



MANCHESTER BUILDING SOCIETY GROUP

HALF-YEARLY FINANCIAL INFORMATION

30 JUNE 2012

Business Review

The Group reported a profitable start to 2012, with IFRS pre-tax profits of £862k.

An improvement in the Society's core capital ratios was achieved through a streamlining of the balance sheet in the first six months of 2012.

Retail savings

During the first half of 2012 the Society piloted a new product offered to existing investors where the interest rate is set at a margin linked to Bank Base Rate. Balances of £17m had been accumulated on this product by the end of June 2012 and it is planned to extend the range of base rate linked products during the second half of the year.

Outflows were seen as a result of the maturity of a tranche of fixed rate retail bonds and overall, retail deposits were down by £45m in the first half of 2012, ending the period at £648m, in line with the Board's expectations.

Liquid funds

Robust levels of liquidity have been maintained throughout the period, with balances of £138.3m at the end of June 2012 being in line with the Board's policy appetite.

The Society continues to take a cautious approach to the investment of its liquid funds, having significant balances deposited with the Bank of England and other smaller sums within instantly accessible accounts with a small number of UK High Street banks.

Mortgage lending and arrears

New mortgage lending during the first half of the year has been subdued. The reduction in overall mortgage balances reported during the period was in line with the Society's forecasts. A cautious approach has continued to be taken to the underwriting of new mortgage applications, with product criteria reflecting the Society's conservatism.

Whilst the Society has continued to take a sympathetic and pragmatic approach to working with those borrowers that fall into arrears, the number of accounts 2 months or more in arrears had fallen to 195 at the end June 2012 (H1 2011: 240 accounts).

Board and staff changes

There have been no material changes to either the Group's organisational structure or its headcount. The Board considers that the current staffing complement will support existing business levels and can accommodate increased activity in the short term as and when the housing market recovers.

Risks and uncertainties

In common with all institutions funded primarily through retail deposits, the Group's interest margin has been squeezed by the low interest rate environment. Nevertheless, the underlying business model has been sufficiently robust to maintain profitability, albeit at reduced levels; the careful management of interest margin has been a particular focus for the Board.

Uncertainty within both the UK and global economies continues to be a major factor and for the building society sector as a whole, competition for retail deposits continues to be fierce; it is the Board's view that this will continue for the foreseeable future.

The future direction of the housing market remains uncertain, with continued sentiment indicating the probability of further reductions in house prices. The Society's approach will remain one of caution, with its lending levels forecast to remain subdued throughout 2012.

The Board's focus remains on the strengthening of its regulatory capital ratios.

Forward-looking statements

Within the half yearly information we make comments about anticipated future events, which we believe to be reasonable. As these statements are based on the Group's current view of the UK economy and banking market, we can give no assurances that the markets will develop in the way that we document and actual outcomes may differ to those that we anticipate.

The Group does not undertake to update any of the statements that it has made about future events prior to reporting of the full year results.

Responsibility statement of the directors in respect of the 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 Services Authority Disclosure and Transparency Rules (DTR 4.2.7 and DTR 4.2.8)

The results for the half year ended 30 June 2012 and those comparable figures for the half year ended 30 June 2011 are unaudited. The figures for the year ended 2011 are extracted from the 2011 Annual Report and Accounts, on which the Independent Auditors gave an unqualified opinion.

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

J. Allen	Non-executive director
D.E. Cowie	Chief Executive
R.W. Dyson	Non-executive director
A. Finch	Non-executive director
C.W. Gee	Finance Director
P.A. Lynch	Operations Director
S.M. Molloy	Non-executive director
M.J. Prior	Chairman
I.M. Richardson	Executive Director
J. Smith	Vice Chairman

Signed on behalf of the Board of Directors

M.J. Prior
Chairman
20 August 2012

NOTES

HALF-YEARLY FINANCIAL INFORMATION

30 JUNE 2012

Basis of preparation

The half yearly financial information for the 6 months ended 30 June 2012 has been prepared in accordance with both the Financial Services Authority's Disclosure and Transparency Rules and IAS 34 *Interim Financial Reporting*, as adopted by the European Union.

The half yearly financial information set out above does not constitute Accounts within the meaning of the Building Societies Act 1986.

The financial information for the 12 months to 31 December 2011 has been extracted from the 2011 Annual Report and Accounts on which the external auditors gave an unqualified opinion.

The half-yearly financial information for the 6 months ended 30 June 2012 and the 6 months ended 30 June 2011 is unaudited.

This financial information should be read in conjunction with the 2011 Annual Report and Accounts.

Accounting policies

The half yearly financial information has been prepared consistently with the accounting policies described on pages 19 to 22 of the 2011 Annual Report and Accounts. The Group expects that these accounting policies will be applied at the time of compiling the 2012 Annual Report and Accounts.

