to resolve their situations, taking a consultative approach with borrowers who experienced repayment difficulties and applying forbearance as appropriate. At 30 June 2021, excluding the second charge portfolio, there were 14 mortgage accounts where payments were 12 or more months in arrears (31 December 2020: 14). Total arrears were £0.7m (31 December 2020: £1.2m).

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

Risks and uncertainties

Whilst the Society considers its strategic options following the judgment of the Supreme Court, it continues to follow the medium to long term strategic plan that was updated and submitted to the PRA in November 2020. The current planned run-off of the balance sheet within that plan means that there remains a material uncertainty to the ability of the Group and Society to continue as a going concern in the medium to long term.

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 2020 Annual Report and Accounts on pages 5 to 6. The key risks remain similar to those identified last year.

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 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 2021, 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 in the period. As explained on page 3, as at 30 June 2021 the Group continued to have headroom above its TCR in total capital terms and, following the award of damages to it by the Supreme Court, does meet the qualitative standards for the level of CET 1 regulatory capital for the first time since 2016. A review of the strategic direction to be taken by the Group following the Supreme Court judgment is being undertaken by the Directors alongside its regulators and advisors. Whilst the Capital position has improved to a level that all capital requirements are now satisfied, the Society remains at risk that a stress event or other significant loss could result in a future breach. Under the applicable capital conservation rules, as a result of the shortfall against qualitative standards for the level of CET 1 regulatory capital, the Group has not paid coupons on PIBS since April 2016. The Board expects to be able to make the PIBS coupon payments which become due in October 2021 but recognises that there continues to be uncertainty over the Group's ability to make coupon payments in the medium to long term.

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 London Inter-Bank Offered Rate ("LIBOR") will transition to alternative benchmark rates by the end of 2021. The Society is directly impacted through exposure to LIBOR linked assets and liabilities. Planning is well progressed to manage the impact of this transition and affected customers will be contacted in advance of any changes.

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 2021 (22% at 30 June 2020 and 20% at 31 December 2020). 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 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.

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 impact upon borrower behaviour and collateral values within the Spanish lifetime portfolio remains 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.

The Government's response to the Covid-19 pandemic resulted in an unprecedented economic downturn, with significant support offered to people affected. The ongoing response and the impact as governmental support comes to an end will help determine the medium to long-term impact. Unemployment levels and house prices have particular impacts upon the Group's credit risk.

Climate Change Risk: The Society has started to assess how climate change may impact its business. This includes the impact of increased incidents of flooding on the value of a small number of properties within its mortgage portfolio and impacts on borrowers of requirements for minimum efficiency standards for their homes or rental properties. The PRA requires all financial institutions to nominate an individual to be responsible for incorporating the financial risks from climate change into existing risk management practices. The Society's Finance Director has been given this role and is leading work to develop greater understanding of the risks and develop plans for how the Group could respond.

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 Operational Risk and Conduct 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 2021 remain unchanged from those disclosed at 31 December 2020 on page 69 of the 2020 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 and 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. 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 20 August 2021.

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 2021 and those comparable figures for the half year ended 30 June 2020 are unaudited. The figures for the year ended 2020 are extracted from the 2020 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 and 15.

The Directors are responsible for the maintenance and integrity of information on the Society's website. Copies of the 2020 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
20 August 2021

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited 6 months to 30-Jun-21 £000	Unaudited 6 months to 30-Jun-20 £000	Audited 12 months to 31-Dec-20 £000
Interest receivable and similar income		3,802	4,434	8,505
Interest expense and similar charges		(691)	(1,293)	(2,153)
Net interest income		3,111	3,141	6,352
Legal damages and interest		14,272	-	-
Other operating income		18	801	761
Other operating charges		(528)	(65)	(91)
Total operating income		16,873	3,877	7,022
Legal costs recovered		7,540	-	-
Administrative expenses and depreciation		(2,292)	(2,122)	(4,239)
Operating profit before impairment and provisions		22,121	1,755	2,783
Expected credit losses	*6*	106	(386)	(600)
Other impairment losses	*6*	(218)	(1,762)	(2,527)
Profit / (loss) for the period before taxation		22,009	(393)	(344)
Income tax expense	*9*	(1,563)	-	-
Profit / (loss) for the period		20,446	(393)	(344)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited 6 months to 30 June 2021

