2014

Annual Report and Accounts

The Nottingham

Bringing your finances closer to home

Contents

Executive summary

With our record mortgage lending and retention performance during the year, the Society has continued to grow. This has taken our balance sheet to a total of £3.27bn. Our interest margin has also continued to improve and this has contributed to a strong profit before tax performance.

Below are some of the key achievements and financial highlights of 2014:

- Gross mortgage lending of £706m resulting in mortgage book growth of 9.3%;
- Strong retail franchise – total branch balances up by 16.8% in the year and 65% over the last five years;
- The Society welcomed 43,000 new customers and opened in 7 new locations;
- Asset growth of 8.3%;
- Group pre-tax profit at £17.4m, up 36% from £12.8m in 2013;
- Net interest margin at 1.56%;
- Strong capital ratios with Tier 1 ratio at 16.8% and gross capital at 6.7%;
- Arrears levels remain very low at around a quarter of the industry average; and
- The mortgage book is 100% matched by a combination of capital and retail savings.

Chairman's statement

"Over recent years we have worked hard to develop our proposition, which seeks to offer high quality service, advice, choice and value to our members."

John Edwards

I was proud and privileged to succeed David Thompson as Chairman of your Society in May of 2014. David led the Society with great distinction and skill over a 10 year period. I would like to offer my personal thanks for his outstanding contribution and for handing me the reins of a financially strong and customer focussed society. I will do everything in my power to continue the good work undertaken under David's stewardship.

Market and economic background

The UK economy has continued its recovery in 2014 with GDP growth of 2.6% for the year, inflation continuing to fall, retail sales remaining buoyant and employment continuing to rise. But despite this progress and the UK's impressive performance relative to other major global economies, we remain cautious about the prospects of a continued strengthening of the UK economy in the short term due to a number of factors.

There is now a possibility that the UK economy could experience a period of deflation due to the significant reduction in the oil price, which has fallen by 50% a barrel from its 2014 opening price. This has been accompanied by an extraordinary systemic shift in the retail supermarket industry, as changing customer behaviour and discounters such as Aldi and Lidl have had a dramatic impact on the pricing and the financial performance of the big four grocers. We believe these factors have increased the possibility of deflation featuring in our language during 2015. Deflation; whilst initially could be good for consumers as falling prices boost disposable income; in fact can have a highly detrimental impact on the economy if the price reductions become sustained and consumers begin to defer purchases in the hope that items could be cheaper in the near future and the value of their debts begin to increase in real terms. A period of 'bad' deflation would have a material impact on our economy and also the government finances.

As we head to 2015, despite improving economic indicators the national deficit continues to grow as the government struggles to match expenditure with income. In fact the Office for Budget Responsibility (OBR) has forecast that the deficit in the tax year 2014-15 will be £91.3bn; 5.6% higher than forecast at the beginning of 2014. Whilst the government seeks to find ways to reduce spending, it is in fact revenues that are falling short of expectations, therefore increasing the deficit. Indeed the OBR now predicts revenues will be £7.8bn lower in this tax year than they forecast at the beginning of 2014.

All of these factors have led to interest rates remaining at their historic low of 0.5%; with commentators now expecting interest rates to remain where they are until at least the end of 2015. Whilst this will be seen as good news for our mortgage customers who continue to enjoy some of the lowest rates we have offered in our history; it is not such good news for our savers; although falling inflation does now mean that more savers are seeing real growth in their savings. We have tried very hard over the past 5 years to strike a balance between the competing needs of our customers and believe that at 1.73% our average rate payable to savers (more than three times the current base rate) represents excellent value when compared with the market. In addition we have taken steps to simplify our range of savings accounts which are no longer available to open, to ensure that they are fair and equitable. In the process of doing so we have simplified a third of our closed issue accounts, with 60% of customers receiving an increase in the rate payable on their account. The Society too is a saver – we have approximately £170m of retained past profits as capital, which we invest. The income we derive from that, which we use for the benefit of members is approximately ten times lower than the long term (25 year) average.

The housing market too has reflected the experience of the economy generally. At the end of 2013 and beginning of 2014 market conditions picked up significantly, as it appeared that improving economic conditions and focussed government stimulus were bringing buyers back to the housing market. Whilst we saw demand increase we did not see a requisite number of people bringing houses to the market to sell; as first time buyers and people moving from the rental market to home ownership do not bring property to the market. The result was an increase in sales activity but because supply was not there to match it, house prices began to increase sharply. In fact at the end of June the Halifax house price index showed an annual increase in average house prices of 7.8% to £188,858. As we stated last year it is important that the housing market recovers in a steady and progressive fashion, where supply and demand remain broadly aligned. Where prices rise too quickly this chokes off transactions and this is what we have seen in the second half of the year; as we have seen mortgage approvals and housing transactions beginning to fall in the final quarter of the year.

Looking forward into 2015 things are finely balanced; the macro-economic position is improving but there are a number of headwinds. We also have the significant uncertainty around the outcome of the May General Election, with polls currently showing that it promises to be a closely fought contest.

Regulation

The twin peak regulatory approach of the Prudential Regulatory Authority and Financial Conduct Authority that was introduced in 2013 has continued on its initiation phase. Unfortunately the media headlines have continued to be dominated by billions of pounds of fines that have continued to be levied on the big banks for misdemeanours, particularly in the Libor and foreign exchange markets. This continued uncovering of poor behaviour, standards, culture and controls at the big banks is debilitating on the public's confidence but at the same time provides the perfect environment for well run mutually owned organisations, such as The Nottingham, to demonstrate why customers can be confident to place their trust in us to look after their financial affairs in a safe and secure manner.

Whilst conduct regulation has focussed on resolving significant legacy issues at the big banks, beginning to regulate the payday lending market more effectively and introducing new regulations around mortgage lending – the prudential regulator has continued to focus on the resilience of balance sheets with new regulations covering liquidity and capital.

New leverage ratios introduced later in the year have caused some banks to seek to raise further capital or reduce the size of their balance sheets. I am pleased to report that the leverage ratio at The Nottingham stands at 4.9% - 63% higher than the minimum requirement and in a very healthy position.

We do understand that the regulators have a tough challenge to ensure that the financial system remains secure and that firms are run in a professional and prudent manner. We work very hard to ensure that we have open, transparent and productive relationships with our regulators.

Looking forward, the list of forthcoming regulatory changes continues to lengthen and is likely to touch every element of our business. One dimension of the complex world we now operate in is that having completed a significant review of our mortgage lending practices under the FCA sponsored Mortgage Market Review in 2014, this entire process will be repeated again in 2015 as we prepare for further changes in this area being brought in by the European Parliament in the form of the European Mortgage Credit Directive – a perfect example of the increasing regulatory overhead firms need to deal with in the post financial crisis world.

"Branches are at the core of our offering and remain very important to our customers"

Strategy & progress

As we have said before, it is essential that The Nottingham continues to develop and strengthen as a regional mutual, offering security and protection for its members.

Over recent years we have worked hard to develop our proposition, which seeks to offer high quality service, advice, choice and value to our members and I am delighted to report that this has continued strongly in 2014.

Whilst in his review David Marlow, our Chief Executive, will highlight another year of excellent financial results, the Board is also focussed on developing the range of services and advice we offer to customers and taking our unique proposition to more customers across the heartland. We have been successful in both of these areas in 2014.

In April we successfully launched our whole of market mortgage advice service. This means that our mortgage advisors recommend the best mortgage to suit each individual customer's needs from those available across the whole market. We firmly believe that the role of a building society needs to reflect the demands of the 21st century and that it is important that we are viewed by customers as the best place to obtain trusted advice from experts on their financial affairs.

Another point of strategic differentiation is the role of branches; whilst the big banks continue to shrink their branch network, our unique business model of a combined building society and estate agency, with our focus on being available to provide expert advice to our customers, means that the branch network plays a central role in our Society. We are proud therefore to report that we have taken Nottingham Building Society services to seven new high streets in 2014 – David covers more about this in his review.

Whilst we are pleased with the progress achieved in the past couple of years we believe that it is important to continue to invest in the Society to the benefit of members. Moving forward whilst we will continue to develop our unique proposition and open new branches, we will also be seeking to look at how we can be easier to deal with for customers, aiming to further improve customers' experience, especially through the use of more digital technology.

Board changes

As highlighted at the AGM last year, 2014 has been a period of some change in personnel on the Board.

In addition to David Thompson retiring from the Board in May, Richard Fiddis also stepped down from the Board in September, as he took up an exciting new Executive role in Sydney, Australia. Richard had served on the Board since 2007 and throughout offered his wise counsel and global market perspective to the Board. He was a constant supporter of our quest to develop a modern vibrant mutual that was increasingly relevant to more and more customers. On behalf of the Board and members of the Society I would like to thank Richard for his excellent contribution and wish him and his family all our best wishes for a successful career in foreign fields.

As the Society develops it is important that the Board evolves and strengthens to ensure that it has the right blend of skills, experience and advice to continue to prosper – I am delighted therefore to announce the appointment of two new directors to the Board in 2014.

Andrew Neden joined the Board in September. Andrew has just completed a 30 year career at KPMG where he was a partner for 18 years. In his time with them he has carried out roles in audit, consulting, transaction services and latterly was Global Chief Operating Officer – KPMG Financial Services. Andrew is a strong supporter of mutuality and is also the Chair of the audit committee at the Wesleyan Assurance Society.

Guy Thomas joined the Board in December following a successful career spent in the building society sector. Guy recently retired from the Principality Building Society, having held a number of Executive roles including Group Finance Director, Group Chief Operating Officer and Chairman of Peter Alan Estate Agency. Prior to his time at The Principality, Guy held senior roles at Birmingham Midshires and Staffordshire Building Society.

On behalf of the Board and members I would like to welcome both Andrew and Guy to the Board. I am very confident that their extensive combined experience and skills will serve the Society strongly in the years ahead.

Supporting local communities

We recognise our responsibility as a local organisation, ensuring that we play our part in making our communities better places in which to live.

Under our Doing Good Together banner we support local causes, especially those that seek to improve financial literacy, boost employability and battle homelessness. We have once again been fortunate to be supported by local firms; The Nottingham Post, Gem 106, Leicester Mercury and Nottinghamshire Community Foundation; for whose generous support we are very grateful.

Over the year we have given grants for over £70,000 to 400 groups in Leicestershire and Nottinghamshire as part of our Cash for your Community initiative.

We have invested a further £100,000 in our philanthropic endowment fund with Nottinghamshire Community Foundation, where we now have £350,000 being held to be vested in local good causes in the years ahead. We have also sponsored 25 local up and coming young athletes through our partnership with Sportsaid. Our staff have volunteered hundreds of hours; gardening, decorating, and helping with child literacy and CV support and have also raised over £15,000 in fundraising for a range of causes. And of course we have continued to support our charity partner Framework in their battle against homelessness.

In fact in 2014 we were particularly proud to work with Framework to:-

- Be the first headline sponsors for their flagship fundraising event 'The Big Sleep Out' which raised over £30,000 for Framework;
- Leased our former branch premises at Friar Lane, Nottingham to Framework and Double Impact at a peppercorn rent to enable them to provide the city's first non-alcoholic bar (Sobar) and City Crisis Services; and
- We were also proud to launch our unique Framework Saver account which offsets the interest payable on a loan given to Framework to provide follow on accommodation services across the East Midlands. We believe that this is the only such arrangement in place in the UK.

Looking ahead

Through this summary I have highlighted a number of issues which will be to the fore of the Board's mind in 2015.

The economic recovery remains fragile; despite good progress over the past 12 months. There are some unprecedented headwinds ahead which could destabilise the recovery.

The low interest rate environment is likely to remain with us for some time yet. This will continue to challenge us to strike the appropriate balance between our savers and borrowers. The fact that our branch retail saving balances have increased by an impressive 41% over the past two years; whilst rates have been at an historic low indicates that we have achieved this, but we must remain vigilant.

The Board is committed to strongly developing the Society and believes that it is essential to differentiate strongly from the big banks. The Board believes that our focus on providing customers with expert advice on their financial affairs supported by a high customer service ethos achieves that and we aim to do more.

Branches are at the core of our offering and remain very important to our customers. The Board is committed to providing access to our products, service and advice on more high streets across our heartland; as well as improving our processes to make us "easy to deal with".

We are a business owned by our customers and have a responsibility to support the communities in which we operate. We have achieved a great deal in the past three years and are committed to continue our community work under our Doing Good Together initiative supporting a wide band of community based groups and charitable organisers such as Framework, Sportsaid and Young Enterprise in 2015.

Thank you

I would like to thank all our team members and my colleagues on the Board. Once again in 2014 they have worked tirelessly to deliver our brand of service, advice, choice and value to our customers, as well as given their own time and money to support good causes in our community.

Finally I would like to thank our business partners, intermediaries and suppliers who share our commitment to deliver security and value to our members.

Thank you also to you, our members, for trusting us to help you achieve your financial ambitions.

John Edwards
Chairman

18 February 2015

Chief Executive's review

"We believe that the role of a modern vibrant Society in the 21st century is to help our customers navigate a steady course through the management of their financial affairs – to do this successfully we believe the majority of people would benefit from receiving expert advice from a trusted source."

David Marlow

Throughout 2014 we have continued to work hard developing our unique offer – combining service, advice, value and choice to an increasing number of customers across our heartland, which has resulted in a record breaking performance in the year.

Your Society

In my 2013 review I laid out our plans to continue to develop and strengthen the Society and am pleased to report that we have delivered on all elements of our plan.

We believe that the role of a modern vibrant Society in the 21st century is to help our customers navigate a steady course through the management of their financial affairs – to do this successfully we believe the majority of people would benefit from receiving expert advice from a trusted source. At a time when access to advice is becoming harder to find and public trust in the big banks is at an all-time low, we are proud to be the only building society in the UK to offer whole of market mortgage advice to all of our customers. In doing so we acknowledge that it is very important for individuals to find the best mortgage for them, one which is tailored to their needs, and that The Nottingham will not always be able to provide the right answer or solution, through our own lending, for all individual circumstances. The response from customers to our new approach has been fantastic as we have already helped thousands of customers with our whole of market offering. Over the year we were able to recommend mortgages from 48 different lenders, demonstrating our commitment to finding the best mortgage for our customers regardless of where that is sourced from. We aim to take this service to many new customers across our heartland in the years ahead.

Whilst it is important to us to offer our customers choice from across the market, it is also right that we should grow our own lending book. One of the key features of our success in the past few years has been the increasing number of mortgage customers choosing to switch to a new deal with us once they reach the end of their fixed or discount period. We are delighted that an increasing number of customers decided to stay with us in 2014. In fact our dedicated team secured switches equal to 2 out of 3 of all mortgages coming to an end of their deal in 2014. This was supported by another year of strong new gross lending, where we lent in excess of £700m for the first time in the Society's history.

As highlighted in the Chairman's statement we firmly view branches as central to our strategy and have continued to develop our network strongly in 2014.

A key strategic part of our acquisition of Harrison Murray estate agents in 2013 was to add building society services to a number of identified locations; allowing us to take the Nottingham Building Society offering to many more customers across our heartland.

We were delighted therefore to open in five new locations in 2014: Leicester, Melton Mowbray, Market Harborough, March and Wisbech. Whilst some of these branches have only been open for a few months, the response from customers has been excellent, with activity levels far in excess of our initial forecasts.

Supported by the confidence of early performance in our new locations, in the summer we replaced two agencies that were closed by Santander, in Rothley and Groby. Both locations in Leicestershire now offer our building society and estate agency services, and like our other new locations are comfortably exceeding our forecasts. This bodes well for the future and has given us the confidence to plan for further new openings during 2015.

Whilst there is always excitement around new branch openings, our existing network of 34 branches has continued to thrive and prosper. In fact our branch savings balances have increased by 16% during the year and are now in excess of £1.5bn for the first time. In addition, our branches have helped and supported thousands of customers plan for their future and protect what is most dear and valuable to them, demonstrating unequivocally that branches remain an important part of helping our customers to achieve their financial ambitions.

We have also continued to invest in the Society to improve the service we offer to customers and to improve our efficiency. In addition to our branch network, where we have approved over £2m of improvements, we have moved all our estate agency offices on to a single systems platform, replaced our treasury management system, approved the upgrading of the systems infrastructure in all Harrison Murray offices and continued to invest in our home-grown customer relationship management system, which is helping us to better understand our customers. We also continue to upgrade our information security capability to protect us from the ever increasing threat of cyber criminals and hackers.

Our performance

With our record mortgage lending and retention performance during the year, the Society has continued to grow; in fact we are pleased to report mortgage growth in 2014 of 9.3%. This has taken our balance sheet to a total of £3.27bn – a new record.

In line with the market trend our interest margin has continued to improve and this has contributed to a strong profit before tax performance of £17.4m – a 36% increase on 2013, another record for the Society.

As I have said before, it is essential for us to generate a surplus to enable us to continue to grow the Society in a safe and secure manner and one which meets the new high levels of capital required by our regulators. We also must continue to invest in the Society's capability and infrastructure, as well as meet the increasing regulatory overheads required to remain successful in today's market place.

The Board is pleased that we are now achieving a level of profitability that can comfortably achieve all of those requirements and therefore expects much smaller marginal improvements in profitability moving forward. In fact we do expect our interest rate margin to reduce, from its current relatively high level, over the next few years as interest rates begin to rise and government stimulus, in the form of the Funding for Lending Scheme, reduces. This will increase our overall cost of funding at a faster rate than the yields we achieve in our mortgage lending. However, the Board is very confident that due to our excellent position we will be able to continue to develop the Society strongly and provide members with amongst the highest levels of security and protection in the sector in the years ahead.

As we have said previously, it is important that we continue to improve our efficiency and we are pleased to report a further improvement in the Society's underlying cost income ratio which fell again in 2014 to 56.5% despite significant investment in the business which has increased levels of depreciation.

We have continued to invest heavily in our Nottingham estate agency subsidiary following the acquisition of Harrison Murray in 2013. The integration has continued to go well and initial results are encouraging, with income rising and a strong improvement in our Nottingham Property Services division as they have benefited from the expertise and experience of their Harrison Murray colleagues. We are cautiously optimistic for 2015 from an estate agency perspective and will look to build on the foundations we have laid.

Quality and strength

The Board has an overriding responsibility to ensure that we operate the Society in a safe and secure manner and in doing so ensure we meet all of the regulatory requirements that are expected of us.

The Prudential regulator sets exacting standards for us to meet in terms of our capital adequacy and liquidity and we are delighted to report that we continue to comfortably exceed those requirements. In fact, driven by our strong performance in 2014, our capital ratios continue to strengthen with our Common Equity Tier 1 Capital ratio improving to 15.1% and the Society comfortably exceeding the new leverage ratio requirements laid down by the Bank of England at 4.9%.

We have an obligation to lend to our members responsibly and have a strong track record in doing so. Overall our credit quality and loan performance remains at outstanding levels.

Our arrears performance remains at sector leading levels with only 88 accounts out of a total of over 22,000, being 3 months or more in arrears. Repossessions too fell in the year to 15. It is always regrettable when we reach this outcome but on the few occasions when it becomes necessary it is the most appropriate resolution for all parties in difficult circumstances.

We were delighted to welcome over 43,000 new customers to the Society, which clearly demonstrates the increasing popularity of our proposition."

We always seek to support our customers who encounter financial difficulties. In each case we take individual circumstances into account, agree tailored actions and monitor each case regularly. At the end of 2014 we had 166 customers receiving some form of forbearance, compared to 237 in 2013. This represents less than 1% of the total number of mortgage customer accounts and includes the cases reported in our arrears figures.

Customers

Our strategy remains focused on providing our customers with value, advice and choice backed by first class service, with an objective of taking this unique proposition to more and more customers across our heartland.

We now uniquely offer our customers access to expert advice based on a choice of those products available across the whole of the market for mortgages and broader financial planning. This is supported by a range of services and products which help our customers for all eventualities in the future and to protect what is most dear and valuable to them. We firmly believe that this unique combination, allied with great service, clearly differentiates us from the banks and makes us far more relevant to a much larger number of potential new customers. In fact, in 2014, we were delighted to welcome over 43,000 new customers to the Society, which clearly demonstrates the increasing popularity of our proposition.

It remains of crucial importance that we ensure that our customer service meets the standards we set and exceeds our customers expectation and therefore in 2014 we more than doubled the number of customers that we contact to conduct our independently run customer service satisfaction survey. These surveys focus on specific transactions and activity and are vital in providing us with direct feedback on what we are doing well and where we need to improve. I am delighted to report that the proportion of customers who rated us as excellent increased during the year from 65% to 68%. In fact our net promoter score, which enables us to directly compare our performance against a range of different companies and sectors across the globe, at 67% places us amongst the very best organisations. Average net promoter score for all financial service firms is 28% in comparison.

Looking ahead

2014 has been another year of good progress and development for the Society and we aim to continue this in 2015.

Whilst we will be working hard to continue to grow and develop our whole of market mortgage advice service to build on a successful launch, we will also:

- Add to the number of locations where we offer our building society services. We currently have plans to add a further four locations in 2015;
- Increase our focus on "being easy to deal with" – we have already identified a number of areas where we feel we can further improve the efficiency and effectiveness of our service, for example through the introduction of electronic identification and verification. This will lead to a dramatic reduction in the number of times our new and existing customers will have to produce several forms of identification to open an account. An area that we know can cause frustration;
- Acknowledge that there is a significant change in customer behaviour and expectations around digital access to service. We have successfully run online savings accounts for a number of years but currently customers must choose between online or branch to access our service and their money. We will commence a project this year to look at how we can give our customers choice of access to their accounts, so that they can combine the high service experience of the branch, with the convenience of online when they would like. We expect this to be a continuing feature of our development plans in the coming years;
- In terms of lending we would expect to continue to organically grow our mortgage book but probably at a slightly slower rate than we have seen in recent years. However, we are exploring some new areas of activity, one of which is how we can take our unique business model and support the building of new homes, particularly helping people buy their first new home; and
- We will continue to build the profile of the Society across the East Midlands through increased community activity and media presence as we have done successfully in the past two years; in fact look out for us on TV at some point during 2015 – the first time the Society has advertised in this way!

As always, we will also continue to look at ways in which we can improve and enhance our product offering to make us more relevant to customers and to ensure that we are best placed to help them manage their finances and achieve their financial ambitions.

Thank You

It has been a record year, as we have continued to develop and strengthen the Society and welcomed many new customers.

I am very proud to lead our team and this Society and we remain very focussed on continuing to strengthen, develop and improve our offering and service to customers.

Once again this has been made possible by the fantastic commitment and enthusiasm of all our team members, who have worked hard together to deliver our brand of first class service to our customers – seeking to serve them in a manner which they would wish to be served themselves.

Finally I would like to thank our loyal members who place their trust and confidence in us to help them achieve their financial ambitions.

David Marlow
Chief Executive

18 February 2015

Strategic report and business review

Ashraf Piranie

Business model and group strategy

The essence of a successful building society is to effectively balance the conflicting needs of its savers and mortgage customers; finding the right equilibrium between offering good value to savers and competitive rates to borrowers. Over the past three years The Nottingham has demonstrated an ability to strike this balance, attracting strong growth in its balance sheet supported by a 57% increase in our core branch based retail savings balances.

The Nottingham is now the UK's 9th largest building society with £3.27bn of assets with a regional presence predominately in the East Midlands but now extending its reach to 10 counties.

The Society's Board believes it is our duty to ensure that our members are strongly positioned to effectively manage their own financial affairs. We have a strong belief that in the years ahead, as the breadth and depth of support and services offered by the national welfare system reduces, it will be essential that customers have access to expert advice, to enable them to make their own plans for their futures, based on the widest choice possible. It is for these reasons that we have been offering our customers whole of market expert financial planning advice for the past six years and in fact from 2014 now offer our customers whole of market expert advice on mortgages through our own advisers. At a time when banks and major providers are restricting this service to only their wealthiest high net worth customers, our unique business model means that we can make it available to all – a clear differentiator from the big banks.

In addition to our core offering and increasingly popular expert advice services, we offer a range of home buying, selling, letting and legal services through our integrated estate agency – an increasing popular concept with our customers and one which has enabled us to extend the offer of building society services to seven new locations in 2014.

As a service led provider of mortgages, savings, expert advice and home buying services we see branches remaining as a core element of our offering. Whilst we expect digital services to become increasingly popular, we believe our target market will be attracted by a strong combination of high street presence and digital accessibility. We therefore expect to see both these elements of our proposition grow and develop in the years ahead.