There were no new reporting standards that affected the results reported for the half year ended 30 June 2012.

Taxation

Corporation tax has been accrued at the rate of 24.5% (H1 2011: 27%). The tax charge has been calculated as far as possible to approximate to the expected full year tax rate.

Related Party Transactions

The Group had no material or unusual related party transactions during the 6 months ended 30 June 2012.

Segmental information

The operations of the Group are not sufficiently diverse to require segmental analysis or reporting.

Financial commitments and contingencies

There is no material change to Group's financial commitments or its contingent liabilities from the position reported in the 2011 Annual Report and Accounts

Events after the end of the reporting period

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

Approval of interim financial statements

The interim financial statements were approved by the Board of directors on 20 August 2012.

MANCHESTER BUILDING SOCIETY GROUP
HALF-YEARLY FINANCIAL INFORMATION

Summary Consolidated Statements of Comprehensive Income

	Unaudited 6 months to 30 Jun 12 £000s	Unaudited 6 months to 30 Jun 11 £000s	Audited 12 months to 31 Dec 11 £000s
Interest and similar income	12,853	12,686	31,823
Interest expense and similar charges	(9,313)	(8,517)	(22,143)
Net interest receivable	3,540	4,169	9,680
Other income and charges	363	256	151
Gains/(losses) from derivatives and hedge accounting	281	555	(648)
Total operating income	4,184	4,980	9,183
Administrative expenses	(2,721)	(2,447)	(4,711)
Impairment losses	(601)	(1,481)	(3,882)
Profit on continuing operations before taxation	862	1,052	590
Income taxation (expense)/credit	(212)	(294)	(201)
Profit for the period from continuing operations	650	758	389
Loss on disposal group held as available for sale	-	(30)	-
Net profit on disposal of subsidiary undertaking	-	5,949	5,964
Profit for the period	650	6,677	6,353

Summary Consolidated Statement of Changes in Equity

	Unaudited 6 months to 30 Jun 12 £000s	Unaudited 6 months to 30 Jun 11 £000s	Audited 12 months to 31 Dec 11 £000s
Profit for the period	650	6,677	6,353
Change in equity	650	6,677	6,353

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HALF-YEARLY FINANCIAL INFORMATION

Summary Consolidated Statements of Financial Position

	Unaudited 30 Jun 12 £000s	Unaudited 30 Jun 11 £000s	Audited 31 Dec 11 £000s
<u>Assets</u>			
Liquid assets	138,329	193,524	185,110
Derivative financial instruments	399	1,501	1,953
Loans and advances to customers	639,497	641,546	651,017
Property, plant and equipment	8,570	8,761	8,696
Investments	250	250	250
Other assets	44,302	2,397	31,178
	<u>831,347</u>	<u>847,979</u>	<u>878,204</u>
	Unaudited 30 Jun 12 £000s	Unaudited 30 Jun 11 £000s	Audited 31 Dec 11 £000s
<u>Liabilities</u>			
Shares	648,158	699,184	693,522
Deposits	71,876	61,441	74,458
Derivative financial instruments	39,673	14,281	37,875
Other liabilities	2,084	3,843	3,443
Subordinated liabilities	15,700	15,700	15,700
Subscribed capital	14,788	14,788	14,788
Reserves	39,068	38,742	38,418
	<u>831,347</u>	<u>847,979</u>	<u>878,204</u>

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Summary Consolidated Statements of Cash Flows

	Unaudited 6 months to 30 Jun 12 £000s	Unaudited 6 months to 30 Jun 11 £000s	Audited 12 months to 31 Dec 11 £000s
Net cash flows from operating activities	(59,498)	(60,893)	(35,283)
Taxation paid	-	-	(117)
Net cash flows from investing activities	32,651	37,273	21,555
Net cash flows from financing activities	-	-	-
Net decrease in cash and cash equivalents	<u>(26,847)</u>	<u>(23,620)</u>	<u>(13,845)</u>
Net (decrease)/increase in cash and cash equivalents	(26,847)	(23,620)	(13,845)
Cash and cash equivalents at the start of the period	<u>100,702</u>	<u>114,547</u>	<u>114,547</u>
Cash and cash equivalents at the end of the period	<u>73,855</u>	<u>90,927</u>	<u>100,702</u>

Other percentages

	Unaudited 6 months to 30 Jun 12 %	Unaudited 6 months to 30 Jun 11 %	Audited 12 months to 31 Dec 11 %
Gross capital as a percentage of shares and borrowings	9.66	8.92	8.97
Liquid funds as a percentage of shares and borrowings	19.21	25.44	24.10
Wholesale deposits as a percentage of shares and borrowings	9.90	7.97	9.70
Profit after tax as a percentage of mean total assets*	0.15	0.76	0.72
Group management expenses as a percentage of mean total assets*	0.63	0.55	0.53

* Expressed on an annualised basis