	Retained earnings £000	Subscribed capital £000	PPDS £000	Total £000
Closing Balance at 31 December 2020	(11,011)	9,788	17,461	16,238
Profit and total comprehensive income for the period	20,446	-	-	20,446
Balance at 30 June 2021	9,435	9,788	17,461	36,684

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

Audited 12 months to 31 December 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	(344)	-	-	(344)
Balance at 31 December 2020	(11,011)	9,788	17,461	16,238

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Unaudited 30 Jun 21 £000	Unaudited 30 Jun 20 £000	Audited 31 Dec 20 £000
Assets				
Liquid assets	*4*	41,813	43,411	38,876
Derivative financial instruments		711	26	193
Loans and advances to customers	*5*	166,381	187,764	179,825
Intangible Fixed Assets		49	-	55
Property, plant and equipment		277	437	337
Investment property		-	137	-
Deferred tax assets	*7*	-	-	-
Other assets		23,470	3,763	2,246
Total assets		232,701	235,538	221,532

	Note	Unaudited 30 Jun 21 £000	Unaudited 30 Jun 20 £000	Audited 31 Dec 20 £000
Liabilities				
Due to members		166,270	187,783	176,212
Deposits from banks and others	*8*	7,588	9,748	8,836
Derivative financial instruments		38	1,629	125
Other liabilities		1,358	971	921
Current tax liability	*9*	1,563	-	-
Provisions for liabilities and charges	*10*	-	18	-
Subordinated liabilities	*11*	14,200	14,200	14,200
Subscribed capital	*12*	5,000	5,000	5,000
Total liabilities		196,017	219,349	205,294
Equity				
Retained earnings		9,435	(11,060)	(11,011)
Subscribed capital	*12*	9,788	9,788	9,788
Profit participating deferred shares	*13*	17,461	17,461	17,461
Total equity		36,684	16,189	16,238
Total equity and liabilities		232,701	235,538	221,532

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 6 months to 30 Jun 21 £000	Unaudited 6 months to 30 Jun 20 £000	Audited 12 months to 31 Dec 20 £000
Net cash flows generated from / (used in) operating activities	2,936	(3,316)	(7,936)
Net cash flows (used in) / from investing activities	-	(47)	56
Net cash flows from / (used in) financing activities	1	7	(11)
Net increase / (decrease) in cash and cash equivalents	2,937	(3,356)	(7,891)
Net increase / (decrease) in cash and cash equivalents	2,937	(3,356)	(7,891)
Cash and cash equivalents at the start of the period	38,876	46,767	46,767
Cash and cash equivalents at the end of the period	41,813	43,411	38,876

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 2021 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 2020 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 2020 has been extracted from the 2020 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 2021 and the 6 months ended 30 June 2020 are unaudited.

1.2 Basis of preparation: going concern

The Group's interim financial statements for the 6 months to 30 June 2021 have been prepared on a going concern basis as explained below.

The Group has not been active in the Mortgage market since 2013 and there is currently no plan in place to return to lending. The current strategy of the Board, therefore, continues to be the management of a long-term run-off of the balance sheet. No change in strategy has been agreed as a result of the improvement of the capital position following the Supreme Court's judgment in the Society's legal case with Grant Thornton, though the Board keep this under review and is working with advisers and the regulators to establish what the Supreme Court judgment will mean for the Manchester's ongoing strategy.

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 most recently updated in November 2020 and included no upside from the Supreme Court judgment. 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, even without the capital improvement recognised in June 2021. 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 severe downturn in the housing market in either the UK or Spain, a regulatory requirement to hold additional capital or a change in accounting standards.

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

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 latest forecast alongside the plan and assessed the ability for it to be followed.

The Group continues to have headroom above its TCR in total capital terms and, following the award of damages to it by the Supreme Court, meets the qualitative standards for the level of CET 1 regulatory capital for the first time since 2016.