Our core strategy therefore has remained largely consistent over recent years – to be the leading 'Home related services mutual' in our heartland.

The Nottingham's unique proposition places us in a strong position to meet our customers' needs and deliver value, service, advice, and choice to customers. This is delivered through Nottingham Building Society, our estate agencies (Nottingham Property Services and Harrison Murray) and whole of market mortgage advice via Nottingham

Mortgage Services. Investments and personal financial planning are offered through our partnership with an independent third party, Towergate Financial (East).

Our low risk business model coupled with our excellent service led proposition aims to deliver long term value to members through robust financial performance which allows us to invest and grow the business whilst maintaining the necessary levels of capital to remain financially strong. The Society's business plan is based on the key principles shown opposite:

Capital Objectives	• Ensure profit after tax ratio supports the captial objective for any given growth plan and investment in the business
Profit Objectives	• Maintain an excess over regulatory requirements • Retain a "top quartile" leverage ratio
Sustainability Objectives	• Deliver strong effeciency ratio taking into account the scale of the Society • Maintain strong asset quality with arrears/impairment performance in the industry upper quartile

Principal risks and uncertainties

The Risk Management Report on pages 26 to 29 provides details of the main risks faced by the Group and how the Board looks to manage them. Strategically we continue to operate in an uncertain environment:

- The introduction of the Funding for Lending Scheme (FLS) and the Help to Buy Scheme in 2013 have continued to provide strong stimulus to the mortgage market which has led to a fall in new business market rates for both mortgages and savings. A further extension of FLS by HM Treasury in 2014 has lengthened the period this stimulus will have on both the mortgage and savings markets. The uncertain impact of FLS on the overall cost of funding and ultimately its withdrawal will need to be managed closely by the Society;
- The Group's business model has very close links to the housing market and therefore any change in the level of activity in the market potentially has a significant effect on the Group's performance. Management have a number of mitigating actions they could put in place to respond to any volatility or downturn in the market;
- During 2013 we made a significant investment in acquiring Harrison Murray which strengthened our estate agency business and more importantly provided us with an opportunity to offer building society services in the newly acquired locations. During 2014 we rolled out this service to a number of locations and have continued to align working practices across the Group. We have managed the risk associated with both elements of integrating estate agency operations and adding building society services effectively during 2014; whilst the early signs are well above our expectations we will need to continue to manage the proposition to ensure we deliver our objectives from the acquisition;
- The level of retail lending impairments has remained benign with the number of arrears cases falling again from prior years. Although arrears are expected to remain stable while interest rates remain low the Society will need to remain vigilant over the medium term with the pace of future increases in interest rates potentially putting borrowers under additional financial pressure. The majority of the Society's customers are currently on Fixed Rate mortgages and would therefore not be immediately impacted by changes in interest rates. Management too have conducted stress testing on the book to gauge the impact of higher interest rate costs on our borrowers and are confident that our customers are well placed to manage these rising costs;
- The elections in the UK in May 2015 could create potential uncertainty in the market. A number of different permutations of a coalition government are possible with potentially different positions on Europe and levels of austerity to bring public finances into shape. The market uncertainty could impact the growth prospects for the UK economy and the path for future interest rates. The Society will continue to assess and monitor the potential risks and responses to any shifts in the market it operates in;
- The Society has launched whole of market mortgage advice in 2014. The Society's experience in this area over a number of years through its broking service NMS, places the Society in a good position. In addition the Society has strong governance and resources in place to ensure fair customer outcomes. The risk of lower sales of its own mortgage products is mitigated by a strong link with Intermediaries through strong service and clarity on lending policy and criteria. This initiative also provides the Society with a strong picture of the mortgage market and any potential future risks; and
- The Eurozone continues to remain fragile with a real threat of deflation, and increasing political and social unrest from austerity measures. Any further adverse development, such as anti-austerity government stances by members or a sovereign default, is likely to have a large impact on the UK economy. Although the Society has no direct exposure to Eurozone countries, the risks to the UK economy and consumer confidence would impact the markets the Society operates in and would require the Society to respond effectively.

It is in this context that the Board assesses the Group's performance in 2014.

Business performance

The Chief Executive's Review includes a summary of factors affecting our performance in 2014 and should be read in conjunction with this report.

This section focuses on the financial performance indicators which the Board reviews on a regular basis and are key to our business success.

The Board monitors both reported and underlying profit before tax. Reported profit before tax is a commonly used comparative measure of profit. However, it includes a number of items which the Board does not believe fully represent underlying business performance and therefore underlying profit is also used to measure performance. Underlying profit before tax equates to reported results, adjusted to exclude derivative fair value movements, and exceptional costs relating to the Financial

Services Compensation Scheme (FSCS). In prior years it also excluded the one off strategic costs from the acquisition of Harrison Murray and merger with the Shepshed Building Society. The comparative periods are disclosed on a similar basis.

Key performance indicators

The table below provides a summary of the Group's Key Performance Indicators.

	Group		Society	
	2014	2013	2014	2013
	£m	£m	£m	£m
Underlying profit before tax	19.0	14.2	19.1	14.4
FSCS costs	(1.8)	(1.8)	(1.8)	(1.8)
Derivative fair value movements	0.2	1.2	0.2	1.2
Merger and Acquisition costs	-	(0.8)	-	(0.5)
Reported profit before tax	17.4	12.8	17.5	13.3

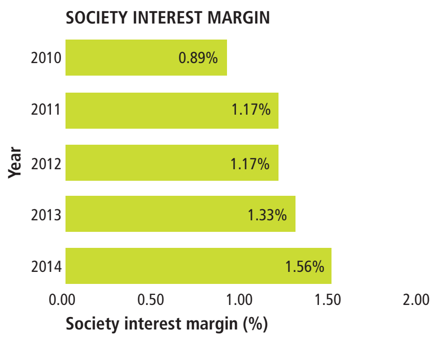
	2014	2013 Restated*	2012 Restated*	2011 Restated*	2010 Restated*
Profit after tax ratio					
Underlying	0.48%	0.39%	0.30%	0.26%	0.13%
Statutory	0.44%	0.35%	0.28%	0.24%	0.09%
Interest margins					
Statutory	1.56%	1.33%	1.17%	1.17%	0.89%
Society management expense ratio					
Statutory	0.93%	0.88%	0.81%	0.84%	0.76%
Group management expense ratio					
Statutory	1.17%	1.13%	0.87%	0.89%	0.81%
Society cost income ratio					
Underlying	56.5%	61.6%	63.1%	65.9%	74.7%
Group cost income ratio					
Underlying	62.7%	68.1%	65.8%	66.6%	76.3%
Statutory	62.5%	66.4%	65.8%	66.6%	80.0%
Society arrears performance	0.38%	0.50%	0.64%	0.73%	0.85%
Total assets	£3.3bn	£3.0bn	£2.7bn	£2.5bn	£2.4bn
Liquid assets ratio	16.84%	17.69%	22.08%	22.68%	22.76%
Common Equity Tier 1 Capital	15.1%	14.7%	N/a	N/a	N/a
Tier 1 capital	16.8%	16.9%	16.9%	17.7%	17.5%
Leverage ratio – transitional rules	5.4%	5.7%	N/a	N/a	N/a
Net promoter score	67.5%	66.9%	76.5%	73.8%	47.9%

*figures have been restated following the early adoption of IFRIC 21. Further details of which are located in note 1.

Net interest income

The Society's interest income is a key component of total income and is determined by our interest margin (the difference between interest received from members and liquid assets and interest paid to members and in the wholesale markets for funding) and the size of our mortgage and savings books. The net interest margin represents net interest income divided by mean assets.

The objective is to optimise our net interest margin so that we balance the requirement to offer attractive rates for savers and borrowers whilst ensuring sufficient profits are generated to maintain a strong capital position and continue to invest in the Society.



Net interest margin for the year was 1.56%, 23 basis points higher than reported in 2013. The increase in net interest margin equates to an additional £10.8m of net interest income an increase of 28%. This has been achieved through continued focus and active management of the balance sheet. One of the main drivers behind the net interest margin increase from 2013 has been the further reductions in the cost of raising new funds and retaining existing balances. This reflects the reduced demand for retail funding across the industry, in part a result of the availability of the governments Funding for Lending Scheme (FLS). Despite the reduction in overall rates, the Society remained competitive, paying an average rate of 1.73%, 3.5 times higher than base rate.

Growth in mortgage balances has also contributed to the increased margin with the overall mortgage book growing by £245m to £2.7bn. However, this growth was partially offset by the narrowing of the interest margin on new and retained mortgage lending as the availability of cheaper funds continued to bring down mortgage rates.

Net interest margin has also benefitted from a reduction in core liquid asset holdings (explained in liquidity section) which has reduced from 17.7% to 16.8%.

Fee income

Fee income consists of mortgage related insurance products, financial planning and protection, rental income from the building society, along with property sales fees from the estate agency business, commissions from whole of market mortgage advice and other income.

	2014	2013
	£m	£m
Building society	2.9	3.0
Estate agency	7.1	6.7
Mortgage broking	0.7	0.6
Consolidation adjustments	-	(0.2)
Total	**10.7**	**10.1**

The overall fee income for the Society has fallen from the prior year as the reported 2013 figure included a one-off benefit (£0.5m) from the sale of its old head office building. However, underlying fee income has increased from £2.5m to £2.9m. Mortgage related fees have slightly reduced in line with increased competition in the market but this shortfall has been more than offset by increased third party estate planning income, through provision of wills, financial planning and protection products.

Income from the Estate agency business has improved during the year with fee income increasing to £7.1m. This is in part due to having a full year's income from Harrison Murray (acquired 31 January 2013) but also the improved performance resulting from the positive impact of the acquisition on underperforming branches.

Mortgage broking income has increased from £0.6m to £0.7m which has been driven by the introduction of whole of market mortgage advice part way through the year across all its operations.

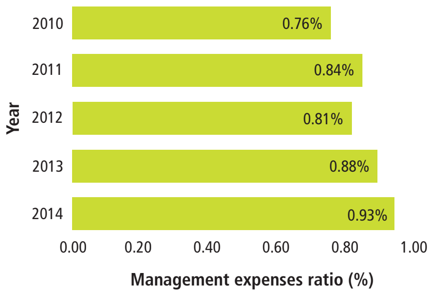
Derivatives

The Society uses derivative instruments to manage exposure to changes in interest rate which arise from fixed rate mortgage lending and fixed rate retail savings products. This leads to volatility in results; such volatility would only be realised if the Society chooses to sell the derivatives before they reach maturity. The Society has no need or intention to sell these derivatives and so expects the £0.2m fair value adjustment to reverse out over the derivatives remaining lives. As this volatility arises primarily due to timing differences the Board exclude its impact from underlying performance.

Management expenses

The ratio of management expenses to mean total assets is monitored closely and provides a guide to efficiency of the Society. The Society's management expenses ratio increased from 0.88% to 0.93%, equivalent to an absolute increase of £3.9m.

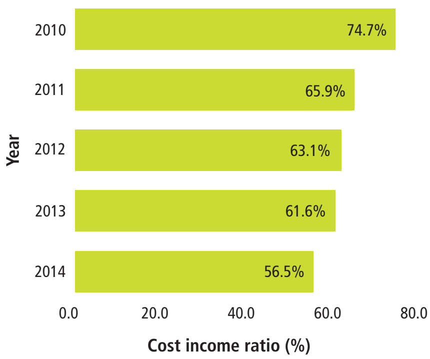
SOCIETY MANAGEMENT EXPENSES RATIO



The increase in the Society's management expenses ratio reflects the initial one off cost of opening seven new branch locations, the continued strategic investment in marketing to increase the Society's local profile and the general level of increased activity.

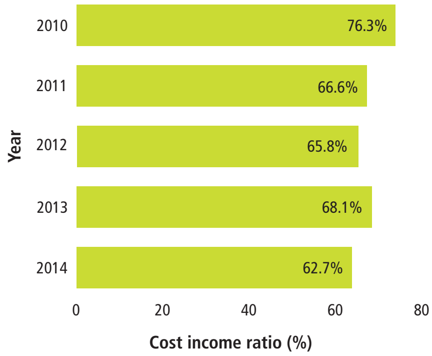
Income growth continues to run well ahead of any cost growth resulting in an improvement to the Society's underlying cost income ratio which has reduced to 56.5% during the year driven by the increased level of net interest income and continued focus on cost efficiency following significant investment in the business.

UNDERLYING SOCIETY COST INCOME RATIO



At a Group level the underlying cost income ratio has also reduced from 68.1% to 62.7%. This improvement highlights the benefits of the Group's strategy to acquire Harrison Murray in 2013 and the improvement in efficiencies now achieved following integration. The Group ratio reflects the higher cost income ratio generally seen in the estate agency sector when compared to that in the building society sector.

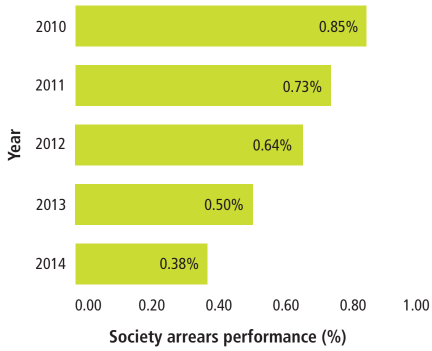
UNDERLYING GROUP COST INCOME RATIO



Impairment and provisions

The Society's arrears performance measures the number of loans three months and more in arrears as a percentage of the total loan book. This enables management to monitor how exposed we are to potential borrower defaults and therefore where losses may occur.

SOCIETY ARREARS PERFORMANCE



The Society's arrears ratio has reduced again to 0.38% at the end of 2014, around a quarter of the industry average.

The continued fall in the arrears ratio is partly reflective of the improved economic environment, with house price inflation running at just below 8%[1] for the year and low mortgage rates, by historic standards, supporting customer repayment obligations. However it also reflects our low risk business model. We always seek to ensure that customers can afford to meet their mortgage repayments from the outset. It is this approach that has ensured arrears levels have remained below industry average and have reduced consistently over the last few years despite the difficult economic conditions.

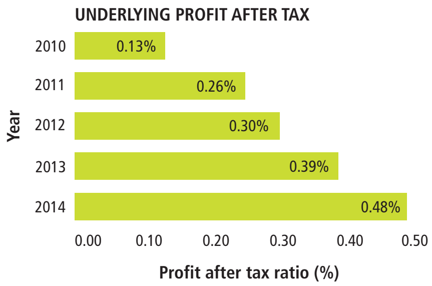
The Society's total overall impairment provisions were £4.8m (£3.9m in 2013), this equates to 0.18% of the total book. The impairment charge for the year of £1.3m is £0.4m higher compared to 2013 and reflects the prudent stance taken by the Society with an increased provision against our Secured Business Lending book.

In common with all other UK regulated deposit takers the Society is required to pay levies under the Financial Services Compensation Scheme (FSCS) and has made provisions for the costs. For 2014 the FSCS levy covering both the interest and capital elements totalled £1.8m consistent with that paid in 2013.

Following an industry investigation into Consumer Credit Act (CCA) loans the Society chose, along with a number of other building societies and banks, to refund interest to those customers who had taken out CCA loans in the past. This was a relatively small number affecting 492 customers out of a total of 22,675. The total cost to the Society was £0.9m.

Profit after tax

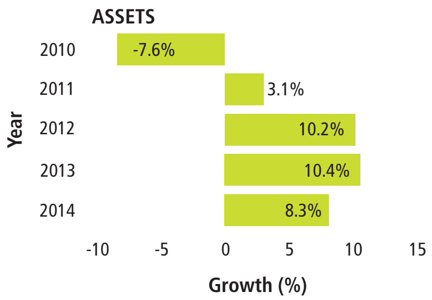
As a mutual the Society has no outside shareholders to whom it has to pay dividends and as such it does not have to maximise profit. However, the Society needs to make sufficient profit to maintain its capital strength and to re-invest to improve services to members.



Underlying profit performance has continued on an upward trend with the underlying profit after tax ratio as a percentage of mean total assets increasing from 0.39% in 2013 to 0.48%. The reported profit after tax ratio has also increased from 0.35% to 0.44%. The improvement in the profit ratios is driven by the increase to net interest income from £38.1m to £48.9m, an increase of 28%. This has resulted from a combination of lower funding costs and an increase to size of the Society's balance sheet (see section below). The performance for 2014, in terms of profit ratio, is approaching the current Boards appetite, a factor the Board will continue to consider in the coming years.

Assets

The Group produced another strong year of asset growth, with the balance sheet increasing by 8.3% to £3.27bn, a record for the Society.



Liquid assets

The Society maintains a prudent level of liquid resources, of an appropriate level and quality, to meet requests by investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.

The Group's liquidity resources are made up from a combination of 'on balance sheet' liquid assets and contingent liquidity held with the Bank of England in the form of Treasury bills secured against certain assets. In time of a stress the Group is able to exchange these assets for cash.

The Group's liquidity is made up as follows:

	2014	2013
	£m	£m
Bank of England	311.4	308.5
Multilateral Development Banks	26.4	20.7
UK Gilts & T'Bills	40.9	30.9
Certificate of deposit	33.3	26.2
Floating rate notes	54.5	47.7
Fixed rate notes	10.7	22.1
Other	33.5	39.6
Total	**510.7**	**495.7**

By holding liquidity of the highest quality which can readily be turned into cash, termed 'buffer' assets, the Group has been able to further reduce the total amount of liquidity it holds. Buffer assets represented 77% of total liquid assets at the end of the year.

The Society also has access to the Bank of England's Funding for Lending Scheme (FLS) and had drawn £442m (2013: £308m) by the end of the year. The FLS provides access to contingent liquidity and further supported the reduction in 'on balance sheet' liquid assets.

At the end of the year the ratio of liquid assets to shares and deposits was 16.8% compared to 17.7% at the end of 2013. However, when contingent liquidity is taken into account as part of the regulatory Overall Liquidity Adequacy Rules (OLAR), this ratio increases to 28.3% (2013: 21.0%).

As part of CRD IV two new measures of liquidity have been introduced, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Whilst the minimum requirements for the NSFR are still to be finalised, the Society is currently well in excess of the minimum levels required for the LCR.

[1] Halifax price index

Mortgages

Total mortgages balances increased by 9.3% during the year to £2,711.1m. Gross lending totalled a record £706m, of which £535m related to prime lending and £165m to Buy-to-Let. This mix is in line with prior years with mortgage lending remaining concentrated in prime high quality mortgage assets. Residential mortgages account for 74% of the total lending book.

	2014	2013
	£m	£m
Residential	2,635.1	2,397.6
SBL	76.0	79.5
Total	**2,711.1**	**2,477.1**

The Secured Business Lending (SBL) book reduced to £76m.

The Society's residential lending is primarily focused in the 60% to 95% LTV category as we continue to provide products to support our heartland customers. The Society's LTV reduced to 56% assisted by increases in House Price Inflation (HPI).

	2014	2013
	%	%
<60%	26.7	19.2
60% - 80%	60.8	58.2
80% - 90%	11.9	18.2
>90%	0.6	4.4

Geographic distribution continues to remain focused in two broad areas, our heartland of the East Midlands/Yorkshire and London/South East.

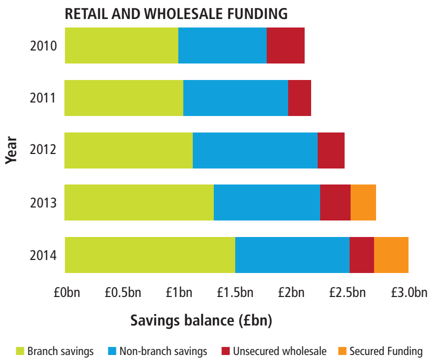
	2014	2013
	%	%
Heartland	32.2	33.5
London & South East	26.1	25.8
North	11.6	11.4
Eastern	10.7	10.4
West Midlands	8.8	8.2
South West	7.7	7.9
Other	2.9	2.8

The Society funds its mortgages through a combination of retail savings and own funds.

Retail and wholesale funding

The Group operates a diverse funding strategy to ensure an optimum mix and duration of retail and wholesale funding.

The graph below details the Society's funding mix:



Retail savings continue to be the cornerstone of our funding requirement with the remainder obtained from the wholesale funding markets.

Despite the benign interest rate environment, the Society has continued to offer good value savings products. This has been demonstrated by the increase in branch balances of £218m which now total £1.5bn and represent 60% of all retail savings balances. This continues to indicate the growing strength of our branch network and strong evidence that customers have responded positively to our moves to maintain good rates for heartland savers. The group's wholesale funding ratio has reduced from 17.2% in 2013 to 15.1% in 2014 primarily as a result of the retail inflows through the Society's branches.

Customer satisfaction

In addition to financial measures, the Board also monitors a range of customer measures designed to ensure we continue to meet our customers' needs.

Our customer satisfaction survey is central to assessing how well we are delivering customer service and is based on customers 'responses to actual transactions and activity with the Society. In 2014 we have maintained our industry leading levels of satisfaction, with 68.5% of our customers rating us as excellent or good, an increase from 65% in 2013.

The net promoter score measures the percentage of customers strongly prepared to recommend the Society to others less those who are not prepared to recommend the Society resulting in a net percentage of our customers who would recommend the Society's products and services.

The Society's net promoter score also saw a slight increase in 2014 to 67.5% compared to 66.9% in 2013 and remained at industry leading levels. In comparison the average net promoter score for all financial service firms is only 28%.

Capital

The Society continues to focus on maintaining strong capital ratios with which to protect our members' interests.

New Basel III rules under the Capital Requirements Directive IV (CRD IV) came into effect from 1 January 2014 and replaced the old Basel II measures. The new CRD IV rules restrict the eligibility of non-core capital instruments which are not fully loss absorbing. As a result the Society's PIBS will be phased out from being eligible as capital under transitional rules which run until 31 December 2021.

In addition to the changes affecting eligibility of capital instruments, CRD IV also brings in a number of capital deductions, which are detailed in the table on the next page.

As we are now required to follow CRD IV rules the commentary below is focused on these measures.

One measure of capital strength is the Society's Common Equity Tier 1 (CET1) ratio. CET1 capital is the strongest form of capital and comprises the Society's general reserves.

The level of CET1 capital held throughout the year has increased by £13.5m driven by the strong profit performance of the Society. The CET 1 ratio of 15.1% also benefitted from a reduction in risk weighted assets, primarily driven by increases to house price inflation which reduced the overall risk weighting for mortgage balances.

The following table reconciles the Society's general reserves to the Society's regulatory capital, and includes details of key ratios:

Despite the transitional provisions applied to the Society's PIBS, the Society's Tier 1 ratio – which comprises both CET1 and Additional Tier 1 Capital has increased marginally to 16.8%.

CRD IV also introduced the concept of the leverage ratio which is calculated as Tier 1 capital divided by total balance sheet exposure. The leverage ratio has fallen slightly to 5.4% during the year.

All the Society's capital ratios remained comfortably in excess of regulatory requirements throughout the year.

Ashraf Piranie
Deputy CEO and Finance Director

18 February 2015

		Society Transitional CRD IV 2014	Society Transitional CRD IV 2013	Society Basel II 2013
	Notes	£m	£m	£m
COMMON EQUITY TIER 1 CAPITAL				
General reserves	29	178.0	166.0	166.0
Available for sale reserve	30	0.4	(0.2)	-
Regulatory adjustments and deductions				
Intangible assets		(3.7)	(5.4)	(6.1)
Deferred tax		(2.5)	(1.7)	-
TOTAL COMMON EQUITY TIER 1 CAPITAL		**172.2**	**158.7**	**159.9**
ADDITIONAL TIER 1				
Permanent Interest Bearing Shares		19.1	23.9	23.9
TOTAL ADDITIONAL TIER 1		**19.1**	**23.9**	**23.9**
TIER 2 CAPITAL				
Collective provision		1.7	1.6	1.6
TOTAL TIER 2 CAPITAL		**1.7**	**1.6**	**1.6**
DEDUCTIONS FROM CAPITAL		-	-	(9.1)
TOTAL REGULATORY CAPITAL		**193.0**	**184.2**	**176.3**
RISK WEIGHTED ASSETS		1,138.4	1,078.2	1,066.7
CAPITAL RATIOS		%	%	%
Common Equity Tier 1 (CET 1) ratio		15.1	14.7	15.0
Total Tier 1 ratio		16.8	16.9	16.4
Leverage rate – final rules		4.9	4.9	N/a
Leverage ratio – transitional rules		5.4	5.7	N/a

Your board of directors

John Edwards

Chairman

John joined the Board in February 2012 and was appointed Chairman in May 2014. He has spent his entire career in the insurance and investment industry. His former senior executive roles include CEO of Clerical Medical Investment Group, CEO of HBOS Insurance and Investment Division and CEO of International Financial Services within Lloyds Banking Group, from which he retired in June 2009. He is currently the Senior Independent Director of the LV Group and is also Chairman of their Investment Committee.