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 26 to 30 of the 2020 Annual Report and Accounts.

The Group expects that the accounting policies that will be applied at the time of compiling the 2021 Annual Report and Accounts will be materially the same as for the 2020 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 2021		30 June 2020		31 December 2020	
	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	32,679	32,679	32,648	32,648	28,663	28,663
Loans and advances to credit institutions	9,134	9,134	10,763	10,763	10,213	10,213
Loans and advances to customers	166,381	157,751	187,764	178,446	179,825	170,993
Other assets	21,885	21,885	26	26	757	757
	230,079	221,449	231,201	221,883	219,458	210,626
Financial liabilities						
Due to members	166,270	166,308	187,783	187,775	176,212	176,212
Other deposits	7,588	7,588	9,748	9,748	8,836	8,836
Subordinated liabilities	14,200	14,200	14,200	14,200	14,200	14,200
Subscribed capital	5,000	4,282	5,000	1,225	5,000	1,507
Other liabilities	1,601	1,601	1,629	1,629	864	864
	194,659	193,979	218,360	214,577	205,112	201,619

(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. Liquid assets

	Unaudited 30 Jun 21 £000	Unaudited 30 Jun 20 £000	Audited 31 Dec 20 £000
Cash and balances with the Bank of England	32,679	32,648	28,663
Loans and advances to credit institutions	9,134	10,763	10,213
	41,813	43,411	38,876

5. Loans and advances to customers

	Unaudited 30 Jun 21 £000	Unaudited 30 Jun 20 £000	Audited 31 Dec 20 £000
Gross Balances			
Fully secured on residential property	174,693	194,643	187,467
Fully secured on land	14,922	17,712	17,467
Other loans	219	269	236
	189,834	212,624	205,170
Provisions			
Fully secured on residential property	21,709	22,293	22,809
Fully secured on land	1,742	2,530	2,534
Other loans	2	37	2
	23,453	24,860	25,345
Net Balances			
Fully secured on residential property	152,984	172,350	164,658
Fully secured on land	13,180	15,182	14,933
Other loans	217	232	234
	166,381	187,764	179,825

6. Impairment losses

	Unaudited 30 Jun 21 £000	Unaudited 30 Jun 20 £000	Audited 31 Dec 20 £000
Expected credit losses			
Impairment (gains) / losses on loans and advances to customers on residential property and land	(102)	386	604
Amounts recovered on loans and advances to customers on residential property and land, written off in prior periods	(4)	-	(4)
Total expected credit losses	**(106)**	**386**	**600**
Other impairment losses			
Impairment losses on loans and advances to customers on lifetime mortgages	218	1,762	2,527
Total other impairment losses	**218**	**1,762**	**2,527**
Total impairment losses	**112**	**2,148**	**3,127**

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 2020 Annual Report and Accounts. The release in the 6 months to June 2021 is driven by a more optimistic economic outlook. The key assumptions used in calculating the provisions are:

	Unaudited 30-Jun-21				**Unaudited 30-Jun-20**				**Audited 31-Dec-20**			
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	5.2%	2.7%	(2.2%)	(8.7%)	4.2%	1.7%	(3.2%)	(10.0%)	3.1%	0.7%	(3.9%)	(10.0%)
Consumer price index	2.1%	1.9%	1.4%	0.8%	1.7%	1.4%	0.8%	0.2%	2.2%	1.8%	1.2%	0.6%
Uk Unemployment rate	3.9%	4.3%	6.2%	7.0%	4.2%	4.4%	6.7%	7.9%	4.2%	5.0%	7.1%	8.2%
LIBOR (3 month)	1.2%	0.3%	(0.0%)	(0.4%)	1.2%	0.3%	0.3%	(0.0%)	0.8%	0.1%	(0.2%)	(0.5%)
Bank base rate	1.1%	0.3%	(0.1%)	(0.6%)	1.0%	0.2%	0.0%	(0.4%)	0.8%	0.2%	(0.2%)	(0.7%)

Other impairment losses relate to the Group's Spanish lifetime portfolio. The charge of £0.2m constitutes a £0.7m charge for provision movements and a £0.5m release related to exchange rate movements. The June 2020 charge of £1.8m constitutes a charge of £1.1m for provision movements and £0.7m relating to exchange rate movements. In both periods, the exchange rate movements included within impairment losses were largely offset by exchange rate movements included within Other Operating Income.

7. Deferred tax assets

	Unaudited 30 Jun 21	Unaudited 30 Jun 20	Audited 31 Dec 20
	£000	£000	£000
Tax losses	-	-	-
Deferred tax movement on timing differences on derivative contracts	-	-	-
Accelerated tax depreciation	-	-	-
Other provisions	-	-	-
Total	-	-	-

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefits through future taxable profits is probable.

The main rate of corporation tax in the UK reduced from 20% to 19% on 1 April 2017, and is due to remain at this rate at least until 31 March 2022.

The carrying value of the deferred tax asset ("DTA") is £nil as no further assets have been recognised.

The Group's long-term financial projections, based on a managed run-off of the balance sheet without a return to lending, indicate that the underlying operations of the Group will remain profitable in the short to medium-term. In the medium to long-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 Group expects to receive additional interest and costs from Grant Thornton in addition to those recognised at 30 June 2021. The quantum of this award is unknown but would be expected to generate one-off profits for the Group. Given the uncertainty over quantum, no deferred tax asset has been recognised in respect of this future profit.

It should be noted that the DTA de-recognised in prior years is still available for tax relief purposes, as tax losses can be carried forward indefinitely under UK tax rules and can be used subject to the availability of future taxable profits. Deferred tax assets have not been recognised.

At 30 June 2021 for the Group, these were:
- £1,803k arising from timing differences on derivative contracts (December 2020: £1,455k)
- £4,638k arising from losses (December 2020: £6,059k)

8. Deposits from banks and others

	Unaudited 30 Jun 21	Unaudited 30 Jun 20	Audited 31 Dec 20
	£000	£000	£000
Other deposits	7,588	9,748	8,836
Total	7,588	9,748	8,836

9. Income tax

	Unaudited 30 Jun 21 £000	Unaudited 30 Jun 20 £000	Audited 31 Dec 20 £000
Results for the period before tax	22,009	(393)	(344)
Tax rate	19.00%	19.00%	19.00%
Expected tax (credit) / expense	4,182	(75)	(65)
Adjustments for non-deductible items	-	-	5
Current period profits and losses for which no deferred tax asset recognised	-	169	275
Decrease in deferred tax asset recognised	-	-	(192)
Fixed asset timing difference for which no deferred tax asset recognised	(85)	(94)	-
Profits of period covered by brought forward losses in respect of which no deferred tax asset recognised	(2,534)	-	(23)
Actual tax expense	1,563	-	-

10. Provisions for liabilities and charges

	Unaudited 30 Jun 21 £000	Unaudited 30 Jun 20 £000	Audited 31 Dec 20 £000
Customer redress			
At start of period	-	18	18
Release for the period	-	-	(18)
Provision utilised	-	-	-
At end of period	-	18	-
Total provisions for liabilities and charges at the end of the period	-	18	-

No provision is required for customer redress. The customer redress exercise in respect of instances of non-compliance with the CCA within the NMB MAC and CLC second charge portfolios, was completed in 2017 and the remaining provision of £18k was released in 2020.

11. Subordinated liabilities

	Unaudited 30 Jun 21 £000	Unaudited 30 Jun 20 £000	Audited 31 Dec 20 £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

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 21 £000	Unaudited 30 Jun 20 £000	Audited 31 Dec 20 £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 21 £000	Unaudited 30 Jun 20 £000	Audited 31 Dec 20 £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 21 £000	Unaudited 30 Jun 20 £000	Audited 31 Dec 20 £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.