Keith Whitesides

MBE, LLB, MPhil

Vice-Chairman

Keith joined the Board in 2004. He retired from his position as Director of Investor Relations at The Boots Company Plc in 2001, after working for the company for 27 years. He was awarded an MBE in 1996 for services to the community in the East Midlands. Keith, a barrister, also served as Justice of the Peace in Nottinghamshire and was national Commissioner for Racial Equality.

David Marlow*

ACIB

Chief Executive

David joined the Board in 2006 and became Chief Executive in 2011. Prior to his appointment as Chief Executive, David held the post of Retail Director. David has over 25 years' experience in a variety of roles, mainly in the financial services industry. Before joining The Nottingham, David held a number of senior posts in retail banking at Alliance & Leicester Plc. He is a director of Nottingham Property Services Ltd, Nottingham Mortgage Services Ltd, The Mortgage Advice Centre (East Midlands) Ltd, Harrison Murray Ltd and HM Lettings Ltd.

Jane Kibbey

BSc, MCIPD

Jane joined the Board in 2006. She has a wealth of experience gained in financial services and human resources. Jane has worked in a range of high profile companies, retiring as Group Human Resources Director for Prudential Plc, a role she held for nine years.

Andrew Neden

MA, FCA

Andrew joined the Board in 2014. He is a Chartered Accountant with over 30 years' experience in financial services in the UK and overseas. After a number of years running KPMG's UK financial sector transaction services team, he was the global chief operating officer for KPMG's financial services business. Current directorships include the Wesleyan Assurance Society and Youth Business International; he chairs the Audit committee for both organisations.

Mary Phibbs

BSc (Hons), FCA

Mary joined the Board in 2013. She is a Chartered Accountant with over 30 years' experience in financial services in the UK and overseas. Mary has held senior roles in a number of leading institutions such as Standard Chartered where she was Deputy Group Credit Officer. Previously serving as a director of companies such as Northern Rock Plc through its public ownership and Friends Life Group Plc , her current directorships include Morgan Stanley International Ltd, New Day Cards Ltd where she chairs the Board Risk Committee and Novae Group Plc where she chairs the Board Audit Committee.

Mahomed Ashraf Piranie*

FCCA, MBA

Deputy Chief Executive & Finance Director

Ashraf joined the Board in 2007 and is responsible for Finance, Treasury and Risk. Previously, he held the positions of Finance Director and Joint Managing Director at the Islamic Bank of Britain and Director of Finance at Alliance & Leicester Plc. He is a director of Nottingham Property Services Ltd, Nottingham Mortgage Services Ltd, The Mortgage Advice Centre (East Midlands) Ltd, Harrison Murray Ltd and HM Lettings Ltd.

Simon Taylor*

ACIB, MBA

Chief Operating Officer

Simon joined the Board in February 2011 and is responsible for Customer Service, Distribution, the Branch Network, Marketing and I.T. He is also the Chairman of Nottingham Mortgage Services Ltd, Nottingham Property Services Ltd, Harrison Murray Ltd, HM Lettings Ltd and The Mortgage Advice Centre (East Midlands) Ltd. Simon joined the Society from Lloyds Banking Group where he was Regional Director for the North of England. Prior to this he had responsibility for running one of Lloyds Bank's largest contact centres.

Guy Thomas

BSc (Hons), ACA, FCT, C.Dir

Guy joined the Board in 2014. He has a background in accountancy and finance with nearly 30 years in the financial services industry with specific experience in Finance, Treasury, Risk and General Management. Guy has an excellent building society pedigree with more recent experience in market operations, mergers and acquisitions and disposals. Guy recently retired from his position as Chief Operating Officer of The Principality Building Society.

* Executive Director

Board Committees

Audit

Mary Phibbs – Chairman
Jane Kibbey
Andrew Neden
Guy Thomas
Keith Whitesides

Nominations

John Edwards – Chairman
David Marlow
Keith Whitesides

Remuneration

Keith Whitesides – Chairman
John Edwards
Jane Kibbey

Risk

John Edwards – Chairman
Jane Kibbey
David Marlow
Andrew Neden
Mary Phibbs
Ashraf Piranie
Simon Taylor
Guy Thomas
Keith Whitesides

Directors' report

The Directors' report should be read in conjunction with the Chairman's statement and Chief Executive's review on pages 4 to 10.

Business objectives and activities

The Nottingham is a strong and successful mutual which builds upon its strong regional foundations, with a track record of serving our members for over 160 years. At The Nottingham we aim to build long, lasting relationships with our customers and to be recognised for the excellent service we provide.

Information on the Group's business objectives and activities are provided in the Business review on pages 11 to 17.

Business review

The Group's business activities are reviewed in the Business review. Additionally, we comment upon the financial (and other) key performance indicators used by the Board during 2014 to assist its control, direction and drive for business results. These can be found on pages 11 to 17.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group and our approach to managing can be found in the Risk management section on pages 26 to 29.

Financial risk management objective and policies

The Group's objective is to minimise the impact of financial risk upon its performance. An explanation of the financial risks and the controls in place to manage them (including the use of derivatives) is given in note 32 to the annual accounts.

Results

Group underlying profit before derivative fair value movements and Financial Services Compensation Scheme (FSCS) costs was £19.0m (2013: £14.2m). Group reported profit before tax was £17.4m (2013: £12.8m).

The profit after tax for the year transferred to general reserves was £13.9m (2013: £10.2m). Of the total profit for the year, the Society's subsidiaries delivered results of: Nottingham Property Services Ltd £nil, Harrison Murray Ltd a profit of £0.2m, HM Lettings Ltd a loss of £0.1m, Nottingham Mortgage Services Ltd a loss of £0.2m and TMAC Ltd £nil.

Loans and advances

During 2014, total lending was £706m (2013: £693m) and the average advance made was £160,319 (2013: £157,999), with the average debt at the end of the year being £116,808 (2013: £109,221).

At 31 December 2014 there were 9 cases (2013: 20 cases) of properties being 12 or more months in arrears or in possession. The total amount of balances outstanding in those cases was £1,164,204 (0.04% of the total mortgage book), with arrears of £71,302.

Mortgage losses of £0.8m were realised during the year from existing provisions. Provisions for potential mortgage losses total £4.8m, (0.18% of mortgage balances).

The Group offers a number of different forbearance options to customers including reduced payment concessions, payment plans, capitalisations and mortgage term extensions. At the 31 December 2014 the Group had 166 loans (2013: 237) subject to some form of forbearance. Note 32 to the accounts on page 77 provides further details.

Capital

Group gross capital at 31 December 2014 was £203.7m, being 6.72% of total shares and borrowings. Free capital, at the same date, amounted to £183.7m and 6.06% of total shares and borrowings.

The definitions of gross capital, free capital and total shares and borrowings are given in the annual business statement on page 90.

The directors remain committed to maintaining a strong capital position.

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 came into effect on 1 January 2014 and place certain reporting obligations on financial institutions that are within the scope of CRD IV. The purpose of the regulations is to provide clarity on the source of the Society's income and the location of its operations. The annual reporting requirements as at 31 December 2014 will be published on the Society's website in due course at www.thenottingham.co.uk.

Property, plant and equipment

Freehold premises owned by the Group are shown in the accounts at cost less depreciation. An estimate of the value of those properties, prepared in late 2014 by the Group's professional services team, indicates that market value is £3.0 million higher than book value.

Supplier payment policy

The Group's policy is that payment will be made 30 days from the receipt of the invoice, provided that the supplier has complied with all relevant terms and conditions. Variation of the 30 day policy can be agreed at the time an order is placed.

At 31 December 2014, the total amount owed to suppliers was equivalent to 7 days' credit.

Charitable and political donations

During the year the Group made charitable donations of £76,650 (2013: £61,285).

No contributions were made for political purposes.

Our people

A key focus for 2014 was to ensure that the strategic changes being implemented by the business were realised successfully through our teams. A summary of the key achievements appear below.

- **People Strategy.** In 2014, the focus has been on developing the People Strategy to support the delivery of the Society's strategic ambitions and in strengthening the Human Resources (HR) team to deliver the strategy. The team are all now in place and are planning the delivery of new recruitment and development initiatives as well as improvements to HR policies and processes.
- **Reward Strategy.** During 2014 a revised Reward Strategy was implemented across all areas of the Society including the introduction of broad banding and robust external salary benchmarking data and the launch of new bonus, incentive and commission schemes for customer facing teams in Building Society, Mortgage & Protection and Estate Agency. All schemes across the business use a balanced scorecard approach and payments are made on a quarterly, half yearly or annual basis dependent on role and business area. The project also saw the introduction of new healthcare benefits for 440 employees in Building Society and Mortgage & Protection, providing reimbursement for a range of healthcare expenses including eye care fees, dental treatment and diagnostic tests.
- **Recruitment**. 2014 has been a busy year for recruitment with 148 new recruits attending the Corporate Induction Insight Programme. There have been 7 new branches opening and 14 new employees have undertaken the branch training programme.
- **Management Development.** We have continued to invest in developing our management capabilities with 32 Managers having completed the Institute of Leadership Management (ILM) accredited Management Milestones development programme.
- **Funeral Planning Accreditation.** 70 Customer Reviewers have undertaken accreditation exercises and have been authorised to undertake funeral plan sales. Following the rollout of this training we have seen a 27% reduction in cancellation rates in a 3 month period compared to the same period in 2013.
- **Senior Leadership.** During 2014 Anne Mellors joined the team as Head of HR, Caroline Stone was appointed as Head of Internal Audit, and Jack Cutts, Head of IT left the Society. The IT and Business Development functions have been brought together under a new Head of IT & Change who will join the organisation in the Spring of 2015. Lorraine Giddings will leave the Society at the end of the 1st quarter of 2015 and Gary Womersley is appointed as the new Head of the Building Society Branch Network and joins the team in January 2015.

We are particularly pleased to have achieved all this whilst continuing to provide a cohesive programme of skills development to support both our team members to further enhance the service we provide for our internal and external customers.

We remain committed to equality of opportunity in all aspects of employment, and the provision of the services we offer. New employees are briefed as part of their induction, an online training session is available for all people managers and all training reflects the principles of our equal opportunities policy and relevant legislation.

Open and clear communication amongst all our team members is vital to the success of The Nottingham. To this end we held a Staff Conference in February to share business performance and our goals over the next few years as well as congratulate our teams on their contribution. In addition we run regular training and communication sessions for our teams to keep everyone informed.

To help gather team member views and opinions, we hold regular meetings with our Staff Council and seek feedback through our Team Survey which is distributed to all team members. Our next Team Survey will take place in mid 2015. Finally, as reported in other parts of this report our Doing Good Together initiative continued to flourish during 2014 with many of our teams working together to organise fund raising activities for our chosen causes.

Directors' responsibilities in respect of the annual report, the annual business statement, the directors' report and the annual accounts

The directors are responsible for preparing the annual report, annual business statement, directors' report and the annual accounts in accordance with applicable law and regulations.

The Building Societies Act ("the Act") requires the directors to prepare Group and Society annual accounts for each financial year. Under that law they are required to prepare the Group annual accounts in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Society annual accounts on the same basis.

The Group and Society annual accounts are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group and the Society; the Building Societies Act 1986 provides in relation to such annual accounts that references in the relevant part of that Act to annual accounts giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Society annual accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the annual accounts on the going concern basis unless it is inappropriate to presume that the Group and Society will continue in business.

The directors consider that the annual accounts, taken as a whole, are fair balanced and understandable and provide the information necessary for members to assess the Group's and Society's performance, business model and strategy.

In addition to the annual accounts, the Act requires the directors to prepare, for each financial year, an annual business statement and a directors' report, each containing prescribed information relating to the business of the Group.

Directors' responsibilities for accounting records and internal control

The directors are responsible for ensuring that the group:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Society, in accordance with the Act; and
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and the Prudential Regulatory Authority under the Financial Services and Markets Act 2000.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement pursuant to the disclosures and transparency rules

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware:

- the annual accounts, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Society; and
- the management report contained in the Chairman's statement and Chief Executive's review includes a fair review of the development and performance of the business and the position of the Group and Society, together with a description of the principal risks and uncertainties that that they face.

Going concern

In preparing the annual accounts the directors must satisfy themselves that it is reasonable to adopt the going concern basis.

The directors have considered the risks and uncertainties discussed on page 12 and pages 26 to 29, and the extent to which they might affect the preparation of the annual report and accounts on a going concern basis.

The Group's business activities and future plans are reviewed in the Chairman's statement and Chief Executive's review on pages 4 to 10. In addition note 32 to the annual report and accounts includes the Group's policies and processes for managing financial instrument risk such as liquidity risk, interest rate risk and credit risk.

As with many other financial institutions, the Group meets its day-to-day liquidity requirements through prudent management of its retail and wholesale funding sources. It ensures it maintains sufficient liquidity to meet both normal business demands and those that may arise in stressed circumstances.

Furthermore the Group's forecasts and plans, taking account of current and possible future operating conditions, including stress tests and scenario analysis, indicate that the Group has sufficient operating liquidity and capital for the foreseeable future.

As such, the directors are satisfied that the Group has adequate resources to continue in business and to use the going concern basis in preparing the accounts.

Directors

Information on the directors is given in the annual business statement on page 90. John Edwards, Jane Kibbey and Ashraf Piranie retire by rotation at the annual general meeting and, being eligible, seek re-election under Rule 26(1).

Andrew Neden and Guy Thomas having joined the Board in 2014 retire under the provisions of Rule 25(4) and offer themselves for election.

Keith Whitesides who has reached the age of 70 has been approved as eligible for re-election by resolution of the Board. The Board has taken into account his vast experience and continued contribution as a non-executive in coming to that decision.

Further information on the directors who have served during the year can be found in the directors' report on remuneration (page 36).

Other business interests are shown in the annual business statement. None of the directors have any beneficial interest in, or any rights to subscribe for shares in, or debentures of, any connected undertaking of the Society, at 31 December 2014.

Auditor

Following a tender exercise undertaken by the board audit committee, the Board is recommending the appointment of Ernst & Young LLP as auditor and a resolution concerning their appointment will be put to the forthcoming annual general meeting of the Society.

On behalf of the board of directors,

John Edwards
Chairman

18 February 2015

Corporate and social responsibility

As a mutual organisation we have always believed in working with the community to offer much-needed help. Four years ago we launched our community programme, 'Doing Good Together'.

Just like our original founders back in 1849 our desire is to truly make a difference to our communities, helping them thrive and become more prosperous.

This year we have continued to develop our programme, focussing our efforts on the themes of homelessness, financial education and employability.

In a joint collaboration with The Nottingham Post and Leicester Mercury, we have been able to donate £70,000 to local community groups providing funding at grass-root level. We helped around 400 groups fund everything from community centre makeovers to day trips for the elderly. We have also continued to work with Nottinghamshire Community Foundation and have this year invested a further £100,000 providing a long-lasting legacy for charitable donations in our community.

Staff have also continued with their amazing fundraising efforts and this year have raised almost £15,000 for a number of charities including SportsAid, SportsRelief, Framework, Maggie's, Children in Need and MacMillan through raffles, bake sales and sponsored events.

Volunteers also got their hands dirty as we teamed up with GEM 106 as part of their 'Give it Up Appeal' to lend a hand to the breakfast show team over two days making over the garden at Maggie's cancer care centre in Nottingham and lending a hand with a winter tidy up later in the year.

They are all truly amazing and we could not have achieved so much without their fantastic commitment.

We have continued developing our relationship with our charity partner, Framework and 2014 saw the society match-funding and sponsoring 'Do it for Framework Day' in June and the charity's flagship fundraising event, the 'Big Sleep Out' in November. As well as fundraising, staff have volunteered time to help at events and even spent two days working to improve the communal lounge at Aiden House in Basford.

Since its launch in 2013, supporters have invested £250,000 in our Framework Savings accounts. The scheme, thought to be the first of its kind in the UK, saw a commercial loan agreement to Framework to enable them to build 14 units of crucial move-on accommodation. The cost of the loan is partly offset by savers' investment in the specially designed accounts where by sacrificing just a little interest can make a big difference to the project.

2014 has also seen our support for SportsAid increase and we now sponsor 25 young athletes on their road to professional athleticism. SportsAid support these sporting stars of tomorrow by providing support and guidance during the defining periods of their careers. Many are already representing their country internationally and include some of the brightest hopes for the Rio Olympics like Rob Gray (archery), Jodie Caller (judo) and Amy Griffiths (athletics).

Sportsmen and women previously represented by SportsAid include Jessica Ennis-Hill, Mo Farah and Bradley Wiggins. This year has seen staff getting behind athletes hosting charity football matches, doing ice bucket challenges and numerous raffles and games to raise valuable funds to support these stars of tomorrow in our communities. Keep an eye out in 2016 for the success stories of those sponsored by The Nottingham.

To find out more about our community investment programme, visit **www.thenottingham.com/your-nottingham/community**

Environmental management

Protection of the environment in which we live and operate is part of the Society's values and principles and we consider it sound business practice. Care for the environment is one of our key responsibilities and an important part of the way in which we do business. We are committed to reducing the environmental impact of the Society by:

- Maximising the reuse, recycling and sustainable disposal of waste. All waste paper, cardboard, and plastics are recycled (shredding all sensitive documentation)
- Minimising unnecessary paper and ink usage printing in mono and double-sided wherever possible
- Minimising unnecessary water and energy usage and waste, including ensuring all lights and equipment are switched off when not required
- Reducing travel impacts wherever possible, using public transport and facilities such as conference calls and web-based tools such as Skype
- Sourcing and buying locally to save fuel costs wherever possible. And working with like-minded suppliers who take steps to minimise their environmental impact.

What have we done in 2014?

	FUNDRAISING	VOLUNTEERING	GRANT GIVING
February	A Valentine's Day raffle at Hucknall branch raises £150 for Framework.		
March	SportsAid 2014 launches with 25 young and promising athletes including paralympian Julie Rogers, archer Rob Gray and junior judo champion, Jodie Caller. Staff lead on the 'sporting' theme, raising £500 for Sports Relief through dress downs and in-branch games.		
April	The sporting theme continues with Charles Sylvannus-Jones of Lutterworth branch cycling 100 miles and Enderby's Naomi Hewitt completing a half marathon for SportsAid.		Cash for your Community launches in Nottinghamshire and Leicestershire to give away £70,000 to grass-root causes.
May	Head of Estate Agency Su Snaith is locked up for Framework as part of their annual 'Jail and Bail' event raising £1,700 and her freedom!		
June	We sponsor 'Do it For Framework Day' match-funding the first £1,000 in donations and fundraising by wearing orange for the day.		Over 200,000 votes are collected by local community groups wanting a slice of the Cash for your Community fund.
July		Volunteers from across the business get their hands dirty with GEM106 helping to give the garden at Maggie's a makeover.	Just under 400 groups receive cash grants funding everything to new community centre kitchens to day trips for the elderly.
August	Silly hats at Wisbech, family fun day at Newark and archery at 'Melton on the sea' raises hundreds for local SportsAid athletes over the summer.		
September	A team of Branch Managers hit the beach in Cleethorpes with Forces Fit for a sponsored boot camp collecting £500 whilst Brigg Branch wheel over the Humber raising £250 for SportsAid. A cake and coffee morning across the business raises over £2,000 for Macmillan.		
October	Arnold, Long Eaton, Ilkeston and Head Office collect store-cupboard staples in aid of Framework's 'Heat and Eat' appeal to help people in times of crisis. Worksop branch sell hand-knitted pumpkins in aid of SportsAid raising almost £200 whilst Wisbech branch complete a half-marathon raising £100.		The Society invests a further £100,000 with Nottinghamshire Community Foundation to extend our grant giving programme indefinitely.
November	Superheroes descend on the society for Children in Need raising £807.54. Eight volunteers brave the cold to shine a light on homelessness in aid of Framework at the charity's 'Big Sleep Out' in the centre of Nottingham. Moustaches were also the order of the day in our Marketing department raising £500 for the Movember Foundation.	A team of brand managers spend a day away from their desks to help out again at Maggie's getting the garden in shape for winter.	
December	Branch Managers across the network collect 120 pairs of socks for Framework's warm clothes collection whist raising over £2,000 for a number of charities including Battle Batten, Trussell Trust Food Bank and Mummy's Star through advent calendar raffles. Staff at Head Office raise £125 for Brake by wearing Christmas jumpers for the day.	Ten volunteers spend two days transforming the communal lounge at Framework's Aiden House residence in Basford with donated paint, furniture and even a tree.	

Risk management

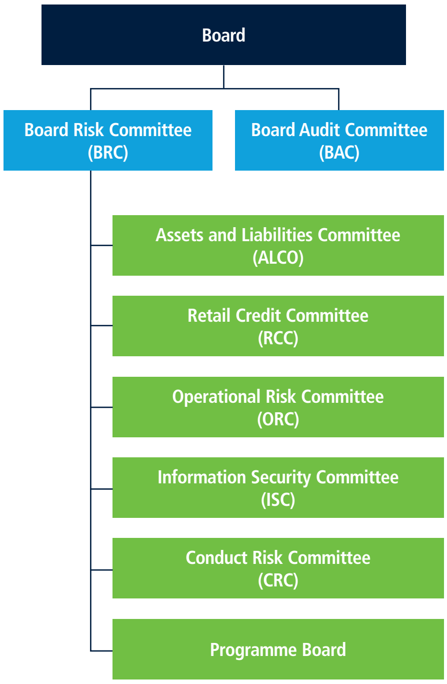
For the year ended 31 December 2014.

The Nottingham recognises risk as a natural consequence of its business environment, as with any organisation. Through prudent management it aims to manage risk in a manner that supports the achievement of its strategic objectives, whilst protecting members' interests and its financial resources.

The Board is responsible for ensuring that an effective framework is in place to promote and embed an effective risk-aware culture that identifies, appropriately mitigates and manages the risks which the Group and Society face in the course of delivering its strategic objectives. This includes both current risks and those associated with the implementation of future strategy. The Board annually reviews and approves a risk appetite statement. In pursuing its strategy the board ensures there are appropriate capabilities and resources available, along with sufficient capital strength to succeed. This includes focusing on risk and reward to ensure it is at an acceptable level.

The Board Risk Framework

The board risk committee is an integral part of the Group's formal structure, overseeing all aspects of risk management. It regularly reviews and approves policy statements, risk limits, risk frameworks, mandates, retail and wholesale credit risk appetites and other control procedures.



The risk management framework is based on the three lines of defence model (described on page 32) and focuses on:

- clear accountability and ownership;
- defined roles and responsibilities;
- the identification of business objectives;
- identification of the risks arising from these objectives;
- an assessment of the identified risks and controls using the board approved risk framework;
- assessing the effectiveness of the documented controls;
- monitoring the risks and controls on an ongoing basis; and
- reporting risks to the relevant committees.

The risk committee framework (shown left) has been designed to support a wide ranging approach to the identification and management of risk. In so doing, each of the six 'management level' risk committees report to the board risk committee, whose responsibility it is to take a Group-wide view of the overall exposure to risk.

Board Risk Committee

The composition of the board risk committee can be found on page 19. It is responsible for:

- ensuring key risks are identified and steps taken by management to mitigate them;
- due consideration is given to all significant matters relating to governance, control, regulatory and compliance issues;
- the Group's key risk and controls are monitored adequately; and
- adequate capital is maintained for the Group's key risk exposures, both to ensure regulatory compliance and the achievement of its strategic goals.

The board risk committee regularly reviews risk management activities to ensure focus on managing not only existing risks but also identifying emerging risk areas such as the impact to net interest income following the end of the Funding for Lending Scheme (FLS) and the impact of integrating new business streams.

Business risk

Business risk is the risk of unexpected changes in the external environment that have the potential to affect the Society's business model either through the level of demand for the Society's products and services and/or its ability to meet it. The Society looks to mitigate its exposure by having a diverse range of products and services so that its income source is not reliant on one product or one area of its business.

Following its acquisition of Harrison Murray estate agents in 2013 the Society has integrated the companies into its existing business and has extended its building society services into a number of these locations. These building society service expansions are managed in accordance with the Society's controlled project governance framework.