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 21 Total Group £000	Unaudited 30 Jun 20 Total Group £000	Audited 31 Dec 20 Total Group £000
Tier 1 Capital			
Common Equity Tier 1 Capital (CET1)			
Accumulated Profits / (Losses) (after applying IFRS 9 transitional arrangements)	9,105	(10,851)	(10,801)
Profit Participating Deferred Shares	17,461	17,461	17,461
Total CET1 Capital	26,566	6,610	6,660
Other Tier 1 Capital			
Permanent Interest Bearing Shares			
-Nominal balance	14,788	14,788	14,788
-Amortisation	(13,309)	(11,831)	(11,831)
Net Permanent Interest Bearing Shares	1,479	2,957	2,957
Total Tier 1 Capital	28,045	9,567	9,617
Tier 2 Capital			
Subordinated Debt			
-Nominal balance	14,200	14,200	14,200
-Amortisation	(11,746)	(9,406)	(10,334)
Net Subordinated Debt	2,454	4,794	3,866
Permanent Interest Bearing Shares	13,309	11,831	11,831
Total Tier 2 Capital	15,763	16,625	15,697
Total Regulatory Capital	43,808	26,192	25,314

Since the start of 2021 Total Regulatory Capital under CRD IV has increased by £18,494k from £25,314k to £43,808k.

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

- An increase of £20,446k in the retained earnings of the regulatory group for the period, primarily due to the Society's successful appeal to the Supreme Court;
- a reduction of £60k regarding the transitional rules covering the implementation of IFRS 9;
- a reduction of £6k relating to difference in amortisation period of intangible fixed assets in accounting policy and regulatory capital treatment;
- a reduction of £474k being an unaccrued foreseeable dividend

- 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 £912k in the half year.

As at 30 June 2021 the Group continued to have headroom above its TCR in total capital terms and, following the award of damages to it by the Supreme Court, does meet the qualitative standards for the level of CET 1 regulatory capital for the first time since 2016.

A review of the strategic direction to be taken by the Group following the Supreme Court judgment is being undertaken by the Directors alongside its regulators and advisors. Whilst the Capital position has improved to a level that all capital requirements are now satisfied, the Society remains at risk that a stress event or other significant loss could result in a future breach.

Under the applicable capital conservation rules, as a result of the shortfall against qualitative standards for the level of CET 1 regulatory capital, the Group has not paid coupons on PIBS since April 2016. The Board expects to be able to make the PIBS coupon payments which become due in October 2021 but recognises that there continues to be uncertainty over the Group's ability to make coupon payments in the medium to long term.

15. Related party transactions

The Group is controlled by Manchester Building Society and at 30 June 2021 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 2021 in a manner similar to that disclosed in the 2020 Annual Report and Accounts. Accordingly, transactions with this related party are entered into in the normal course of business; related party transactions, for the half year to 30 June 2021 are similar in nature to those for the year ended 31 December 2020.

The Officers as at 30 June 2021 remain unaltered from those disclosed at 31 December 2020 on page 69 of the 2020 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 2020 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 pages 7 and 8 and also in Note 10, provision has previously been made where the Group is aware of a specific conduct issue and can estimate its impact reliably. No such provision is deemed necessary at 30 June 2021.

As disclosed on page 67 of the 2020 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 was awarded damages of £13.4m by the Supreme Court in its case against former auditors, Grant Thornton UK LLP in June 2021. In addition, it received an interim payment of £8.4m in August 2021 in respect of interest, costs previously paid to GT following judgments of the lower courts and costs incurred by the Society in pursuing the legal action. It also expects to receive a further payment relating to interest and costs as a result of the judgment but the value and timing of this award is uncertain. Any additional award will be recognised as the value becomes more certain.

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 21 %	Unaudited 6 months to 30 Jun 20 %	Audited 12 months to 31 Dec 20 %
Gross capital as a percentage of shares and borrowings	32.1	17.9	19.2
Liquid funds as a percentage of shares and borrowings	24.1	22.0	21.0
Profit / (loss) after tax as a percentage of mean total assets *(expressed on an annualised basis)*	17.5	(0.3)	(0.1)
Group management expenses as a percentage of mean total assets *(expressed on an annualised basis)*	2.0	1.7	1.8
Leverage ratio	10.9	3.7	3.9

The definitions for the above ratios are explained in detail on page 68 of the 2020 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 10.3%.