Strategic risk

Strategic risk is the risk that the Group pursues an inappropriate strategy or that risks associated with its implementation are not fully recognised. When discussing strategy the board takes care to ensure that risks such as system changes, long-term funding approach and acquisitions are evaluated and that management has plans to mitigate them. The board risk committee oversees the detailed evaluation of these risks.

Capital management

The Society conducts timely evaluations of its capital adequacy and financial resources, to determine the level of capital required to support current and future risks contained within the Society's strategic plan. This process is known as the Internal Capital Adequacy Assessment Process (ICAAP).

The ICAAP assesses the Society's future capital requirements by considering changes to business volumes, type and mix of assets and business activities within the context of current and future anticipated risks and stress scenarios.

The Prudential Regulatory Authority (PRA) use the ICAAP during their Supervisory Review and Evaluation Process (SREP) through which it determines the Society's Internal Capital Guidance (ICG).

The Board monitors the level of capital held by the Society in relation to its ICG on a regular basis. The Society's capital levels remain well in excess of the PRA requirements. An analysis of the components of the Group's capital position can be found in the strategic report on page 17.

From 1 January 2014, capital management has been subject to the Capital Requirement Directive IV regulation (CRD IV). This implements the Basel III framework. We have implemented the requirements of CRD IV, which has the objective of improving the banking sector's ability to absorb shocks arising from financial and/or economic stress and is achieved through increasing both the quality and quantity of regulatory capital firms will be required to hold.

To enhance the quality of regulatory capital, Common Equity Tier 1 (CET1) capital will only comprise retained earnings and those instruments that replicate ordinary shares and in particular that absorb losses.

The main impact on the Society is that its £25m of permanent interest bearing shares (PIBS) no longer count as regulatory capital and these are in the process of being phased out from the calculation of Tier 1 capital over a 10 year period, ending in December 2021.

The changes have all been factored into the Society's capital management plan and when coupled with the Society's strong capital foundation, result in the Society continuing to hold capital comfortably in excess of the regulatory minimum.

Regulatory risk

The Society is regulated by the PRA for all prudential matters. The PRA requires the Society to comply with various external laws, regulations and codes. Failure to comply with relevant regulations could lead to sanctions, fines or other actions from the regulator.

Each business area is responsible for ensuring that all regulatory and statutory requirements are complied with on a day-to-day basis. Oversight of the business is undertaken by the Regulatory and Conduct team within our Risk team.

Recent and upcoming changes to regulation include the Mortgage Market Review (MMR), in force from April 2014, the European Union Mortgage Credit Directive, with the final rules due in March 2015, and the first components of the Directive live from March 2016 and the Senior Managers Regime due in 2015.

Assets and Liabilities Committee

The Assets and Liabilities Committee (ALCO) comprises two executive directors and relevant senior managers. It is responsible for reviewing treasury activity, performance and compliance with approved treasury policy.

It is responsible for overseeing the Group's wholesale credit risk, liquidity risk and market risk.

Wholesale credit risk

Wholesale credit risk arises from counterparties who may be unable to repay loans and other financial instruments that the Society holds as part of its liquidity portfolio.

On a day to day basis the Society's treasury team is responsible for the management of wholesale credit risk. The treasury risk team perform a daily oversight role to ensure the Society's exposures are within acceptable limits. ALCO members receive updates on a monthly basis.

The risk of a counterparty failure both within and outside the UK remains and the Society believes this risk is heightened in the Eurozone. Wholesale credit is managed through our treasury policy, which only permits sterling denominated lending to the UK government, UK banks and building societies plus highly rated banks domiciled in the US, Canada, Australia and Japan. As permitted by policy we have continued to hold liquidity with carefully selected European based Multilateral Development Banks in instances where it qualifies as Liquid Asset Buffer (LAB) eligible assets. The Society has not permitted any lending directly to sovereign states, other than the UK.

Risk of counterparty default has been further reduced by the proportion of total liquidity held in UK Sovereign debt securities and the Bank of England reserve account which has remained significantly above the level required to be held by the PRA.

In addition, every bank must have a minimum 'A' rating from an external credit assessment institution.

A Board approved policy statement further restricts the level of risk by placing limits on the amount of exposure that can be taken in relation to one counterparty or group of counterparties, and to industry sectors, geographical regions etc.

Liquidity risk

Liquidity risk is the risk that the Society will not have sufficient financial resources available to meet its obligations as they fall due, under either normal business conditions or a stressed environment. It is managed through holding cash and other readily realisable liquid assets. The base level and composition of the Society's liquidity is subject to PRA guidance and regular stress testing. This forms part of the Society's Individual Liquidity Adequacy Assessment (ILAA) as required by the PRA's liquidity regime. A separate board approved policy statement, which is aligned to the ILAA, ensures day-to-day activities of the treasury team are conducted within a prudent framework.

During the year, the Society signed-up as a participant to the Bank of England's 'liquidity insurance' facilities and has prepositioned pools of mortgage assets at the Bank over and above those required to support its FLS activity. These pools are unencumbered and available should the Society choose to obtain 'business as usual' funding via the Indexed Long-Term Repo (ILTR) or emergency funding via the Discount Window Facility (DWF). The potential to access these facilities has allowed the Society to reduce the level of liquid assets held on balance sheet at any one point in time. The ALCO assists the Board and executive in the prudent management of the treasury function. The Board consider and approve the treasury risk appetite, with ALCO developing, defining and recommending the treasury risk appetite which ensures that the activities of the treasury function support the corporate plan, whilst remaining compliant with all applicable regulatory requirements. Responsibility for the day-to-day operational management of the risk lies with the Society's treasurer and treasury team. A review of compliance with the limits is undertaken daily by the finance team and additionally this is also reviewed by the treasury risk team which reports to ALCO on a monthly basis.

The balance sheet is stress tested at least monthly to confirm that the Society is able to withstand extreme cash outflows.

A detailed analysis of the Society's liquidity profile can be found in note 32 to the annual accounts.

Market risk

Market risk is the risk of changes to the Society's financial condition caused by market variables in particular interest rates and property prices.

The economy is still dominated by the low interest rate environment with current LIBOR futures and gilt yields indicating this will remain the case for some months to come. The Society has a greater proportion of LIBOR earning assets than liabilities which is being actively monitored to ensure any future changes to interest rates does not adversely affect the Society's interest margin.

The introduction of the FLS has seen reductions to market rates for both retail lending and savings products. The Society is maintaining a watching brief on future market rate changes and the impact of the FLS extension to ensure it does not adversely affect the Society's position.

The Society manages market risk through a Board approved policy statement which defines the maximum acceptable level of risk and what steps may be taken to reduce it. The treasury team is responsible for day-to-day management and for producing the Society's interest rate view and economic forecast. This is overseen by and, where required, approved by the Society's ALCO. Typically interest rate risk is managed through the use of appropriate hedging instruments or by taking advantage of natural hedging opportunities within the Society's balance sheet.

The treasury risk team subject the balance sheet to monthly stress tests designed to measure the likely impact of a sudden change in interest rates. This team also measures the levels of basis risk inherent in the balance sheet and constantly monitors this against Society's risk appetite and Board approved limits.

The ALCO is responsible for reviewing Treasury activity, performance and compliance with the approved policy statements. A detailed analysis of the Society's interest rate sensitivity exposure can be found in note 32 to the annual accounts.

Retail Credit Committee

The Retail Credit Committee (RCC) comprises two executive directors and a number of senior managers. It has responsibility for oversight of the Group's retail assets which includes Residential and Buy-to-Let mortgages and Secured Business Loans.

Retail credit risk is the risk that a financial loss arises from the failure of a customer to meet their contractual obligations.

As a building society this is most likely to arise through the inability of borrowers to repay their mortgage. The Society manages the level of credit risk it undertakes by applying various control disciplines, the objectives of which are to maintain asset quality in line with stated risk appetite.

The level of retail credit risk continues to remain low compared to industry benchmarks. This is characterised by the low interest rate environment which is expected to extend at least until the end of 2015. The extension of the funding for lending scheme has also supported a more competitive mortgage market with many fixed-rate mortgage rate offerings significantly lower than they were 12 months ago.

The composition of the Society's new lending has been at lower average Loan-to-Value (LTV) levels than last year. The Society continues to remain engaged in the higher LTV market for mortgage customers with less than a 15% deposit comprising 5.42% of the mortgage book. The Buy-to-Let (BTL) market remains a core part of our offering and the BTL proposition of the mortgage portfolio stands at 23.3%. Although the BTL market is perceived to be higher risk and generally has a greater concentration in London and the South East than the prime residential lending market, average new lending margins and arrears performance remains strong. We continue to stress-test the mortgage portfolio to detect any signs of potential payment stress or sensitivity for our borrowers to the impact of future rate rises. The mortgage portfolio shows resilience to the impact of rate rises, but we maintain a watching brief to ensure the adequate monitoring and analysis is in place to detect any signs of deterioration. The Society has continued to follow its long term policy of offering interest only products however, there are strict policies and monitoring procedures in operation to ensure an appropriate repayment vehicle is in place.

Exposure to retail credit risk is carefully monitored by the RCC. Day to day retail credit risk is managed through the application of prudent lending policies which are aligned to the stated risk appetite, which is reviewed and approved annually by the Board. The Board receives monthly information on key risk appetite limits.

This ongoing monitoring ensures that current and future exposures, such as LTV levels, geographic concentration and probability of default are managed within the risk appetite limits set by the board.

Exposure to retail credit risk is limited to the provision of loans secured on property within the UK. All mortgage loan applications are reviewed by an individual underwriter supported by the use of application scorecards. Credit reference bureau data is obtained on all applications in line with industry best practice. The Society also shares account performance data with the selected bureau.

The Society is a responsible lender and its approach to lending is based on making sure that customers can afford to meet their mortgage repayments from the outset, through the use of a prudent affordability calculator, launched as part of the Mortgage Market Review (MMR) in April 2014, as well as our manual underwriting processes. Should customers find themselves in financial difficulty, we respond with appropriate forbearance activities. The purpose of forbearance is to support customers who have temporary financial difficulties and assist them to get back on their feet. Only as a matter of last resort would the Society take the property into possession. In addition the Society continues to work within best practice guidelines to ensure customers with interest only loans have appropriate repayment vehicles in place.

The Society does not have any exposure to the sub-prime mortgage market, has never purchased assets from other organisations, lends only to 'prime' customers and has never undertaken 'self- certified' lending business.

Residential, BTL and Secured Business Lending loans are only granted against the 'bricks and mortar' value (i.e. loans are only provided for the purchase or re-mortgaging of a property and not for working capital or machinery etc.).

Secured Business Lending (SBL) policy is used to manage levels of business lending risk. To ensure appropriate management of lending risk the Society maintains watch lists to monitor those loans which are a possible cause for concern in order that risk mitigating action can be taken as appropriate. Primarily, SBL loans are made available to Small and Medium sized Enterprises (SMEs) for either owner occupied or investment property purposes.

Operational Risk Committee

The Operational Risk Committee (ORC) comprises two executive directors and relevant senior managers. It has responsibility for actively overseeing the management of operational risk and adherence to policy.

Operational risk is the risk of loss arising from inadequate or failed internal processes, the actions of people, the Society's systems, or from external physical events such as wars, terrorism or an 'Act of God'.

To ensure the effective monitoring and reporting of risk, the Group has in place various risk registers, this includes an Executive risk register as well as individual departmental and project risk registers. These risk registers assist the Group to track the probability and impact of the risks identified.

Furthermore as part of the risk management framework all business areas are required to complete an Objectives, Risks and Control Assessment (ORCA) and review it on an annual basis. Documented within the ORCA are the business area's objectives, assessment of inherent risk (without specific controls) and residual risk where specific controls have been identified and evaluated. The ORCA is a living document and is used by management to ensure that both risks and controls within their business area are managed effectively.

Information Security Committee

The Information Security Committee (ISC) supports the board in ensuring the security of the Society's information is managed effectively. It performs this role through the approval of appropriate frameworks and policy and oversight of policy implementation. The committee is chaired by the Chief Executive and comprises business area representatives from across the Society.

Given the nature of our business the Society places significant focus on managing information security, data protection and fraud risks whilst also ensuring appropriate staff awareness. Although the level of cyber-crime is on the increase and financial criminals continue to innovate, the Society aims to stay ahead through robust technical and organisational controls which have been developed and implemented to ensure the ongoing safety and security of members' funds.

Conduct Risk Committee

The Conduct Risk Committee (CRC) comprises one executive director and a number of senior managers. The Society, being a retailer of mortgage, savings and insurance products, is regulated by the Financial Conduct Authority (FCA). The CRC has responsibility for overseeing the manner in which the Group conducts business ensuring that it is conducted in a clear, transparent and fair manner ensuring fair outcomes for customers and is compliant with conduct rules set by the FCA, both in letter and in spirit.

The FCA requires the Society to comply with various external laws, regulations and codes including areas such as training and authorisation of staff, documentation, systems and processes. Failure to comply with relevant regulations could lead to sanctions, fines or other actions from the regulator.

Recent and upcoming changes to conduct related regulation include:

- Mortgage Market Review (MMR) (2014);
- European Mortgage credit Directive (EMCD) (2016-2019);
- Senior Managers Regime (SMR) (2015-2016).

On behalf of the board of directors,

John Edwards
Chairman

18 February 2015

Report of the directors on corporate governance

Nottingham Building Society is committed to best practice in corporate governance and has considered the requirements of the UK Corporate Governance Code.

The Board has reviewed the Society's corporate governance practices against the October 2012 UK Corporate Governance Code, which is intended to apply to listed companies, to the extent that they are relevant to a building society. As a building society we are not required to comply with the code, but where appropriate the Society has regard to its principles as encouraged by the regulator.

The Society will be reviewing its corporate governance practices in 2015 in line with the revised code issued by The Financial Reporting Council (FRC) in September 2014 applicable to accounting periods beginning on or after 1 October 2014.

Leadership

The Board

At 31 December 2014, the Board consists of six non-executive directors (including the Chairman) all of whom are considered to be independent in character and judgement, and three executive directors, providing a complementary balance of skills and expertise.

The Board held 10 meetings and two strategy review meetings during 2014.

In addition the non-executive directors meet regularly, without the executive directors present, and consider all aspects of Board responsibilities, governance and performance.

In line with Code principles, the Board operates effectively and is collectively responsible for the long-term success of the Group. Its principal function is to focus on the formulation of strategy, approving and reviewing policy. Additionally, it ensures the appropriate financial and business systems and controls are in place to safeguard members' interests, maintain effective corporate governance and measure business performance. All directors are able to obtain independent professional advice, at the Society's expense, should that be necessary in the fulfilment of their duties.

Division of responsibilities

The role of the Chairman of the Board and the Chief Executive are held by different people and are distinct in their purpose.

The Chief Executive has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group as well as for the formation of its strategy.

Some responsibilities are delegated to the Group's managers and officers and these are listed and reviewed by the Board.

The Chairman

The Chairman, who is elected by the Board annually, leads the Board in approving its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda.

Non-executive directors

Independent non-executive directors play a vital role in challenging and helping develop strategy, whilst providing independent judgement, knowledge and experience.

The Board considers all non-executive directors to be independent in character and judgement and free of any relationship or circumstances which could interfere with the exercise of their independent judgement.

The Vice-Chairman of the Board is the Senior Independent Director who is also the main point of contact for members should the normal channels of communication with the Chairman, Chief Executive or other executive directors fail or be inappropriate.

Effectiveness

Composition of the Board

The names of the directors together with brief biographical details are set out on pages 18 and 19.

The Board uses four committees (risk, nominations, remuneration and audit) to help it discharge its duties.

The four committees meet regularly and current membership of these committees is shown on page 19.

The table on page 31 shows the attendance of each director at the relevant Board and Board committee meetings. The number to the left is the number of meetings actually attended; the number to the right is the number of meetings the director was eligible to attend during 2014.

The minutes of committee meetings are reviewed by the Board. The Board also receives reports from the Chairman of each of the committees and recommendations arising. The terms of reference for these four committees are available on request from the Group Secretary and are on the Society's website.

Appointments to the Board

The nominations committee assists the Board by making timely recommendations on the Board and executive succession plan, board recruitment and composition and other relevant matters. The committee annually considers the competence and suitability of those directors seeking election or re-election at each annual general meeting.

The committee meets at least annually. Additional meetings may be convened if necessary.

Appointments to the Board are made on merit and against objective criteria. The Society gives consideration to diversity in respect of gender and other measures, both at Board level and in recruitment throughout the business; however it is not thought to be in the interests of the business to set measurable objectives in this regard. Candidates for both executive and non-executive directorships are recommended by the nominations committee to the Board for approval, with the assistance of external consultants.

All directors must meet the tests of fitness and propriety prescribed by the Regulator and are required to be registered with the Regulator as an Approved Person in order to fulfil their Controlled Function as a director.

Commitment

Prior to appointment, non-executive directors are expected to disclose their other significant commitments. Before appointment non-executive directors undertake that they will have sufficient time to meet what is expected of them. In addition, throughout their tenure with the Society, directors are required to inform the Board in advance of any other positions they wish to take up so the time commitment and any potential conflicts of interest can be considered.

Development

Upon appointment and throughout their tenure all directors receive timely and appropriate training to enable them properly to fulfil their roles. The information and training requirements of all directors are reviewed annually.

Director	Board	Risk	Nominations	Remuneration	Audit
J. Edwards	10/10	4/4	3/3	3/3	-
R. Fiddis	6/7	3/3	-	2/2	4/4
J. Kibbey	10/10	4/4	-	3/3	5/5
D. Marlow	10/10	4/4	3/3	-	-
A. Neden	4/4	2/2	-	-	1/1
M. Phibbs	10/10	4/4	-	-	5/5
M. Piranie	10/10	4/4	-	-	-
S. Taylor	10/10	4/4	-	-	-
G. Thomas	1/1	-	-	-	-
D. Thompson	3/3	1/1	-	-	-
K. Whitesides	10/10	4/4	3/3	3/3	5/5

Information and support

The Chairman ensures that all directors receive accurate, timely and clear information. All directors have access to the advice and services of the Group Secretary and independent professional advisors should this be required.

The Society has in place appropriate insurance cover in respect of the board directors.

Evaluation

Executive directors are evaluated using the performance management framework for all employees. The executive directors are appraised by the Chief Executive. The Chief Executive is appraised by the Chairman.

The performance of non-executive directors is reviewed annually by the Chairman. The senior independent director conducts interviews with each director in order to appraise the performance of the Chairman, the results of which are discussed with the Chairman by the non-executives.

The Board and each of the committees formally evaluate their own performance and effectiveness annually. These evaluations take into consideration the balance of skills, experience, independence and knowledge, and consider the diversity of the group and its ability to work together. The process is co-ordinated by the senior independent director and the outcome of each evaluation is presented to the nominations committee who assess the results for trends and themes. This process also includes an overall assessment of the performance reviews undertaken by the key management committees, which report to the various board committees. The overall outcome of the review is then reported to the Board.

The Board is satisfied that the evaluation process meets the needs of the Society and its members, but is mindful of the Code requirement for FTSE 350 companies to conduct an external evaluation every three years, and will keep this under review.

Re-election

All directors are submitted for election at an annual general meeting (the 'AGM') in accordance with the Society's rules, and in this regard the Society has departed from the recommendations of the Code. The Code indicates that all directors should stand for re-election annually, whereas the Society's rules require re-election at three-yearly intervals. The Board consider that the current voting arrangements are satisfactory and provide for a continuity of experience and knowledge. However the issue will continue to be kept under review.

Non-executive directors can serve up to a maximum of three three-year terms. Any extension must be approved annually, and be explained giving due consideration to the continuing independence and objectivity of the non-executive director. Keith Whitesides was first elected in 2005 and has been assessed by the Board as continuing to be independent in character and judgement and who has reached the age of 70, been approved as eligible for re-election by resolution of the Board. The Board considers that his independence is in no way affected or compromised by his length of service. The Board has taken into account his vast experience, continued contribution and the continuity he brings as Vice-Chairman during a period of transition, in coming to that decision. Being eligible, he offers himself for re-election this year.

The nominations committee makes recommendations to the Board concerning the re-appointment of any non-executive director at the conclusion of their specified term of office, having due regard to their performance and ability to continue to contribute to the board in light of knowledge, skills and experience required.

Accountability

Financial and business reporting

The directors' report on pages 20 to 23 details the responsibilities of the directors in preparing the Group's accounts.

This includes ensuring suitable accounting policies are followed, that a true and fair view of the Group's financial position is given and that the Group's business is a going concern.

The Board has responsibility to present a fair, balanced and understandable assessment of the Group's performance and financial position, and considers this is contained within the Chief Executive's review on pages 8 to 10 and within the report and accounts taken as a whole.

Risk management and internal control

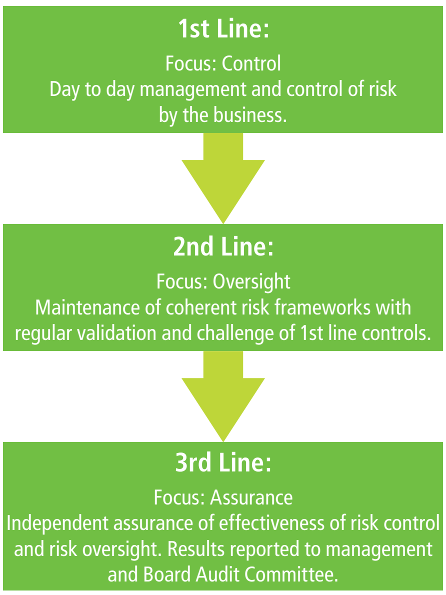
The board risk committee oversees the entire risk management framework of the Group. It advises the Board on determination of risk appetite and setting of risk limits. The committee fulfils its obligations through two approaches. Firstly it is responsible for monitoring operational risks to ensure they are in line with the Group's prudent policies and in line with its agreed group risk appetite statement. In doing so the committee considers any emerging risks and ensures significant changes in exposures to existing risks are promptly identified and addressed by management. This includes overseeing the identification and management of project risks across the Group. The Committee also reviews the Group's policy on "whistle-blowing" in respect of financial or other matters.

The second approach involves the Committee focusing its attention on the risks within the Group's strategy and the management of these risks.

To assist in monitoring the risk management framework, the assets and liabilities, retail credit, conduct risk, operational risk, information security and programme board committees report into the board risk committee. The Committee meets at least quarterly.

More information on risk management is given in the report commencing on page 26.

In accordance with the UK Corporate Governance Code the Society's Board is committed to maintaining a sound system of internal controls to safeguard both its own assets and those of its members.



The operation of these three lines of defence is embodied in the terms of reference of the Society's seven risk committees (assets and liabilities, retail credit, conduct, operational, information security and programme board along with the board risk committee) as well as a range of policies and procedures that relate to the identification, assessment, monitoring and control of all the main areas of risk that the Group faces.

The information received and considered by the risk committees provided reasonable assurance that during 2014 there were no material breaches of control or regulatory standards and that the Society maintained an adequate system of internal control.

Audit committee and auditors

The role of the audit committee covers a number of responsibilities which are delegated by the Board.

- **Financial reporting**

  The Committee reviews the Group's accounting policies, to confirm their suitability, at least annually and on a quarterly basis receives updates on any key judgemental areas to consider whether management's analysis and conclusions are appropriate.

  In evaluating the 2014 Annual Report and Accounts the following areas of judgement have been reviewed and the views of the external auditor considered:

  – Levels of impairment provision for both the retail and secured business lending portfolios;

  – Revenue recognition in relation to the calculation of the effective interest rate used to allocate interest income on loans and receivables;

  – Provisions for customer redress;

  – Early adoption of IFRIC 21 and the calculation of the FSCS provision;

  – Assumptions used in the valuation of the Group's defined benefit scheme;

  – Carrying value of intercompany investments and goodwill;

  – Fair value unwind adjustment in respect of the merger with Shepshed Building Society;

  – Approach to hedge accounting and valuation of derivatives; and

  – Appropriateness of the going concern principal.

  In addition the Committee reviews the integrity of the financial statements and any formal announcements. The Committee provides advice on whether the report and accounts, taken as a whole, is fair, balanced and understandable, and whether it provides the information necessary to assess the Group's performance, business model and strategy. The Committee recommended that Board approve the Annual Report and Accounts accordingly.

- **Systems of internal financial controls**

  The Committee receives reports and monitors the systems of internal control. This includes review of internal financial controls and taxation risks.

- **External auditors**

  The Committee reviews the effectiveness of the external auditors and recommends to the board annually their re-appointment/ appointment. In our 2013 annual report we noted the Code requires companies to put the external audit contract out to tender every ten years and that the Committee would take a view on the frequency of the tender once the competition commission and the European Union proposed rules on audit tendering came into force. This occurred in 2014 and the Committee resolved to prepare for a tender process in 2015. The Committee also examines the external auditors independence and approves their terms of engagement. When the Society appointed Andrew Neden a former (non-audit) partner of KPMG, as a non-executive director, discussions with KPMG were undertaken to review potential conflicts of interest and KPMG's continued independence. Whilst both parties were happy that KPMG's independence was not compromised the Committee agreed with KPMG that in order to demonstrate strong corporate governance the audit tender process should be brought forward into the final quarter of 2014 and KPMG informed the Society that it would not participate in the tender process. KPMG will therefore step down in 2015 after 25 years of valuable service to the Society. Following a formal tender process the Committee has therefore recommended to members that Ernst & Young LLP be appointed as auditors at the Annual General Meeting.

The engagement of the external auditors for non-audit services are subject to pre-approval to ensure that there is no threat to the independence and objectivity of the external audit firm.

- **Internal auditors**

  The Committee monitors and reviews the performance of the internal audit function. This is achieved through approval of the annual audit plan and monitoring of progress against this plan. In addition, the Committee reviews the results of audits undertaken, conclusions on the effectiveness of the control environment and progress made by management in addressing any concerns raised.

- **Report to the Board**

  The Committee reports to the main Board on how it has discharged its responsibilities.

The Committee consists of non-executive directors and met on five occasions during 2014 as detailed on page 31. The Chief Executive, Finance Director, Internal auditors and External auditors attend meetings as required by the Committee. The Board is satisfied that the composition of the Committee has relevant and recent financial experience.

The internal and external auditors both have direct access to this Committee and to its Chairman.

Remuneration

Policy and procedures

The level and make-up of director remuneration and the procedure for developing policy on executive remuneration, including fixing the remuneration packages of individual directors, is considered by the remuneration committee.

The remuneration committee's work and the Society's compliance with code principles relating to remuneration, is covered in the report of the directors on remuneration on pages 34 to 37.

Membership

The Committee consists of non-executive directors only and met on three occasions during the year. Additional meetings may be convened if necessary.

The remuneration committee reviews employment terms for the Group's employees, reporting recommended changes to the Board.

More information on remuneration is given in the report commencing on page 34.

Relations with members

Dialogue with members

The Society's members are all customers of the Society. Engagement with customers is undertaken in various ways including social media, customer panels, regular literature and main stream media.

The Society is keen to find out its members' views so that it can continually improve. It provides them with a number of ways and opportunities to give their feedback. It surveys a selection of its members on a regular basis through its customer satisfaction survey and uses its 'Customer Panel' to provide input into the services and products it offers. The Society also encourages its members to attend its annual general meeting where they are able to ask questions and voice their opinions.

Furthermore, each year as part of the AGM documentation, the Society produces a Member's magazine called 'The Nottingham and You' which provides news about the Society as well as information on its products and services. In addition the Society also sends a copy of its Members' Newsletter and summary financial statement which provides an abridged version of information contained within the Annual Report and Accounts.

Constructive use of the AGM

Each year notice of the AGM is given to all members who are eligible to vote. Members are sent voting forms and are encouraged to vote online, by post, at a local branch, or by person or proxy at the AGM.

All postal and proxy votes are counted using independent scrutineers.

All members of the Board are present at the AGM each year (unless, exceptionally, their absence is unavoidable) and the Chairman of the audit, nominations, risk and remuneration committees are therefore available to answer questions.

The Notice of the AGM and related papers are sent at least 21 days before the AGM in accordance with the Building Societies Act 1986.

On behalf of the board of directors,

John Edwards
Chairman

18 February 2015

Report of the directors on remuneration

Nottingham Building Society is committed to best practice in its remuneration of directors. This report explains how the Society applies the principles in the UK Corporate Governance Code relating to remuneration and the Regulator's Remuneration Code.

Introduction

The Chairman's statement and Chief Executive's review describe 2014 as a further very successful year for the Society in all aspects of its activities. It is in this context that the 2014 payments to executive directors have been determined and are detailed in this report.

The last review of executive remuneration at the Society was carried out in 2010. Since then the Society has merged with the Shepshed Building Society, acquired Harrison Murray estate agents and consolidated its place as a top ten building society. During this period, the shape of executive remuneration in the sector has also been evolving in response to the current environment and changing regulatory requirements. Therefore, in 2014 the remuneration committee conducted a full review in order to benchmark the composition and level of executive remuneration within the sector and to ensure compliance with regulatory requirements and Corporate Governance good practice.

The Committee drew on the guidance of external advisors to carry out the review and the findings and recommendations were presented to the remuneration committee in December 2014. At this meeting the remuneration committee agreed the following principles for executive remuneration for 2015 and beyond:

- A simplification to and rebalancing of executive remuneration with a lower percentage of variable pay;
- The replacement of the annual bonus plan and the Long Term Incentive Plan with a single executive bonus plan with 60% of any bonus being deferred for three years and the incorporation of rules for malus[2] and clawback;
- An increase to executive directors' base salaries to take account of both the reduction in variable remuneration potential and up to date external market data; and
- An increase to executive directors' pension contributions to take account of market data.

The specific details of the plan are under development and will be reported in the 2015 report.

The remuneration committee believes that incorporating these principles into the executive remuneration framework will lead to an appropriate balance of risk and reward for a mutual organisation in the current market conditions, will meet regulatory requirements and corporate governance good practice and will provide a balanced reward structure for our executives. This will enable us to retain and attract executives of the required calibre to support our strategic agenda and lead the Society in its next phase of development.

Remuneration policy

The Board believes remuneration should be sufficient to attract, retain and motivate directors to run the Society successfully, whilst avoiding paying more than is necessary for this purpose. Incentives are structured to strike the right balance between fixed and variable pay. To incentivise appropriate behaviour, rewards are only attributed to the delivery of success. The remuneration of all directors is reviewed annually.

The Chairman and other non-executive directors each receive an annual fee. Executive directors' emoluments comprise a basic salary, pension entitlement and other taxable benefits.

Additionally, the executive directors participate in an annual bonus scheme and a long term incentive scheme which is designed to incentivise individuals to produce successful, sustainable business results.

Remuneration matters are considered for the board by a remuneration committee whose membership is shown on page 19.

The Society adheres to the requirements of the Remuneration Code as defined by the Regulator. The non-executive directors do not receive variable remuneration. Information on the Society's other Remuneration Code Staff is set out in the Pillar 3 disclosures published on our website **www.thenottingham.com**.

Executive directors

The remuneration of executive directors is considered annually by the remuneration committee attended by the Society's Chief Executive, who (except in respect of his own remuneration) makes recommendations regarding executive pay. All agreed recommendations are referred to the Board.

Basic salary is assessed by reference to roles carrying similar responsibilities in comparable organisations. A comparator group is used that consists of executive director positions within building societies of a similar size and complexity.

The Society operates a HMRC approved pension salary sacrifice scheme for all staff. The executive directors are eligible to participate in the scheme, however their gross salaries and pension contributions (before salary sacrifice is applied) are shown in the table on page 36.

[2] Malus: Where issues associated with executive conduct are evident, or where the Group suffers a material downturn, a material failure of risk management, or a misstatement of the Group's audited results, the remuneration committee may reduce whole or part of a bonus.

Performance related awards are in two parts; an annual scheme and a medium/long term incentive scheme. Payments under these schemes are not pensionable.

a) The annual bonus scheme is a multiple of the percentage rate paid under the Building Society Core annual bonus scheme and is based on the achievement of a range of performance measures based upon a modular scorecard approach. In addition there is a discretionary element which is determined by individual performance, based on appraisal. The maximum amount payable being 25% of eligible salary.

   If the Core bonus scheme is not triggered, no payment is made to the executive directors. In 2014 the Core bonus scheme was triggered.

b) The three year Long Term Incentive (LTI) scheme maturing at the end of 2013, and paid in 2014 focused primarily on the Group's cumulative operating profit compared to the Group's three year plan, and was dependent on the Group's relative performance to a comparator group of societies for the period 2011-2013. The scheme paid a total of 40% of eligible salary to directors employed for the period of the scheme with pro rata payments made as appropriate.

   The schemes currently in operation mature at the end of 2014, 2015 and 2016 respectively and all require achievement of a minimum level of:

   - Operating profit;
   - Solvency, in line with capital requirements and the Group's capital plan;
   - Liquidity levels, maintained within planned parameters;
   - Individual performance, based on appraisal; and
   - The individual must have performed their duties at all times within board risk appetite.

   Payment for the scheme maturing in 2014 is also determined by the cumulative level of operating profit compared to the Group's three year plan and is dependent on relative performance to a comparator group of societies.

   Payments under the schemes maturing in 2015 and 2016 are determined using a balanced scorecard and require achievement of:

   - Group cost income ratio targets;
   - Successful implementation of strategic initiatives; and
   - The Society's profit after tax ratio relative to a comparator group of societies.

   Any payment under the 2012 – 2014 scheme cannot be confirmed until later in 2015 when all comparator societies' annual accounts are available. The maximum bonus achievable under each scheme is 40% of annual salary.

Pensions are provided to all executive directors who are members of the Society's defined contribution scheme.

Executive directors receive other taxable benefits including a car allowance.

Total remuneration

The total remuneration received by executive directors is detailed on page 36. The information has been audited and shows remuneration for the years ending 31 December 2013 and 31 December 2014 as required under the Building Society's (Accounts and Related Provisions) Regulations 1998.

The Chief Executive is the Society's most highly paid employee and no employee earns more than any executive director.

Other directorships

None of the executive directors currently hold any paid external directorships.

Non-executive directors

Fees for non-executive directors are set by reference to benchmark information from a building society comparator group.

The fees are reviewed by the Chairman together with the executive directors before recommendations are referred to the board. Remuneration of the Chairman is considered by the remuneration committee together with the Society's Chief Executive without the Chairman being present, with a recommendation being referred to the board.

There are no bonus schemes or incentive schemes for any non-executive director including the Chairman. Similarly, non-executive directors have no pension scheme entitlements or other benefits.

Service contracts

All executive directors, in line with best practice, have contracts on a 12 months 'rolling' basis requiring 12 months' notice by the Society to terminate and 6 months' notice by the individual.

Non-executive directors are appointed for an initial term of three years. They will generally be expected to serve more than one three year term.

Remuneration of directors

Audited	Society	2014	2013
		£000	£000
(A) TOTAL DIRECTORS' REMUNERATION		1,221	1,249
(B) NON-EXECUTIVE DIRECTORS' REMUNERATION			
J S Edwards (Chairman)		59	41
R W Fiddis (resigned 30 September 2014)		26	33
J C Kibbey		34	33
R P Marchant (retired 31 December 2013)		-	47
A F J Neden (appointed 17 September 2014)		10	-
M C Phibbs		44	31
W G Thomas (appointed 01 December 2014)		3	-
D A R Thompson (retired 30 April 2014)		21	62
K R Whitesides (Vice-Chairman)		43	39
Total emoluments for services as directors		**240**	**286**

Audited	Society Salary[1]	Annual[2] bonus	Medium term[2] incentive scheme	Benefits	Sub-total	Society's[3] contribution to pension scheme	Total
(C) EXECUTIVE DIRECTORS' REMUNERATION	£000	£000	£000	£000	£000	£000	£000
2014							
D J Marlow	209	42	82	10	343	21	364
M A Piranie	193	35	75	9	312	20	332
S J Taylor	164	33	62	8	267	18	285
	566	**110**	**219**	**27**	**922**	**59**	**981**

[1] Basic salary pre-salary sacrifice

[2] The figures disclosed represent the total amount earned under the bonus arrangements. Under the rules of the schemes directors are eligible to participate in bonus sacrifice schemes. The schemes allow directors to sacrifice part or all of their bonus as pension contributions into a money purchase arrangement.

[3] The Society's contribution to the pension scheme does not include the additional contributions (paid through salary sacrifice) as they are effectively included in the pre-salary sacrifice basic salary figures.

Audited	Society						
	Salary[1]	Annual[2] bonus	Medium term[2] incentive scheme	Benefits	Sub-total	Society's[3] contribution to pension scheme	Total
(C) EXECUTIVE DIRECTORS' REMUNERATION	£000	£000	£000	£000	£000	£000	£000
2013							
D J Marlow	203	51	79	10	343	23	366
M A Piranie	187	47	72	9	315	19	334
S J Taylor	160	40	36	8	244	19	263
	550	**138**	**187**	**27**	**902**	**61**	**963**

On behalf of the board of directors,

Keith Whitesides
Chairman of the Remuneration Committee

18 February 2015

Independent auditor's report to the members of Nottingham Building Society

We have audited the group and society annual accounts of Nottingham Building Society for the year ended 31 December 2014 set out on pages 39 to 89. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 22, the directors are responsible for the preparation of annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the annual accounts

A description of the scope of an audit of annual accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on annual accounts

In our opinion the annual accounts:

- give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of affairs of the group and of the society as at 31 December 2014 and of the income and expenditure of the group and of the society for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it and, as regards the group annual accounts, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;
- the information given in the Directors' Report for the financial year for which the annual accounts are prepared is consistent with the accounting records and the annual accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Society; or
- the annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

Richard Gabbertas (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants,
1 The Embankment
Neville Street
Leeds
LS1 4DW

18 February 2015

Income statements

for the year ended 31 December 2014

	Notes	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
Interest receivable and similar income	3	100.7	98.6	100.7	98.6
Interest payable and similar charges	4	(51.8)	(60.5)	(51.8)	(60.5)
NET INTEREST INCOME		**48.9**	**38.1**	**48.9**	**38.1**
Fee and commissions receivable		10.7	10.1	3.0	3.0
Fees and commissions payable		(0.4)	(0.5)	(0.4)	(0.5)
Other income		-	0.5	-	0.5
Net gains from derivative financial instruments	5	0.2	1.2	0.2	1.2
TOTAL NET INCOME		**59.4**	**49.4**	**51.7**	**42.3**
Administrative expenses	6	(33.0)	(28.7)	(25.4)	(21.8)
Acquisition & merger costs	6	-	(0.8)	-	(0.5)
Depreciation and amortisation	18,19	(3.9)	(3.8)	(3.7)	(3.4)
Finance (cost)	27	(0.2)	(0.2)	(0.2)	(0.2)
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES AND PROVISIONS		**22.3**	**15.9**	**22.4**	**16.4**
Impairment losses on loans and advances	15	(1.3)	(0.9)	(1.3)	(0.9)
Provisions for liabilities - FSCS levy	26	(1.8)	(1.8)	(1.8)	(1.8)
Provisions for liabilities - Other	26	(1.2)	(0.3)	(1.2)	(0.3)
Loss on disposal of property, plant and equipment and intangible assets	18,19	(0.6)	(0.3)	(0.6)	(0.3)
Negative goodwill	37	-	0.2	-	0.2
PROFIT BEFORE TAX		**17.4**	**12.8**	**17.5**	**13.3**
Tax expense	9	(3.5)	(2.6)	(3.5)	(2.6)
PROFIT FOR THE FINANCIAL YEAR	**29**	**13.9**	**10.2**	**14.0**	**10.7**

Profit for the financial year arises from continuing operations.
Both the profit for the financial year and total comprehensive income for the period are attributable to the members of the Society.
A reconciliation from profit before tax for the financial year to underlying profit used by management can be found on page 13.
The notes on pages 44 to 89 form part of these accounts.

Statements of comprehensive income

for the year ended 31 December 2014

	Notes	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
Profit for the financial year		13.9	10.2	14.0	10.7
Items that will not be re-classified to the income statement					
Remeasurements of defined benefit obligation	27	(2.5)	0.1	(2.5)	0.1
Tax on items that will not be re-classified to the income statement	9	0.5	-	0.5	-
Items that may subsequently be re-classified to the income statement					
Available-for-sale reserve					
Valuation gains/(losses) taken to reserves	12	0.8	(0.4)	0.8	(0.4)
Amount transferred to income statement	12	-	0.2	-	0.2
Tax on items that may subsequently be re-classified to the income statement	9	(0.2)	0.1	(0.2)	0.1
Other comprehensive (expense) for the period net of income tax		(1.4)	-	(1.4)	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**12.5**	**10.2**	**12.6**	**10.7**

The notes on pages 44 to 89 form part of these accounts.

Statements of financial position

as at 31 December 2014

	Notes	Group 31 Dec 2014 £m	Group 31 Dec 2013 Restated £m	Group 31 Dec 2012 Restated £m	Society 31 Dec 2014 £m	Society 31 Dec 2013 Restated £m	Society 31 Dec 2012 Restated £m
ASSETS							
Liquid assets							
Cash in hand	10	1.4	1.0	1.1	1.4	1.0	1.1
Loans and advances to credit institutions	11	343.5	347.1	374.2	342.7	345.7	374.2
Debt securities	12	165.8	147.6	181.0	165.8	147.6	181.0
Derivative financial instruments	13	9.9	20.1	23.3	9.9	20.1	23.3
Loans and advances to customers	14	2,718.3	2,471.4	2,129.9	2,718.3	2,471.4	2,129.9
Investments in subsidiary undertakings	16	-	-	-	8.2	9.1	1.6
Other assets	17	2.5	2.6	1.8	2.0	1.8	1.6
Property, plant and equipment	18	12.5	13.2	11.9	11.5	11.6	10.9
Intangible assets	19	9.2	11.0	7.3	4.4	6.1	7.3
Deferred tax assets	20	2.7	1.9	1.4	2.7	1.9	1.4
TOTAL ASSETS		**3,265.8**	**3,015.9**	**2,731.9**	**3,266.9**	**3,016.3**	**2,732.3**
LIABILITIES							
Shares	21	2,575.4	2,319.4	2,268.0	2,575.4	2,319.4	2,268.0
Amounts owed to credit institutions	22	264.2	253.7	55.7	264.2	253.7	55.7
Amounts owed to other customers	23	189.2	216.1	176.1	189.2	216.1	176.1
Debt securities in issue	24	3.5	13.5	19.7	3.5	13.5	19.7
Derivative financial instruments	13	13.6	8.9	21.8	13.6	8.9	21.8
Other liabilities and accruals	25	5.5	5.1	3.4	5.3	4.4	3.2
Current tax liabilities		1.4	1.2	0.3	1.5	1.2	0.3
Deferred tax liabilities	20	0.9	0.8	1.1	0.8	0.7	1.1
Provisions for liabilities	26	1.8	1.8	1.5	1.8	1.8	1.4
Retirement benefit obligations	27	6.6	4.6	5.1	6.6	4.6	5.1
Subscribed capital	28	26.6	26.2	27.4	26.6	26.2	27.4
TOTAL LIABILITIES		**3,088.7**	**2,851.3**	**2,580.1**	**3,088.5**	**2,850.5**	**2,579.8**
RESERVES							
General reserves	29	176.7	164.8	151.9	178.0	166.0	152.6
Available-for-sale reserves	30	0.4	(0.2)	(0.1)	0.4	(0.2)	(0.1)
Total reserves attributable to members of the Society		**177.1**	**164.6**	**151.8**	**178.4**	**165.8**	**152.5**
TOTAL RESERVES AND LIABILITIES		**3,265.8**	**3,015.9**	**2,731.9**	**3,266.9**	**3,016.3**	**2,732.3**

Prior year comparatives have been restated. See note 1 for full details.
The notes on pages 44 to 89 form part of these accounts.
These accounts were approved by the Board of directors on 18 February 2015 and signed on its behalf:

John Edwards
Chairman

David Marlow
Chief Executive

Ashraf Piranie
Deputy Chief Executive and Finance Director

Statements of changes in members' interests

as at 31 December 2014

	Notes	General reserves £m	Available-for-sale reserves £m	Total £m
GROUP 2014				
Balance as at 1 January 2014		164.8	(0.2)	164.6
Profit for the year		13.9	-	13.9
Other comprehensive income for the period (net of tax)				
Net gains from changes in fair value		-	0.6	0.6
Remeasurement of defined benefit obligation		(2.0)	-	(2.0)
Total other comprehensive (expense)/income		(2.0)	0.6	(1.4)
Total comprehensive income/(expense) for the period		11.9	0.6	12.5
BALANCE AS AT 31 DECEMBER 2014	**29,30**	**176.7**	**0.4**	**177.1**
GROUP 2013 (RESTATED)				
Balance as at 1 January 2013		151.9	(0.1)	151.8
Acquired on transfer of engagements		2.6	-	2.6
Profit for the year		10.2	-	10.2
Other comprehensive income for the period (net of tax)				
Net (losses) from changes in fair value		-	(0.1)	(0.1)
Remeasurement of defined benefit obligation		0.1	-	0.1
Total other comprehensive income/(expense)		0.1	(0.1)	-
Total comprehensive income/(expense) for the period		10.3	(0.1)	10.2
BALANCE AS AT 31 DECEMBER 2013	**29,30**	**164.8**	**(0.2)**	**164.6**

	Notes	General reserves £m	Available-for-sale reserves £m	Total £m
SOCIETY 2014				
Balance as at 1 January 2014		166.0	(0.2)	165.8
Profit for the year		14.0	-	14.0
Other comprehensive income for the period (net of tax)				
Net gains from changes in fair value		-	0.6	0.6
Remeasurement of defined benefit obligation		(2.0)	-	(2.0)
Total other comprehensive (expense)/income		(2.0)	0.6	(1.4)
Total comprehensive income/(expense) for the period		12.0	0.6	12.6
BALANCE AS AT 31 DECEMBER 2014	**29,30**	**178.0**	**0.4**	**178.4**
SOCIETY 2013 (RESTATED)				
Balance as at 1 January 2013		152.6	(0.1)	152.5
Acquired on transfer of engagements		2.6	-	2.6
Profit for the year		10.7	-	10.7
Other comprehensive income for the period (net of tax)				
Net (losses) from changes in fair value		-	(0.1)	(0.1)
Remeasurement of defined benefit obligation		0.1	-	0.1
Total other comprehensive income/(expense)		0.1	(0.1)	-
Total comprehensive income/(expense) for the period		10.8	(0.1)	10.7
BALANCE AS AT 31 DECEMBER 2013	**29,30**	**166.0**	**(0.2)**	**165.8**

Prior year comparatives have been restated. See note 1 for full details.
The notes on pages 44 to 89 form part of these accounts.

Cash flow statements

for the year ended 31 December 2014

	Notes	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax		17.4	12.8	17.5	13.3
Depreciation and amortisation		3.9	3.8	3.7	3.4
Loss on disposal of property, plant and equipment		0.6	0.3	0.6	0.3
Interest on subscribed capital		2.0	2.0	2.0	2.0
Net (gains)/losses on disposal and amortisation of debt securities		(1.2)	0.1	(1.2)	0.1
Increase in impairment of loans and advances		0.9	0.9	0.9	0.9
TOTAL		**23.6**	**19.9**	**23.5**	**20.0**
CHANGES IN OPERATING ASSETS AND LIABILITIES					
(Increase)/decrease in prepayments, accrued income and other assets		(4.3)	23.2	(3.6)	22.8
Increase/(decrease) in accruals, deferred income and other liabilities		5.4	(20.8)	5.7	(22.2)
(Increase) in loans and advances to customers		(234.0)	(363.1)	(234.0)	(363.2)
Increase in shares		256.8	59.9	256.8	59.9
(Decrease)/increase in amounts owed to other credit institutions and other customers		(15.9)	238.6	(15.9)	238.6
(Increase)/decrease in loans and advances to credit institutions		(16.1)	14.1	(16.1)	14.1
(Decrease) in debt securities in issue		(9.9)	(6.2)	(9.9)	(6.2)
(Decrease) in retirement benefit obligation		(0.4)	(0.4)	(0.4)	(0.4)
Taxation paid		(3.8)	(1.8)	(3.6)	(1.8)
NET CASH GENERATED BY OPERATING ACTIVITIES		**1.4**	**(36.6)**	**2.5**	**(38.4)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of debt securities		(107.8)	(119.4)	(107.8)	(119.4)
Disposal of debt securities		90.4	152.6	90.4	152.6
Cash acquired on transfer of engagements		-	2.1	-	2.1
Purchase of property, plant and equipment		(1.7)	(3.9)	(1.7)	(2.5)
Disposal of property, plant and equipment		1.1	0.4	0.6	0.4
Purchase of intangible assets		(0.8)	(6.2)	(0.8)	(1.0)
Investment in subsidiary undertakings		-	-	-	(6.2)
NET CASH GENERATED BY/(USED IN) INVESTING ACTIVITIES		**(18.8)**	**25.6**	**(19.3)**	**26.0**
CASH FLOWS FROM FINANCING ACTIVITIES					
Interest paid on subscribed capital		(1.9)	(1.9)	(1.9)	(1.9)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(19.3)**	**(12.9)**	**(18.7)**	**(14.3)**
Cash and cash equivalents at 1 January		337.9	350.8	336.5	350.8
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**31**	**318.6**	**337.9**	**317.8**	**336.5**

The notes on pages 44 to 89 form part of these accounts.

Notes to the accounts

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

Basis of preparation

Both the Society and Group annual accounts are prepared and approved by the directors in accordance with IFRSs as adopted by the EU and those parts of the Building Societies Act 1986 and Building Societies (Accounts and Related Provisions) Regulations 1998 applicable to societies reporting under IFRS. The annual accounts are prepared under the historical cost convention as modified by the fair value of available-for-sale assets and derivatives.

The accounts have been prepared on the going concern basis as outlined in the Directors' report on page 23.

The accounting policies for the Group also include those for the Society unless otherwise stated.

The preparation of accounts in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

Changes in accounting policy

The following IFRS pronouncements, relevant to the Group, were adopted with effect from 1 January 2014

- IAS 39 (Amendments) Financial Instruments: Novation of derivatives and continuation of hedge accounting. The amendment provides relief from the requirement to discontinue hedge accounting if a hedging derivative is novated to a central clearing counterparty as a consequence of changes to laws or regulations. The application did not have a material impact on the reported results or the financial position of the Group.

Early adoption

The principles of the following pronouncement were voluntarily applied by the Group with effect from 1 January 2014 (EU effective date 17 June 2014).

- IFRIC 21 'Levies' – effective for periods beginning on or after 17 June 2014 with the option for early adoption. The interpretation provides clarification for accounting for government imposed levies. The FSCS scheme year runs from 1 April to 31 March and levies are based on the deposit takers share of protected deposits at the preceding 31 December. IFRIC 21 has clarified when the obligating event occurs. Under IFRIC 21 the Society should no longer recognise its FSCS provision in the preceding year to the FSCS scheme but in the scheme year itself. Therefore the 2014/15 FSCS levy should be recognised at the 31 December 2014. There has been no net impact on the Income statement. The accounts have been restated to show the impact on comparative numbers. The extracts from the Income statements and Statements of financial position are set out below:

	Group 2013 Restated	Group 2013 Originally disclosed	Society 2013 Restated	Society 2013 Originally disclosed
	£m	£m	£m	£m
INCOME STATEMENTS				
Provisions for liabilities – FSCS Levy	1.8	1.8	1.8	1.8
Tax expense	2.6	2.6	2.6	2.6
STATEMENTS OF FINANCIAL POSITION				
Provisions for liabilities	1.3	3.6	1.3	3.6
General reserves	164.8	162.5	166.0	163.7

Future accounting developments

A number of International Accounting Standards Board (IASB) pronouncements have been issued but are not effective for this financial year. The standards considered most relevant to the Group are as follows:

- IFRS 9 'Financial Instruments' – effective from 1 January 2018 at the earliest but not yet endorsed by the EU. The standard will eventually replace all of IAS 39. The standard requires financial assets to be classified at amortised cost or at fair value (through either the income statement of through other comprehensive income). Consequently, the available-for-sale category currently used will become void. In addition the standard will address impairment of financial assets, which will be based on expected credit losses rather than incurred financial losses as at present, as well as general hedge accounting. Early adoption is permitted once endorsed by the EU. The impact of IFRS 9 is likely to be material to the Group once it becomes effective;
- IFRS 15 'Revenue from contracts with Customers' – effective from 1 January 2017. The standard provides guidance on when revenue should be recognised. The standard is not expected to have a significant impact to the Group;
- Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' – effective from 1 January 2016. The amendment clarifies that the use of revenue based methods of depreciation and amortisation are not appropriate. The amendments are not expected to have a significant impact to the Group.

1. ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

Subsidiary companies are defined as those in which the Society has the power over relevant activities, has exposure to the rights of variable returns and has the influence to affect those returns. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. The Group accounts consolidate the assets, liabilities and results of the Society and all of its subsidiaries, eliminating intercompany balances and transactions. All entities have accounting periods ending on 31 December.

The results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date that ownership ceases.

Business combinations between mutual organisations

Identifiable assets and liabilities are measured at fair value. Intangible assets are amortised through the income statement over their estimated useful lives, being between one and ten years.

A deemed purchase price is calculated by measuring the fair value of the acquired business. Goodwill is measured as the difference between the adjusted value of the acquired assets and liabilities and the deemed purchase price. Goodwill is recorded as an asset; negative goodwill is recognised in the income statement.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. Acquisition related costs are recognised in the income statement as incurred.

Interest income and expense

Interest income and interest expense for all interest bearing financial instruments are recognised in 'interest receivable and similar income' or 'interest payable and similar charges' using the effective interest rates of the financial assets or financial liabilities to which they relate. The effective interest rate is the rate that discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying amount of the financial asset or liability.

Interest on impaired financial assets is recognised at the original effective interest rate of the financial asset applied to the carrying amount as reduced by an allowance for impairment.

Fees and commissions

Fees receivable are generally recognised when all contractual obligations have been fulfilled, with fees earned on the sale of properties recognised on the date contracts are exchanged.

Commission receivable from the sale of third party products is recognised upon fulfilment of contractual obligations, that is when policies go on risk or on completion of a mortgage.

If the fees are an integral part of the effective interest rate of a financial instrument, they are recognised as an adjustment to the effective interest rate and recorded in interest income/payable.

Fees payable are recognised on an accruals basis when the service has been provided or on the completion of an act to which the fee relates.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash, treasury bills and other eligible bills and loans and advances to credit institutions.

Derivative financial instruments and hedge accounting

The Group uses derivatives only for risk management purposes. It does not use derivatives for trading purposes. Derivatives are measured at fair value in the statement of financial position. Fair values are obtained by applying quoted market rates to a discounted cash flow model. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group designates derivatives held for risk management purposes as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedge items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

Fair value hedges

A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate mortgages and savings products. Changes in the fair value of derivatives are recognised immediately in the income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the income statement as the hedged item).

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedge item for which the effective interest method is used, is amortised to the income statement as part of the recalculated effective interest rate of the item over its remaining life.

Notes to the accounts

1. ACCOUNTING POLICIES (CONTINUED)

Financial assets

The Group classifies non-derivative financial assets as either loans and receivables or available-for-sale assets. Management determines the classification of financial assets at initial recognition. No assets have been classified as held to maturity.

a) Loans and receivables

The Group's loans and advances to customers are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The Group measures its loans and receivables at amortised cost less impairment provisions.

The initial value may, if applicable, include certain upfront costs and fees such as procuration fees, legal fees, mortgage indemnity guarantee premiums and application fees, which are recognised over the expected life of mortgage assets. Mortgage discounts are also recognised over the expected life of mortgage assets as part of the effective interest rate.

Throughout the year and at each year end, the mortgage life assumptions are reviewed for appropriateness. Any changes to the expected life assumptions of the assets are recognised through interest receivable and similar income and reflected in the carrying value of the mortgage assets.

b) Available-for-sale assets

Available-for-sale assets are non-derivative assets that are intended to be held for an indefinite period of time. They may be sold in response to needs for changes in liquidity or changes in interest rates. The Group's debt securities are classified as available-for-sale assets. The Group measures debt securities at fair value, with subsequent changes in fair value being recognised through other comprehensive income except for impairment losses which are recognised in profit or loss. Further information regarding how fair values are determined can be found in note 32 to the accounts.

Upon sale or maturity of the asset, the cumulative gains and losses recognised in other comprehensive income are removed from available-for-sale reserves and recycled to the income statement.

Impairment of financial assets not carried at fair value through profit and loss

a) Assets carried at amortised cost

Throughout the year and at each year-end, individual assessments are made of all loans and advances against properties which are in possession or in arrears by two months or more and/or are subject to forbearance activities. Individual impairment provision is made against those loans and advances where there is objective evidence of impairment.

Objective evidence of impairment may include:

- significant financial difficulty of the borrower/issuer;
- deterioration in payment status;
- renegotiation of the terms of an asset due to financial difficulty of the borrower or issuer, including granting a concession/ forbearance to the borrower or issuer;
- becoming probable that the borrower or issuer will enter bankruptcy or other financial reorganisation; and
- any other information discovered during regular review suggesting that a loss is likely in the short to medium term.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. In considering expected future cash flows, account is taken of; any discount which may be needed against the value of the property at the statement of financial position date thought necessary to achieve a sale; amounts recoverable under mortgage indemnity policies; and anticipated realisation costs.

In addition the Group assesses quarterly whether there is objective evidence to suggest a financial asset or group of financial assets is likely to be impaired. Where a collective assessment is made, each category or class of financial asset is split into groups of assets with similar credit risk characteristics. The Group measures the amount of impairment loss by applying expected loss factors based on the Group's experience of default, loss emergence periods, the effect of movements in house prices and any adjustment for the expected forced sales value.

Where certain emerging impairment characteristics are considered significant but not assessed as part of the impairment calculation, management may elect to apply an overlay to the impairment provision.

The amount of impairment loss is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of provisions.

b) Available-for-sale assets

The Group assesses at each statement of financial position date whether there is objective evidence that an available-for-sale asset or group of available-for-sale assets is impaired. Available-for-sale assets are impaired and impairment losses incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of those assets. Loss events may include default of a counterparty or disappearance of an active market for the assets. Impairment is measured as the difference between the current amortised cost and the current fair value, less any impairment loss on that asset previously recognised.

The amount of the impairment loss is recognised in the income statement; any loss previously recognised through other comprehensive income is reversed out and charged to the income statement as part of the impairment cost.

Forbearance strategies and renegotiated loans

A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on their feet.

The main options offered by the Society include:

- reduced monthly payment;
- an arrangement to clear outstanding arrears;
- capitalisation of arrears; and
- extension of mortgage term.

Notes to the accounts

1. ACCOUNTING POLICIES (CONTINUED)

Customers requesting a forbearance option will need to provide information to support the request which is likely to include a budget planner, statement of assets and liabilities, bank/credit card statements, payslips etc. in order that the request can be properly assessed. If the forbearance request is granted the account is monitored in accordance with our policy and procedures. At the appropriate time the forbearance option that has been implemented is cancelled, with the exception of capitalisation of arrears, and the customer's normal contractual payment is restored.

Loans that are subject to restructuring may only be classified as restructured and up-to-date once a specified number and/or amount of qualifying payments have been received. These qualifying payments are set at a level appropriate to the nature of the loan and the customer's ability to make the repayment going forward. Typically the receipt of six months qualifying payments is required. Loans that have been restructured and would otherwise have been past due or impaired are classified as renegotiated.

The carrying amount of loans that have been classified as renegotiated retain this classification until maturity or derecognition. Interest is recorded on renegotiated loans on the basis of new contractual terms following renegotiation.

Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive cash flows have expired or where substantially all the risks and rewards of ownership have been transferred. Financial liabilities are derecognised only when the obligation is discharged, cancelled or has expired.

Financial liabilities

All non derivative financial liabilities, that include shares and wholesale funds, held by the Group are measured at amortised cost with interest recognised using the effective interest rate method.

Discounts and other costs incurred in the raising of wholesale funds are amortised over the period to maturity using the effective interest method.

Subscribed capital

Subscribed capital comprises Permanent Interest Bearing Shares (PIBS) which have no voting rights to residual interest and is classified as a financial liability. It is presented separately on the face of the statement of financial position. Subscribed capital is initially recognised at 'fair value' being its issue proceeds net of transaction costs incurred.

The interest on the subscribed capital is recognised on an effective interest basis in the income statement as interest expense.

Intangible assets

a) Computer Software

Purchased software and costs directly associated with the internal development of computer software are capitalised as intangible assets where the software is an identifiable asset controlled by the Group which will generate future economic benefits and where costs can be reliably measured. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense as incurred.

Intangible assets are stated at cost less cumulative amortisation and impairment losses.

Amortisation begins when the asset becomes available for operational use and is charged to the income statement on a straight-line basis over the estimated useful life of the software, which is generally between 3 to 8 years. The amortisation periods used are reviewed annually.

Assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use.

b) Goodwill

Goodwill arising on the acquisition of subsidiary undertakings represents the excess of the fair value of consideration over the fair value of identifiable net assets and contingent liabilities acquired at the date of acquisition. In accordance with IFRS 3, Business Combinations, goodwill is not systematically amortised but is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of combination. The impairment test compares the carrying value of goodwill to its associated value in use. The value in use calculations are carried out by discounting the future cash flows of the cash generating unit. Future cash flows are based upon approved profit budgets for the next three years and assumed growth thereafter for the next 12 years in line with long-term growth rates. The Group estimates the discount rate based upon the weighted average cost of capital which takes into account the risks inherent in each cash generating unit. A 15-year time horizon has been used to reflect that cash generating units are held for the long-term.

c) Other intangibles

Other intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date which is regarded as their cost.

Subsequent to initial measurement, other intangible assets acquired in a business combination are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of the asset which is typically 1 to 20 years. The amortisation periods used are reviewed annually.

Notes to the accounts

1. ACCOUNTING POLICIES (CONTINUED)

Other intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use.

Property, plant and equipment

Additions and improvements to office premises and equipment, including costs directly attributable to the acquisition of the asset, are capitalised at cost. The statement of financial position property, plant and equipment value represents the original cost, less cumulative depreciation. The costs, less estimated residual values of assets, are depreciated on a straight-line basis over their estimated useful economic lives as follows:

- Freehold buildings 50 - 100 years
- Leasehold premises over the remainder of the lease or 100 years if shorter
- Refurbishment of premises over 5 to 10 years or length of lease if shorter
- Equipment, fixtures, fittings and vehicles over 4 to 10 years
- No depreciation is provided on freehold land.

Assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use.

Employee benefits

a) Pensions

The Group operated a contributory defined benefit pension scheme until 31 January 2009 when it was closed to future service accrual. The assets are held in a separate trustee administered fund. Included within the statement of financial position is the Group's net obligation calculated as the present value of the defined benefit obligation less the fair value of plan assets less any unrecognised past service costs. Any remeasurements that arise are recognised immediately in other comprehensive income through the statement of comprehensive income. The finance cost is recognised within finance income and expense in the income statement. The finance cost is the increase in the defined benefit obligation which arises because the benefits are one period closer to settlement.

Contributions are transferred to the trustee administered fund on a regular basis to secure the benefits provided under the rules of the scheme. Pension costs are assessed in accordance with the advice of a professionally qualified actuary.

The Group also operates a contributory defined contribution pension scheme. The assets of which are held separately from those of the Group. For this scheme the cost is charged to the income statement as contributions become due.

b) Long term incentive schemes

The costs of bonuses payable after the end of the year in which they are earned are recognised in the year in which the employees render the related service. The long term incentive bonuses disclosed in the Directors' remuneration report are included when paid.

Leases

The leases entered into by the Group are operating leases. The rental charges payable under operating leases are charged to the income statement on a straight-line basis over the life of the lease.

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income and gains arising in the accounting period.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amount of assets and liabilities for accounting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are recognised gross on the statement of financial position and deferred tax assets are only recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Both current and deferred taxes are determined using the rates enacted or substantively enacted at the statement of financial position date.

Tax relating to fair value re-measurement of available-for-sale investments, which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

Tax relating to actuarial gains/(losses) on retirement benefit obligations is recognised in other comprehensive income.

Provisions and contingent liabilities

The Group recognises a provision when there is a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Notes to the accounts

1. ACCOUNTING POLICIES (CONTINUED)

The Society has an obligation to contribute to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet compensation claims from, in particular, retail depositors of failed banks. A provision is recognised to the extent it can be reliably estimated and when the Society has an obligation in accordance with IFRIC 6. The amount provided is based on information received from the FSCS, forecast future interest rates and the Society's historic share of industry protected deposits.

Contingent liabilities are potential obligations from past events which shall be confirmed by future events. Contingent liabilities are not recognised in the Statement of financial position.

Financial guarantees

The Society has made an explicit assertion that it regards intra-group financial guarantees as insurance contracts. As such, financial guarantees are accounted for under IFRS 4 'Insurance Contracts'. Such insurance contracts are accounted for as a contingent liability until such time that it becomes probable that the Society will be required to make a payment.

Accounting estimates and judgements

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are described below:

a) Impairment losses on loans and advances to customers

The Group reviews its mortgage advances portfolio at least on a quarterly basis to assess impairment. In determining whether an impairment loss should be recorded, the Group is required to exercise a degree of judgement. Impairment provisions are calculated using historical arrears experience, modelled credit risk characteristics and expected cashflows. Estimates are applied to determine prevailing market conditions (e.g. interest rates and house prices), customer behaviour (e.g. default rates) and the length of time expected to complete the sale of properties in possession. The accuracy of the provision would therefore be affected by unexpected changes to these assumptions.

To the extent that default rates differ from that estimated by 10%, the impairment provisions on loans and advances would change by an estimated £0.5 million.

b) Expected mortgage life

In determining the expected life of mortgage assets, the Group uses historical and forecast redemption data as well as management judgement.

At regular intervals throughout the year, the expected life of mortgage assets is reassessed for reasonableness. Any variation in the expected life of mortgage assets will change the carrying value in the statement of financial position and the timing of the recognition of interest income.

A 10% increase in the life profile of mortgage assets would result in an increase in the value of loans on the statement of financial position by approximately £0.7 million.

c) Employee benefits

The Group operates a defined benefit pension scheme. Significant judgements (on such areas as future interest and inflation rates and mortality rates) have to be exercised in estimating the value of the assets and liabilities of the scheme, and hence of its net deficit. The assumptions are outlined in a note to the accounts. Of these assumptions, the main determinant of the liability is the discount rate. A variation of 0.1% in the discount rate will change liabilities by approximately £0.9 million.

d) Financial Services Compensation Scheme (FSCS)

The Society has provision for a levy of £1.2m covering the period March 2014 to March 2015. The amount has been determined by reference to the expected path of future interest rates applicable at the balance sheet date. Changes in interest rates over the period of the levy will impact the final amount of the payment.

A 0.5% increase to the applicable interest rate would increase the provision by £0.2 million.

e) Fair value of derivatives and financial assets

The Group employs the following techniques in determining the fair value of its derivatives and financial assets:

- Available for sale – measured at fair value using market prices or, where markets have become inactive or there is no readily available traded price, the present value of future cash flows is used.
- Derivative financial instruments - calculated by discounted cash flow models using yield curves that are based on observable market data.

A change in the yield curve of 1% would change the total net fair value of derivative financial instruments by £44.6 million.

The classification of these fair value techniques is in line with the fair value hierarchy detailed in IFRS 13: 'Fair Value Measurement' which splits the source of input when deriving fair values into three levels, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly.
- Level 3 – inputs for the asset or liability that are not based on observable market data.

Notes to the accounts

2. SEGMENTAL REPORTING

Nottingham Building Society and its subsidiaries are all UK registered entities, the activities of which are detailed below and in Note 16.

The Group operates throughout the UK therefore no geographical analysis has been presented.

The chief operating decision maker has been identified as the Group board. The board reviews the Group's internal reporting in order to assess performance and allocate resources. Operating segments are reported in a manner consistent with the internal reporting provided to the board.

The Group reports through three operating segments:

- Building Society – Provides mortgages, savings, third party insurance and investments. Includes all income and costs associated with Nottingham Building Society.
- Estate Agency – Provides estate agency and lettings services. Includes all income and costs associated with Nottingham Property Services Ltd, Harrison Murray Ltd and HM Lettings.
- Mortgage Broking – Provides whole of market mortgage broking services. Includes all income and costs associated with Nottingham Mortgage Services Ltd and TMAC Ltd.

	Building Society	Estate Agency	Mortgage Broking	Consolidation adjustments	Total
2014	**£m**	**£m**	**£m**	**£m**	**£m**
Net interest income	48.9	-	-	-	48.9
Net fees and commission receivable	2.6	7.0	0.7	-	10.3
TOTAL INCOME	**51.5**	**7.0**	**0.7**	**-**	**59.2**
Administrative expenses	(25.4)	(6.8)	(0.8)	-	(33.0)
Depreciation and amortisation	(3.7)	(0.1)	-	(0.1)	(3.9)
Finance income	(0.2)	-	-	-	(0.2)
Impairment losses on loans and advances	(1.3)	-	-	-	(1.3)
Provisions for other liabilities	(1.2)	-	-	-	(1.2)
Loss on disposal of property, plant and equipment	(0.6)	-	-	-	(0.6)
UNDERLYING PROFIT	**19.1**	**0.1**	**(0.1)**	**(0.1)**	**19.0**
Net gains from derivative financial instruments	0.2	-	-	-	0.2
Provisions for liabilities – FSCS levy	(1.8)	-	-	-	(1.8)
PROFIT/(LOSS) BEFORE TAX	**17.5**	**0.1**	**(0.1)**	**(0.1)**	**17.4**
Tax expense	(3.5)	-	-	-	(3.5)
PROFIT/(LOSS) AFTER TAX	**14.0**	**0.1**	**(0.1)**	**(0.1)**	**13.9**
Total assets	3,266.9	6.9	0.2	(8.2)	3,265.8
Total liabilities	3,088.5	8.2	0.2	(8.2)	3,088.7
Capital expenditure	2.5	-	-	-	2.5

Notes to the accounts

2. SEGMENTAL REPORTING (CONTINUED)

	Building Society	Estate Agency	Mortgage Broking	Consolidation adjustments	Total
2013 (restated)	**£m**	**£m**	**£m**	**£m**	**£m**
Net interest income	38.1	-	-	-	38.1
Net fees and commission receivable	3.0	6.7	0.6	(0.2)	10.1
TOTAL INCOME	**41.1**	**6.7**	**0.6**	**(0.2)**	**48.2**
Administrative expenses	(21.8)	(6.5)	(0.6)	0.2	(28.7)
Depreciation and amortisation	(3.4)	(0.1)	-	(0.3)	(3.8)
Finance Income	(0.2)	-	-	-	(0.2)
Impairment losses on loans and advances	(0.9)	-	-	-	(0.9)
Provisions for other liabilities	(0.3)	-	-	-	(0.3)
Loss on disposal of property, plant and equipment	(0.3)	-	-	-	(0.3)
UNDERLYING PROFIT/(LOSS)	**14.2**	**0.1**	**-**	**(0.3)**	**14.0**
Net gains/(losses) from derivative financial instruments	1.2	-	-	-	1.2
Merger & acquisition costs	(0.5)	(0.3)	-	-	(0.8)
Provisions for liabilities – FSCS levy	(1.8)	-	-	-	(1.8)
Negative goodwill	0.2	-	-	-	0.2
PROFIT/(LOSS) BEFORE TAX	**13.3**	**(0.2)**	**-**	**(0.3)**	**12.8**
Tax expense	(2.6)	-	-	-	(2.6)
PROFIT/(LOSS) AFTER TAX	**10.7**	**(0.2)**	**-**	**(0.3)**	**10.2**
Total assets	3,016.3	8.4	0.3	(9.1)	3,015.9
Total liabilities	2,850.5	9.6	0.3	(9.1)	2,851.3
Capital expenditure	2.9	0.1	-	-	3.0

Prior year comparatives have been restated. See note 1 for full details.

Any transactions between operating segments are conducted on an arm's length basis and relate to introducer fees, central cost recharges and rents. All revenue with the exception of introducer fees and central recharges is externally generated with no one segment relying on a significant customer.

There are no further reportable segments or activities which are not presented above or in the primary statements on pages 39 to 43.

Notes to the accounts

Group and Society	2014	2013
3 INTEREST RECEIVABLE AND SIMILAR INCOME	**£m**	**£m**
On loans fully secured on residential property	105.3	102.4
On other loans	2.7	2.6
On debt securities	1.5	2.0
On liquid assets	1.7	1.6
Profit on sale of liquid assets	-	0.2
Net interest (expense) on derivatives	(10.5)	(10.2)
	100.7	**98.6**

Interest on debt securities includes £0.7 million (2013: £0.7 million) arising from fixed income investment securities.

Included within interest income is £0.6 million (2013: £0.8 million) in respect of interest income accrued on impaired loans two or more months in arrears.

Group and Society	2014	2013
4 INTEREST PAYABLE AND SIMILAR CHARGES	**£m**	**£m**
On shares held by individuals	46.4	56.7
On deposits and other borrowings	4.8	4.5
On subscribed capital	2.0	2.0
Net interest (income) on derivatives	(1.4)	(2.7)
	51.8	**60.5**

Group and Society	2014	2013
5 NET GAINS FROM DERIVATIVE FINANCIAL INSTRUMENTS	**£m**	**£m**
Derivatives in designated fair value hedge relationships	(12.9)	18.0
Adjustments to hedged items in fair value hedge accounting relationships	13.2	(17.4)
Derivatives not in designated fair value hedge relationships	(0.1)	0.6
	0.2	**1.2**

The net gains from derivative financial instruments of £0.2m (2013: £1.2m) represents the net fair value movement on derivative instruments that are matching risk exposure on an economic basis. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting is not achievable on certain items. The movement is primarily due to timing differences in income recognition between derivative instruments and the hedged assets or liabilities. This gain or loss will trend to zero over time and this is taken into account by the board when considering the Group's underlying performance.

Notes to the accounts

	Group 2014	Group 2013	Society 2014	Society 2013
6 ADMINISTRATIVE EXPENSES	**£m**	**£m**	**£m**	**£m**
Staff costs				
Wages and salaries	16.6	14.9	12.2	11.1
Social security costs	1.1	1.1	1.0	0.8
Other pension costs	0.9	0.6	0.8	0.6
	18.6	16.6	14.0	12.5
Operating lease rentals	0.9	0.6	0.4	0.4
Other administrative costs	13.5	12.3	11.0	9.4
	33.0	29.5	25.4	22.3
Less: Merger & acquisition costs	-	(0.8)	-	(0.5)
	33.0	**28.7**	**25.4**	**21.8**

The 2014 wages and salaries costs include £0.1 million (2013: £0.1m) in respect of redundancy costs.
Merger and acquisition costs comprise professional fees, external project management resource and termination payments.

OTHER ADMINISTRATIVE COSTS INCLUDE:	**£000**	**£000**	**£000**	**£000**
Remuneration of auditors and associates (excluding VAT)				
Audit of these financial statements	83	87	83	87
Audit of subsidiary undertakings	30	36	-	-
Audit of associated pension schemes	5	5	5	5
Other assurance services	5	55	5	55
Other services related to taxation	22	53	22	53

	Group 2014	Group 2013	Society 2014	Society 2013
7 EMPLOYEES	**Number**	**Number**	**Number**	**Number**
The average number of persons employed during the year was:				
Full time	443	395	307	265
Part time	207	204	117	120
	650	**599**	**424**	**385**
Building Society				
Central Administration	208	190	208	190
Branches	216	195	216	195
Subsidiaries	226	214	-	-
	650	**599**	**424**	**385**

8 REMUNERATION OF DIRECTORS

Directors’ emoluments are shown as part of the report of the directors on remuneration on page 36.

Total Directors’ emoluments totalled £1.2 million (2013: £1.2m).

Notes to the accounts

	Group 2014	Group 2013	Society 2014	Society 2013
9 TAX EXPENSE	**£m**	**£m**	**£m**	**£m**
Current tax	4.0	3.6	4.0	3.6
Adjustments for prior years	(0.3)	(0.7)	(0.3)	(0.7)
	3.7	2.9	3.7	2.9
Deferred tax (note 20)	(0.2)	(0.5)	(0.2)	(0.5)
Adjustments for prior years	-	0.2	-	0.2
TOTAL TAX EXPENSE	**3.5**	**2.6**	**3.5**	**2.6**

The total tax charge for the period differs from that calculated using the UK standard rate of corporation tax.
The differences are explained below.

	Group 2014	Group 2013	Society 2014	Society 2013
Profit before taxation	17.4	12.8	17.5	13.3
Expected tax at 21.5% (2013: 23.25%)	3.8	3.0	3.8	3.1
Expenses not deductible for corporation tax purposes	0.1	0.2	0.1	0.1
Losses b/fwd	(0.1)	-	(0.1)	-
Effect of tax change in tax rate on deferred tax	-	(0.1)	-	(0.1)
Adjustment for prior years	(0.3)	(0.5)	(0.3)	(0.5)
TAX EXPENSE FOR THE YEAR	**3.5**	**2.6**	**3.5**	**2.6**

TAX RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME

	Group 2014	Group 2013	Society 2014	Society 2013
Tax on available-for-sale assets	0.2	(0.1)	0.2	(0.1)
Deferred tax on pension scheme	(0.5)	0.1	(0.5)	0.1
Corporation tax on pension scheme	-	(0.1)	-	(0.1)
TAX (CREDIT) FOR THE YEAR	**(0.3)**	**(0.1)**	**(0.3)**	**(0.1)**

The Finance Act 2013 reduced the rate of UK corporation tax from 23% to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015. This results in a weighted average rate of 21.5% for 2014 (2013: 23.25%).

	Group and Society	2014	2013
10 CASH IN HAND	**Note**	**£m**	**£m**
Cash in hand		1.4	1.0
Included in cash and cash equivalents	31	1.4	1.0

Notes to the accounts

11 LOANS AND ADVANCES TO CREDIT INSTITUTIONS	Notes	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
Repayable on call and short notice		312.2	324.9	311.4	323.5
Placements with credit institutions		5.0	12.0	5.0	12.0
Included within cash and cash equivalents	31	317.2	336.9	316.4	335.5
Other loans and advances to credit institutions		26.3	10.2	26.3	10.2
		343.5	**347.1**	**342.7**	**345.7**

At 31 December 2014 £15.2m (2013: £nil) of cash has been deposited by the Group and Society against derivative contracts.

12 DEBT SECURITIES (Group and Society)	2014 £m	2013 £m
Securities available-for-sale		
Gilts	20.9	30.9
Treasury bills	20.0	-
Certificate of deposit	33.3	26.2
Fixed rate notes	31.5	37.2
Floating rate notes	60.1	53.3
	165.8	**147.6**

Of this total £105.6m (2013: £94.2m) is attributable to fixed income debt securities.

Debt securities include items with a carrying value of £5.4m (2013: £nil) which have been pledged as collateral under Bank of England facilities.

Group and Society	2014	2013
Movements on debt securities during the year may be analysed as follows:	£m	£m
At 1 January	147.6	181.0
Acquired on transfer of engagements	-	24.9
Additions	107.8	94.4
Disposals and maturities	(90.4)	(152.5)
Net gains/(losses) from changes in fair value recognised in other comprehensive income	0.8	(0.2)
AT 31 DECEMBER	**165.8**	**147.6**

Notes to the accounts

13 DERIVATIVE FINANCIAL INSTRUMENTS AT 31 DECEMBER 2014	Group and Society Contract/notional amount £m	Fair values – Assets £m	Fair values – Liabilities £m
a) Unmatched derivatives – Interest rate swaps	30.1	0.1	(0.1)
b) Derivatives designated as fair value hedges – Interest rate swaps	1,746.4	9.8	(13.5)
TOTAL RECOGNISED DERIVATIVE ASSETS/(LIABILITIES)	**1,776.5**	**9.9**	**(13.6)**
AT 31 DECEMBER 2013			
a) Unmatched derivatives – Interest rate swaps	26.2	0.2	(0.2)
b) Derivatives designated as fair value hedges – Interest rate swaps	1,565.7	19.9	(8.7)
TOTAL RECOGNISED DERIVATIVE ASSETS/(LIABILITIES)	**1,591.9**	**20.1**	**(8.9)**

14 LOANS AND ADVANCES TO CUSTOMERS	Group and Society Note	2014 £m	2013 £m
Loans fully secured on residential property		2,635.1	2,397.6
Other loans – loans fully secured on land		76.0	79.5
		2,711.1	2,477.1
Provision for impairment losses on loans and advances	15	(4.8)	(3.9)
		2,706.3	2,473.2
Fair value adjustment for hedged risk		12.0	(1.8)
		2,718.3	**2,471.4**

The Group has pledged £981.5m (2013: £751.7m) of mortgage loan pools with the Bank of England. Of these mortgage loan pools £686.0m (2013: £532.4m) are encumbered mortgage assets through the Funding for Lending Scheme. The remainder are held to provide collateral for potential future use in any repurchase agreements or Bank of England facilities.

Notes to the accounts

Group and Society	Loans fully secured on residential property £m	Other loans fully secured on land £m	Total £m
15 PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES			
Movement in provision for impairment losses on loans and advances may be analysed as follows:			
Individual provision			
At 1 January 2014	0.8	1.5	2.3
Provision for loan impairment	(0.1)	1.6	1.5
Provision utilised	(0.4)	(0.3)	(0.7)
AT 31 DECEMBER 2014	**0.3**	**2.8**	**3.1**
Collective provision			
At 1 January 2014	0.6	1.0	1.6
Provision for loan impairment	-	0.1	0.1
AT 31 DECEMBER 2014	**0.6**	**1.1**	**1.7**
Individual provision			
At 1 January 2013	1.1	1.6	2.7
Provision for loan impairment	0.2	0.3	0.5
Provision utilised	(0.5)	(0.4)	(0.9)
AT 31 DECEMBER 2013	**0.8**	**1.5**	**2.3**
Collective provision			
At 1 January 2013	0.5	0.7	1.2
Provision for loan impairment	0.1	0.3	0.4
AT 31 DECEMBER 2013	**0.6**	**1.0**	**1.6**
The charge to the income statement comprises:			
Provision for loan impairment	(0.1)	1.7	1.6
Recoveries of debts previously written off	(0.3)	-	(0.3)
(CREDIT)/CHARGE TO THE INCOME STATEMENT IN 2014	**(0.4)**	**1.7**	**1.3**
CHARGE TO THE INCOME STATEMENT IN 2013	**0.3**	**0.6**	**0.9**

16 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Investments in subsidiary undertakings represent the cost of ordinary shares of £112 (2013: £112) and loans to subsidiary undertakings.

Group and Society	2014	2013
	£m	£m
a) Investments in subsidiary undertakings		
Shares held at cost	-	-
Loans to subsidiary undertakings	8.2	9.1
	8.2	**9.1**

The Group has the following subsidiary undertakings which operated in the United Kingdom during the year and are included in the Group accounts:

Name of subsidiary undertaking	Principal business activity	Ownership interest
Harrison Murray Ltd	Estate Agency and related services	100%
HM Lettings Ltd	Lettings	100%
Nottingham Mortgage Services	Mortgage Broking	100%
Nottingham Property Services	Estate Agency and related services	100%
The Mortgage Advice Centre (East Midlands) Ltd	Mortgage Broking	100%

The Society also holds 100% of the ordinary share capital of a number of dormant subsidiaries which are all incorporated in England.

Notes to the accounts

16 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS (CONTINUED)

Group and Society	2014	2013
b) Movement in investments in subsidiary undertakings	**£m**	**£m**
At 1 January	9.1	1.6
Additions	-	6.2
Loan Movement	(0.9)	1.3
AT 31 DECEMBER 2013	**8.2**	**9.1**

The intercompany loans are payable on demand. The directors have reviewed the recoverability of outstanding loans and holdings in subsidiary undertakings and no impairment provision is deemed necessary.

c) Acquisition of subsidiary undertakings

On 31 January 2013, the Society provided, by way of an intercompany loan, funding for its subsidiary company Nottingham Property Services Ltd to acquire two companies, Harrison Murray Ltd and Harrison Murray Commercial Ltd (HMC) for cash consideration of £6.2 million. On the 18 February 2013 the trade and assets of a third company AMS were purchased for a nominal amount. In addition the trade and assets relating to the lettings business within HMC were hived across to an existing group subsidiary – HM Lettings Ltd. HMC (the surveying business) was then sold to a third party for a nominal amount.

Name of subsidiary undertaking	Principal business activity	Date of acquisition	Percentage of ownership interest	Cost £m	Goodwill arising £m
Harrison Murray Ltd	Estate Agents	31 January 2013	100%	5.7	4.0
Harrison Murray Commercial Ltd	Lettings & Surveying	31 January 2013	100%	0.5	0.5
				6.2	**4.5**

The acquisitions, individually, are not considered to be material to the Group and therefore the analysis below has not been set out for each individual subsidiary, instead the aggregate position is provided.

	Book values of assets acquired	Fair value adjustments	Total
	£m	**£m**	**£m**
Cash consideration			6.2
Property, plant and equipment	1.1	(0.5)	0.6
Intangible assets	-	0.7	0.7
Debtors	0.6	-	0.6
Cash	0.5	-	0.5
Liabilities	(0.7)	-	(0.7)
NET ASSETS	**1.5**	**0.2**	**1.7**
Goodwill			**4.5**

Intangible assets comprise brand £0.4m, stock £0.15m and debtors £0.15m.

Notes to the accounts

16 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS (CONTINUED)

The acquisitions in 2013, detailed above, relate to companies within the estate agency and related sectors and the consideration paid for these businesses often exceeds the fair value of the net assets acquired. The premium arises as a result of the expected future economic benefit arising from the staff within those businesses.

The acquisition of Harrison Murray complemented the Group's core competencies, providing significant opportunities to extend the provision of building society services into a number of new locations as well as improve the overall performance as an estate agent.

The results of all subsidiaries have been consolidated using the acquisition method of accounting, and the net assets of subsidiaries acquired were incorporated into the Group accounts at fair value.

Goodwill acquired through a business combination is allocated at acquisition to the cash generating unit (operating segment) that is expected to benefit from that business combination.

Group	2014	2013
OPERATING SEGMENT	**£m**	**£m**
Estate Agency	4.5	4.5
Cost of goodwill	**4.5**	**4.5**

The Group assess goodwill for impairment by comparing the recoverable amount to the current carrying value. The recoverable amounts of the operating segments are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding cash flows, discount rates and growth rates.

The Group prepares cash flow forecasts on the assumption that the subsidiary undertakings within the operating segment are held for long term investment. The cash flows are derived from the most recent financial budgets for the next three years and extrapolated cash flows for subsequent years (up to an additional 12 years) based on long term growth rates of 2%-4%. The cash flows are discounted at a rate of 12.5%.

	Group 2014	Group 2013	Society 2014	Society 2013
17 OTHER ASSETS	**£m**	**£m**	**£m**	**£m**
Prepayments	2.0	2.0	2.0	1.8
Other Debtors	0.5	0.6	-	-
	2.5	**2.6**	**2.0**	**1.8**

Notes to the accounts

18 PROPERTY, PLANT AND EQUIPMENT	Group			Society		
	Land and buildings	Equipment, fixtures, fittings and vehicles	Total	Land and buildings	Equipment, fixtures, fittings and vehicles	Total
2014	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2014	15.9	16.5	32.4	13.2	15.7	28.9
Additions	0.1	1.6	1.7	0.1	1.6	1.7
Disposals	(0.7)	(0.6)	(1.3)	-	(0.2)	(0.2)
AT 31 DECEMBER 2014	**15.3**	**17.5**	**32.8**	**13.3**	**17.1**	**30.4**
Depreciation						
At 1 January 2014	7.8	11.4	19.2	6.5	10.8	17.3
Charge for the year	0.3	1.5	1.8	0.3	1.4	1.7
On disposals	(0.2)	(0.5)	(0.7)	-	(0.1)	(0.1)
AT 31 DECEMBER 2014	**7.9**	**12.4**	**20.3**	**6.8**	**12.1**	**18.9**
Net Book Value						
AT 31 DECEMBER 2014	**7.4**	**5.1**	**12.5**	**6.5**	**5.0**	**11.5**
2013						
Cost						
At 1 January 2013	14.3	14.4	28.7	12.3	14.2	26.5
Acquired on transfer of engagements	0.6	-	0.6	0.6	-	0.6
Acquisitions	0.6	0.7	1.3	-	-	-
Additions	0.5	1.5	2.0	0.4	1.5	1.9
Disposals	(0.1)	(0.1)	(0.2)	(0.1)	-	(0.1)
AT 31 DECEMBER 2013	**15.9**	**16.5**	**32.4**	**13.2**	**15.7**	**28.9**
Depreciation						
At 1 January 2013	7.0	9.8	16.8	6.0	9.6	15.6
Acquired on transfer of engagements	0.2	-	0.2	0.2	-	0.2
Acquisitions	0.2	0.5	0.7	-	-	-
Charge for the year	0.4	1.2	1.6	0.3	1.2	1.5
On disposals	-	(0.1)	(0.1)	-	-	-
AT 31 DECEMBER 2013	**7.8**	**11.4**	**19.2**	**6.5**	**10.8**	**17.3**
Net Book Value						
AT 31 DECEMBER 2013	**8.1**	**5.1**	**13.2**	**6.7**	**4.9**	**11.6**

Notes to the accounts

	Group 2014	Group 2013	Society 2014	Society 2013
	£m	£m	£m	£m
The net book value of land and buildings comprises:				
Freehold	6.7	7.4	5.8	6.0
Short Leasehold	0.7	0.7	0.7	0.7
	7.4	**8.1**	**6.5**	**6.7**
The net book value of land and buildings occupied for own use:				
Building Society	6.1	6.4	6.1	6.4
Subsidiaries	0.9	1.4	-	-
Non - Group	0.4	0.3	0.4	0.3
	7.4	**8.1**	**6.5**	**6.7**

	Group				
19 INTANGIBLE ASSETS	**Goodwill £m**	**Purchased Software £m**	**Developed Software £m**	**Other Intangibles £m**	**Total £m**
2014					
Cost					
At 1 January 2014	4.5	7.3	11.3	0.7	23.8
Additions	-	0.2	0.6	-	0.8
Written off in the year	-	(0.6)	(0.3)	-	(0.9)
AT 31 DECEMBER 2014	**4.5**	**6.9**	**11.6**	**0.7**	**23.7**
Amortisation					
At 1 January 2014	-	6.2	6.3	0.3	12.8
Charge for the year	-	0.6	1.4	0.1	2.1
Written off in the year	-	(0.2)	(0.2)	-	(0.4)
AT 31 DECEMBER 2014	**-**	**6.6**	**7.5**	**0.4**	**14.5**
Net Book Value					
AT 31 DECEMBER 2014	**4.5**	**0.3**	**4.1**	**0.3**	**9.2**
2013					
Cost					
At 1 January 2013	-	6.8	11.4	-	18.2
Acquired on business combinations	4.5	-	-	0.7	5.2
Additions	-	0.5	0.5	-	1.0
Written off in the year	-	-	(0.6)	-	(0.6)
AT 31 DECEMBER 2013	**4.5**	**7.3**	**11.3**	**0.7**	**23.8**
Amortisation					
At 1 January 2013	-	5.7	5.2	-	10.9
Charge for the year	-	0.5	1.4	0.3	2.2
Written off in the year	-	-	(0.3)	-	(0.3)
AT 31 DECEMBER 2013	**-**	**6.2**	**6.3**	**0.3**	**12.8**
Net Book Value					
AT 31 DECEMBER 2013	**4.5**	**1.1**	**5.0**	**0.4**	**11.0**

Notes to the accounts

Society			
19 INTANGIBLE ASSETS (CONTINUED)	**Purchased Software £m**	**Developed Software £m**	**Total £m**
2014			
Cost			
At 1 January 2014	7.2	11.3	18.5
Additions	0.2	0.6	0.8
Written off in the year	(0.6)	(0.3)	(0.9)
AT 31 DECEMBER 2014	**6.8**	**11.6**	**18.4**
Amortisation			
At 1 January 2014	6.1	6.3	12.4
Charge for the year	0.6	1.4	2.0
On disposals	(0.2)	(0.2)	(0.4)
AT 31 DECEMBER 2014	**6.5**	**7.5**	**14.0**
Net Book Value			
AT 31 DECEMBER 2014	**0.3**	**4.1**	**4.4**
2013			
Cost			
At 1 January 2013	6.7	11.4	18.1
Additions	0.5	0.5	1.0
Written off in the year	-	(0.6)	(0.6)
AT 31 DECEMBER 2013	**7.2**	**11.3**	**18.5**
Amortisation			
At 1 January 2013	5.6	5.2	10.8
Charge for the year	0.5	1.4	1.9
On disposals	-	(0.3)	(0.3)
AT 31 DECEMBER 2013	**6.1**	**6.3**	**12.4**
Net Book Value			
AT 31 DECEMBER 2013	**1.1**	**5.0**	**6.1**

Notes to the accounts

	Group 2014	Group 2013	Society 2014	Society 2013
20 DEFERRED TAX	**£m**	**£m**	**£m**	**£m**
Movement on deferred tax				
At 1 January	1.1	0.3	1.2	0.3
Acquired on transfer of engagements	-	0.6	-	0.7
Income statement credit	0.2	0.3	0.2	0.3
Recognised directly in other comprehensive income	0.5	(0.1)	0.5	(0.1)
AT 31 DECEMBER	**1.8**	**1.1**	**1.9**	**1.2**
The deferred tax charge in the income statement comprises the following temporary differences:				
Property, plant and equipment	(0.1)	0.3	(0.1)	0.3
IFRS transitional adjustment	0.2	0.2	0.2	0.2
Pensions and other post tax retirement benefits	(0.1)	(0.1)	(0.1)	(0.1)
Adjustment for prior years	(0.1)	(0.2)	(0.1)	(0.2)
Intangible assets	0.4	(0.1)	0.4	-
Effect of change in tax rate	-	0.1	-	0.1
Other provisions	(0.1)	0.1	(0.1)	-
	0.2	**0.3**	**0.2**	**0.3**
Deferred income tax assets and liabilities are attributable to the following items:				
Deferred tax assets				
Pensions and other post retirement benefits	1.4	1.0	1.4	1.0
Property, plant and equipment	0.6	-	0.6	-
Other provisions	0.2	0.2	0.2	0.2
Transfer of engagements – fair value adjustments	0.5	0.7	0.5	0.7
	2.7	**1.9**	**2.7**	**1.9**
Deferred tax liabilities				
IFRS transitional adjustments	0.1	0.3	0.1	0.3
Property, plant and equipment	0.1	0.4	-	0.4
Intangibles	0.7	-	0.7	-
Acquired upon acquisition	-	0.1	-	-
	0.9	**0.8**	**0.8**	**0.7**

In July 2013, a reduction in the corporation tax rate to 21% from 1 April 2014 and to 20% from 1 April 2015 was substantively enacted into legislation. All deferred tax balances have been recognised at 20%, being the rate enacted at the balance sheet date at which the balances are expected to reverse.

	Group and Society	2014	2013
21 SHARES		**£m**	**£m**
Held by individuals		2,575.3	2,319.6
Fair value adjustment for hedged risk		0.1	(0.2)
		2,575.4	**2,319.4**

	Group and Society	2014	2013
22 AMOUNTS OWED TO CREDIT INSTITUTIONS		**£m**	**£m**
Amounts owed to credit institutions		264.2	253.7
		264.2	**253.7**

At 31 December 2014 £nil (2013: £9.8million) of cash has been received by the Group and Society against derivative contracts.

Amounts owed to credit institutions include £241.5 million (2013: £209.4 million) secured against certain loans and advances to credit institutions and loans and advances to customers.

Notes to the accounts

Group and Society	2014	2013
23 AMOUNTS OWED TO OTHER CUSTOMERS	£m	£m
Retail customers: Demand accounts	5.0	5.8
Local Authorities: Term deposits	85.5	112.6
Pension Funds/Insurers: Term deposits	2.9	2.8
Other		
Demand accounts	6.3	11.7
Term deposits	89.5	83.2
	189.2	**216.1**

Group and Society	2014	2013
24 DEBT SECURITIES IN ISSUE	£m	£m
Certificates of deposit	3.5	13.5
	3.5	**13.5**

	Group 2014	Group 2013	Society 2014	Society 2013
25 OTHER LIABILITIES AND ACCRUALS	£m	£m	£m	£m
Income tax	0.2	0.9	0.2	0.9
Trade creditors	0.3	0.2	0.3	0.1
Accruals and deferred income	3.0	2.8	2.9	2.2
Other creditors	2.0	1.2	1.9	1.2
	5.5	**5.1**	**5.3**	**4.4**

	Group 2014	Group 2013 Restated	Society 2014	Society 2013 Restated
26 PROVISION FOR LIABILITIES	£m	£m	£m	£m
FSCS levy				
At 1 January	1.3	1.1	1.3	1.1
Acquired on transfer of engagements	-	0.1	-	0.1
Charge for the year	1.8	1.8	1.8	1.8
Provision utilised	(1.9)	(1.7)	(1.9)	(1.7)
AT 31 DECEMBER	**1.2**	**1.3**	**1.2**	**1.3**
Customer redress and other related provisions				
At 1 January	0.5	0.4	0.5	0.3
Acquired on transfer of engagements	-	0.1	-	0.1
Charge for the year	1.2	0.3	1.2	0.3
Provision utilised	(1.1)	(0.3)	(1.1)	(0.2)
AT 31 DECEMBER	**0.6**	**0.5**	**0.6**	**0.5**
TOTAL	**1.8**	**1.8**	**1.8**	**1.8**

Notes to the accounts

26 PROVISION FOR LIABILITIES (CONTINUED)

FSCS levy

The levy represents the estimated amount payable under the FSCS for the 2014/2015 scheme year, which runs from March 2014 to March 2015, and is calculated with reference to the protected deposits held at 31 December 2013. The amount payable includes the Society's share of interest payable.

Following the decision to apply the principles of IFRIC 21 the FSCS levy accounting treatment has changed, details of the restatement are provided in note 1.

Customer redress and other related provisions

Other provisions have been made in respect of various customer claims, including claims in relation to previous sales of payment protection insurance and endowment policies. It is expected that the liability will predominately crystallise over the next 12 to 24 months.

27 RETIREMENT BENEFIT OBLIGATIONS

a) The Group operates a contributory defined benefit scheme, the assets of which are held in a separate trustee administered fund. The scheme closed to new members in 1997 and was closed for future service accrual from 31 January 2009.

The pension cost is assessed following the advice of a qualified independent actuary using the projected unit method. The latest funding review of the scheme was at 1 April 2011 and takes into account the closure of the scheme for future service accrual. This review showed that the market value of the scheme assets at 1 April 2011 was £35.4 million and that the actuarial value of those assets represented 90% of the benefits that had accrued to members after allowing for expected future increase in salaries.

An updated actuarial valuation at 31 December 2014 was carried out on a market value basis by a qualified independent actuary, as follows:

Group and Society	2014	2013
	%	%
Principal actuarial assumptions used were as follows:		
Discount rate	3.40	4.40
Expected return on plan assets (excluding amounts included in interest income)	4.40	5.40
Rate of increase in salaries	3.00	3.75
Rate of increase in pensions	3.40	3.60
Inflation	3.00	3.25
The table below shows the assumptions used for expected life at 31 December (normal retirement age of 62).	**Years**	**Years**
Expected life at retirement for a new pensioner (yrs) - Male	27.0	26.8
Expected life at retirement for a new pensioner (yrs) - Female	28.5	28.4
Expected life at retirement in 20 years' time (yrs) – Male	29.8	29.6
Expected life at retirement in 20 years' time (yrs) - Female	30.6	30.5

Approximate sensitivities of the principal assumptions are set out in the table below which shows the increase or reduction in the pension obligations that would result. Each sensitivity considers one change in isolation.

Group and Society		2014	2013
	Change in assumption	**£m**	**£m**
Principal actuarial assumption			
Discount rate	+/- 0.25%	(2.6)	(2.2)
Rate of increase in salaries	+/- 0.25%	0.2	0.2
Rate of increase in pensions	+/- 0.25%	0.4	0.5

Notes to the accounts

Group and Society	2014	2013
27 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)	**£m**	**£m**
Fair value of scheme assets:		
As at 1 January	42.0	39.7
Expected return on pension scheme assets	1.8	1.8
Contributions by employer	0.7	0.7
Benefits paid	(2.4)	(1.2)
Expenses paid by trustees	(0.1)	-
Decrease in secured pensioners value due to scheme experience	(0.1)	(0.2)
Gain on asset returns	3.9	1.2
AS AT 31 DECEMBER	**45.8**	**42.0**
Present value of defined benefit obligations:		
As at 1 January	(46.6)	(44.8)
Interest on pension scheme liabilities	(2.0)	(2.0)
Benefits paid	2.4	1.2
Decrease in secured pensioners value due to scheme experience	0.2	0.1
Experience gain/loss on liabilities	0.4	(0.1)
Loss on changes in assumptions	(6.8)	(1.0)
AS AT 31 DECEMBER	**(52.4)**	**(46.6)**
The amounts recognised in the statement of financial position are determined as follows:		
Present value of funded obligations	(52.4)	(46.6)
Fair value of plan assets	45.8	42.0
LIABILITY IN THE STATEMENT OF FINANCIAL POSITION	**(6.6)**	**(4.6)**
The actual return on plan assets was a gain of £5.7m (2013: £3.0m gain). The amounts recognised in the statement of comprehensive income are as follows:		
Amounts recognised in finance income		
Interest cost	(2.0)	(2.0)
Expected return on plan assets	1.8	1.8
TOTAL	**(0.2)**	**(0.2)**
Movement in the liability recognised in the statement of financial position:		
Opening defined benefit obligation	(4.6)	(5.1)
Total as above	(0.2)	(0.2)
Employer contributions	0.7	0.6
Remeasurement gains/(losses)	(2.5)	0.1
CLOSING DEFINED BENEFIT OBLIGATION	**(6.6)**	**(4.6)**
The amounts recognised in the statement of other comprehensive income are as follows:		
Actual return less expected return on plan assets	3.9	1.2
Experience gain/(loss) arising on scheme liabilities	0.4	(0.1)
Changes in assumptions underlying the present value of the scheme liabilities	(6.8)	(1.0)
REMEASUREMENT OF DEFINED BENEFIT OBLIGATION	**(2.5)**	**0.1**

The cumulative amount recognised outside profit and loss at 31 December 2014 is an actuarial loss of £12.1m (2013: £9.6m).

Notes to the accounts

Group and Society	2014	2013
27 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)	**£m**	**£m**
The major categories of plan assets are as follows:		
Equities	20.8	20.2
Bonds	23.5	19.7
Cash	0.1	0.7
Secured pensioners	1.4	1.4
TOTAL	**45.8**	**42.0**

The average duration of the defined benefit obligation at 31 December 2014 is 18 years (2013: 18 years). This number can be analysed as follows:

Group and Society	2014	2013
	Years	**Years**
Active members	25	24
Deferred members	25	23
Retired members	14	14

During 2014 the Group made additional contributions of £0.7m (2013: £0.6m) as part of its funding plan. The Group and Society expect to contribute £0.7m to the fund during 2015.

History of experience gains and losses for the current and previous four years is as follows:

Group and Society	2014	2013	2012	2011	2010
	£m	**£m**	**£m**	**£m**	**£m**
Present value of defined benefit obligation	(52.4)	(46.6)	(44.8)	(42.8)	(39.6)
Fair value of plan assets	45.8	42.0	39.7	38.0	36.3
Plan (deficit)	(6.6)	(4.6)	(5.1)	(4.8)	(3.3)
Experience adjustments on plan liabilities	(0.4)	0.1	(0.1)	0.3	(0.9)
Percentage of scheme liabilities	0.8%	0.2%	0.2%	0.7%	2.3%

Following the Government announcement in July 2010 to link pension payments to the Consumer Price Index (CPI) rather than the Retail Prices Index (RPI) the Group has reviewed its position. At 31 December the Group continues to use RPI in assessing pension payments.

b) The Group also operates contributory defined contribution schemes. The assets of these schemes are held separately from those of the Group.

The pension charge for the period represents contributions payable by the Group and Society to the schemes and amounted for the Group to £0.6m (2013: £0.5m) and for the Society £0.6m (2013: £0.5m). There were no outstanding or prepaid contributions at either the beginning or end of the year.

Group and Society	2014	2013
28 SUBSCRIBED CAPITAL	**£m**	**£m**
7.875% sterling permanent interest bearing shares	23.9	23.9
Fair value adjustment for hedged risk	2.7	2.3
	26.6	**26.2**

The subscribed capital was issued for an indeterminate period and is only repayable in the event of the winding up of the Society. PIBS holders do not have any right to a residual interest in the Society and as such the PIBS have been classified as a debt instrument rather than equity.

Notes to the accounts

	Group 2014	Group 2013 Restated	Society 2014	Society 2013 Restated
29 GENERAL RESERVES	**£m**	**£m**	**£m**	**£m**
At 1 January	164.8	151.9	166.0	152.6
Acquired on transfer of engagements	-	2.6	-	2.6
Profit for the financial year	13.9	10.2	14.0	10.7
Net (loss)/gain recognised directly in other comprehensive income	(2.0)	0.1	(2.0)	0.1
AT 31 DECEMBER	**176.7**	**164.8**	**178.0**	**166.0**

Group and Society	2014	2013
30 AVAILABLE-FOR-SALE RESERVES	**£m**	**£m**
At 1 January	(0.2)	(0.1)
Net gain/(loss) from changes in fair value	0.6	(0.1)
AT 31 DECEMBER	**0.4**	**(0.2)**

		Group 2014	Group 2013	Society 2014	Society 2013
31 CASH AND CASH EQUIVALENTS	**Note**	**£m**	**£m**	**£m**	**£m**
Cash in hand	10	1.4	1.0	1.4	1.0
Loans and advances to credit institutions	11	317.2	336.9	316.4	335.5
AT 31 DECEMBER		**318.6**	**337.9**	**317.8**	**336.5**

32 FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset or financial liability. Nottingham Building Society is a retailer of financial instruments, mainly in the form of mortgages and savings products. The Group uses wholesale financial instruments to invest in liquid assets, raise wholesale funding and to manage the risks arising from its operations.

The Group has a formal structure for managing risk, including established risk limits, reporting lines, mandates, credit risk appetite and other control procedures. The board risk committee (BRC) is tasked with monitoring the Group's overall exposure to risk. Five sub committees, the assets and liabilities committee (ALCO), retail credit committee (RCC), operational risk committee (ORC), Information Security (ISC) and the conduct risk committee (CRC) monitor the individual areas of risk and report to the board risk committee quarterly.

The ALCO monitors statement of financial position risks (including the use of derivative financial instruments), funding and liquidity in line with the Group's prudent policy statements.

The RCC ensures that the management of retail credit risk is consistent with the retail credit risk appetite statement.

Key performance indicators are provided to the board monthly by both the ALCO and RCC and summary information from ALCO on a weekly basis.

Instruments used for risk management purposes include derivative financial instruments (derivatives), which are contracts whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates, exchange rates or stock market indices.

The objective of the Group in using derivatives is in accordance with the Building Societies Act 1986 and is to limit the extent to which the Group will be affected by changes in interest rates. Derivatives are not used in trading activity or for speculative purposes.

The derivative instruments used by the Group in managing its statement of financial position risk exposures are interest rate swaps. These are used to protect the Group from exposures arising principally from fixed rate mortgage lending, fixed rate savings products and fixed rate wholesale funding. An interest rate swap is a contract to exchange one set of interest rate cash flows for another. Such swaps result in the economic exchange of interest rates. No exchange of principal takes place. Instead interest payments are based on notional principal amounts agreed at inception of the swap. The duration of the interest rate swap is generally short to medium term and their maturity profile reflects the nature of the exposures arising from the underlying business activities.

The Group applies fair value hedging techniques to reduce its exposure to interest rate risk as follows:

Activity	Risk	Fair value interest rate hedge
Fixed rate mortgage	Increase in interest rates	Group pays fixed, receives variable
Fixed rate savings bond	Decrease in interest rates	Group receives fixed, pays variable
Fixed rate funding	Decrease in interest rates	Group receives fixed, pays variable

The fair values of these hedges at 31 December 2014 are shown in note 13.

Notes to the accounts

32 FINANCIAL INSTRUMENTS (CONTINUED)

Summary terms and conditions and accounting policies of financial instruments

Financial instrument	Terms and conditions	Accounting policy
Loans and advances to credit institutions	Fixed or LIBOR linked interest rate Fixed term Short to medium term maturity	Loans and receivables at amortised cost Accounted for at settlement date
Debt securities	Fixed or LIBOR linked interest rate Fixed term Short to medium term maturity	Available-for-sale at fair value Accounted for at settlement date
Loans and advances to customers	Secured on residential property or land Standard contractual term of 25 years Fixed or variable rate interest	Loans and receivables at amortised cost Accounted for at settlement date
Shares	Variable term Fixed or variable interest rates	Amortised cost Accounted for at settlement date
Amounts owed to credit institutions	Fixed or LIBOR linked interest rate Fixed term Short to medium term maturity	Amortised cost Accounted for at settlement date
Amounts owed to other customers	Fixed or LIBOR linked interest rate Fixed term Short to medium term maturity	Amortised cost Accounted for at settlement date
Debt securities in issue	Fixed or LIBOR linked interest rate Fixed term Short to medium term maturity	Amortised cost Accounted for at settlement date
Subscribed capital	Fixed interest rate Issued for indeterminate period Only repayable upon winding up of the Society	Amortised cost Accounted for at settlement date
Derivative financial instruments	Fixed interest received/paid converted to variable interest paid/received Based on notional value of the derivative	Fair value through profit and loss Accounted for at trade date

Notes to the accounts

32 FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets and liabilities are measured on an on-going basis either at fair value or at amortised cost. Note 1: ' Accounting policies' describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The tables below analyse the Group's assets and liabilities by financial classification:

	Group					
Carrying values by category 31 December 2014	**Held at amortised cost**		**Held at fair value**			
	Loans and receivables	Financial assets and liabilities at amortised cost	Available-for-sale	Derivatives designated as fair value hedges	Unmatched derivatives	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Financial assets						
Cash in hand	-	1.4	-	-	-	1.4
Loans and advances to credit institutions	343.5	-	-	-	-	343.5
Debt securities	-	-	165.8	-	-	165.8
Derivative financial instruments	-	-	-	9.8	0.1	9.9
Loans and advances to customers	2,718.3	-	-	-	-	2,718.3
Other assets	-	26.9	-	-	-	26.9
	3,061.8	**28.3**	**165.8**	**9.8**	**0.1**	**3,265.8**
Financial liabilities						
Shares	-	2,575.4	-	-	-	2,575.4
Amounts owed to credit institutions	-	264.2	-	-	-	264.2
Amounts owed to other customers	-	189.2	-	-	-	189.2
Debt securities in issue	-	3.5	-	-	-	3.5
Derivative financial instruments	-	-	-	13.5	0.1	13.6
Other liabilities	-	16.2	-	-	-	16.2
Subscribed capital	-	26.6	-	-	-	26.6
	-	**3,075.1**	**-**	**13.5**	**0.1**	**3,088.7**
Carrying values by category 31 December 2013						
Financial assets						
Cash in hand	-	1.0	-	-	-	1.0
Loans and advances to credit institutions	374.1	-	-	-	-	374.1
Debt securities	-	-	147.6	-	-	147.6
Derivative financial instruments	-	-	-	19.9	0.2	20.1
Loans and advances to customers	2,471.4	-	-	-	-	2,471.4
Other assets	-	28.7	-	-	-	28.7
	2,818.5	**29.7**	**147.6**	**19.9**	**0.2**	**3,015.9**
Financial liabilities						
Shares	-	2,319.4	-	-	-	2,319.4
Amounts owed to credit institutions	-	253.7	-	-	-	253.7
Amounts owed to other customers	-	216.1	-	-	-	216.1
Debt securities in issue	-	13.5	-	-	-	13.5
Derivative financial instruments	-	-	-	8.7	0.2	8.9
Other liabilities	-	13.5	-	-	-	13.5
Subscribed capital	-	26.2	-	-	-	26.2
	-	**2,842.4**	**-**	**8.7**	**0.2**	**2,851.3**

There have been no reclassifications during either year.

Notes to the accounts

32 FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial assets and liabilities carried at amortised cost

The table below analyses the book and fair values of the Group's financial instruments held at amortised cost at 31 December:

Group		2014 Book value £m	2014 Fair value £m	2013 Book value £m	2013 Fair value £m
Financial assets					
Cash in hand	a	1.4	1.4	1.0	1.0
Loans and advances to credit institutions	b	343.5	343.5	347.1	347.1
Loans and advances to customers	c	2,718.3	2,732.1	2,471.4	2,560.6
Financial liabilities					
Shares	d	2,575.4	2,593.1	2,319.4	2,336.5
Amounts owed to credit institutions	d	264.2	264.2	253.7	253.7
Amounts owed to other customers	d	189.2	194.1	216.1	218.0
Debt securities in issue	e	3.5	3.5	13.5	13.6
Subscribed capital	f	23.9	30.5	23.9	29.8

Fair value is the value for which an asset or liability could be exchanged or settled between knowledgeable willing parties in an arms length transaction. The estimated fair value of the financial assets and liabilities above has been calculated using the following valuation methodology:

a) **Cash in hand – Level 1**
The fair value of cash in hand and deposits with central banks is the amount repayable on demand.

b) **Loans and advances to credit institutions – Level 2**
The fair value of overnight deposits is the amount repayable on demand. The estimated fair value of loans and advances to credit institutions is calculated based on discounted expected future cash flows.

c) **Loans and advances to customers – Level 3**
Loans and advances are recorded net of provisions for impairment together with the fair value adjustment for hedged items as required by IAS39. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received taking account of expected prepayment rates.

Estimated cash flows are discounted at prevailing market rates for items of similar remaining maturity. The fair values have been adjusted where necessary to reflect any observable market conditions at the time of valuation.

d) **Shares, deposits and borrowings – Level 3**
The fair value of shares and deposits and other borrowings with no stated maturity is the amount repayable on demand.

The fair value of fixed interest bearing deposits and other borrowings without a quoted market price is based on expected future cash flows determined by the contractual terms and conditions discounted at prevailing market rates for items of similar remaining maturity.

e) **Debt securities in issue – Level 2**
The fair value is calculated using a discounted cash flow model. Expected cash flows are discounted at prevailing money market rates for items of similar remaining maturity.

f) **Subscribed capital – Level 1**
The estimated fair value of fixed interest bearing debt is based on its active market price as at 31 December.

Notes to the accounts

32 FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial assets and liabilities carried at fair value

The table below summarises the fair values of the Group's financial assets and liabilities that are accounted for at fair value, analysed by the valuation methodology used by the Group to derive the financial instruments fair value:

Group		Level 1	Level 2	Level 3	Total
	Notes	£m	£m	£m	£m
31 December 2014					
Financial assets					
Available-for-sale					
Debt securities	12	132.5	33.3	-	165.8
Derivative financial instruments					
Interest rate swaps	13	-	9.9	-	9.9
		132.5	**43.2**	**-**	**175.7**
Financial liabilities					
Derivative financial instruments					
Interest rate swaps	13	-	(13.6)	-	(13.6)
		-	**(13.6)**	**-**	**(13.6)**
31 December 2013					
Financial assets					
Available-for-sale					
Debt securities	12	121.4	26.2	-	147.6
Derivative financial instruments					
Interest rate swaps	13	-	20.1	-	20.1
		121.4	**46.3**	**-**	**167.7**
Financial liabilities					
Derivative financial instruments					
Interest rate swaps	13	-	(8.9)	-	(8.9)
		-	**(8.9)**	**-**	**(8.9)**

Valuation techniques

The following is a description of the determination of fair value for financial instruments which are accounted for at fair value using valuation techniques.

The fair value hierarchy detailed in IFRS 13: 'Fair Value Measurement' splits the source of input when deriving fair values into three levels, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly
- Level 3 – inputs for the asset or liability that are not based on observable market data

The main valuation techniques employed by the Group to establish fair value of the financial instruments disclosed above are set out below:

- Debt securities
  a) Level 1 – Market prices have been used to determine the fair value of listed debt securities
  b) Level 2 - Debt securities for which there is no readily available traded price are valued based on the 'present value' method. This requires expected future principal and interest cash flows to be discounted using prevailing LIBOR yield curves. The LIBOR yield curves are generally observable market data which is derived from quoted interest rates in similar time bandings which match the timings of the cash flows and maturities of the instruments.
- Interest rate swaps – the valuation of interest rate swaps is also based on the 'present value' method. Expected interest cash flows are discounted using the prevailing SONIA yield curves. The SONIA yield curves are generally observable market data which is derived from quoted interest rates in similar time bandings which match the timings of the interest cash flows and maturities of the instruments. All swaps are collateralised and therefore no adjustment is required for credit risk in the fair value of derivatives.

Notes to the accounts

32 FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk

Credit risk is the risk that the Group incurs a financial loss arising from the failure of a customer or counterparty to meet their contractual obligations. The Group structures the level of credit risk it undertakes, by maintaining a credit governance framework involving delegated approval authority levels and credit procedures, the objective of which is to build and maintain risk asset portfolios of high quality.

The Group's maximum credit risk exposure is detailed in the table below:

Group and Society	2014	2013
Credit risk exposure	**£m**	**£m**
Cash in hand	1.4	1.0
Loans and advances to credit institutions	343.5	347.1
Debt securities	165.3	147.9
Derivative financial instruments	9.9	20.1
Loans and advances to customers	2,706.3	2,473.2
Total statement of financial position exposure	3,226.4	2,989.3
Off balance sheet exposure – mortgage commitments	57.8	98.7
TOTAL	**3,284.2**	**3,088.0**

a) Loans and advances to credit institutions, debt securities and derivative financial instruments

The ALCO is responsible for approving treasury counterparties for both derivatives and investment purposes. Limits are placed on the amount of risk accepted in relation to one counterparty, or group of counterparties, and to industry sectors. This is monitored daily by the Society's Treasury risk team and reviewed monthly by the ALCO.

The Group's policy only permits lending to central government (which includes the Bank of England), UK local authorities, banks with a high credit rating and building societies.

The Group's Treasury team perform regular analysis of counterparty credit risk and monitoring of publicly available information to highlight possible indirect exposures.

An analysis of the Group's treasury asset concentration is shown in the table below:

Group	2014	2014	2013	2013
Industry sector	**£m**	**%**	**£m**	**%**
Banks	161.7	31.6	118.5	23.9
Building Societies	8.0	1.6	15.0	3.0
Multilateral Development Banks	26.4	5.2	20.7	4.2
Central Government	314.6	61.6	341.5	68.9
TOTAL	**510.7**		**495.7**	

Notes to the accounts

32 FINANCIAL INSTRUMENTS (CONTINUED)

Group	2014	AAA	AA	A	Other	2013
Geographic region	**£m**	%	%	%	%	**£m**
United Kingdom	434.2	-	87.8	8.4	3.8	421.5
Multilateral Development banks	26.4	100	-	-	-	20.7
Canada	21.3	-	65.6	34.4	-	5.0
Australia	28.8	-	100	-	-	38.4
Japan	-	-	-	-	-	10.1
TOTAL	**510.7**					**495.7**

'Other' relates to investments in unrated Building Societies.

The Group has no exposure to foreign exchange risk. All instruments are denominated in Sterling.

Given the continuing issues in the Eurozone and concerns with possible sovereign debt defaults, the Group has limited its risk exposure by ensuring it has no direct exposure to any sovereign states, other than the UK.

The Group's derivative financial instruments are analysed in the table below:

Group	2014	AAA	AA	A	2013
Geographic region	**£m**	%	%	%	**£m**
United Kingdom	1,776.5	-	100	-	1,589.9
Other Western Europe	-	-	-	-	2.0
TOTAL	**1,776.5**				**1,591.9**

There are no impairment charges against any of the Group's treasury assets at 31 December.

b) Loans and advances to customers

All mortgage loan applications are assessed with reference to the Group's retail credit risk appetite statement and lending policy, which includes assessing applicants for potential fraud risk, and which is approved by the Board. When deciding on the overall risk appetite that the Group wishes to adopt, both numerical and non-numerical considerations are taken into account, along with data on the current UK economic climate, portfolio information derived from the Group's rating system and competitor activity. The statement must comply with all the prevailing regulatory policy and framework.

The lending portfolio is monitored by the RCC to ensure that it remains in line with the stated risk appetite of the Group, including adherence to the lending principles, policies and lending limits.

For new customers the first element of the retail credit control framework is achieved via credit scoring, which assesses the credit quality of potential customers prior to making loan offers. The customers' credit score combines demographic and financial information. A second element is lending policy rules which are applied to new applications to ensure that they meet the risk appetite of the Group. All mortgage applications are overseen by the Lending Services team who ensure that any additional lending criteria are applied and that all information submitted within the application is validated.

For existing customers who have been added to the lending portfolio, management use behavioural scorecards to review the ongoing creditworthiness of customers by determining the likelihood of them defaulting over a rolling 12 month period together with the amount of loss if they do default.

Credit risk management information is comprehensive and is circulated to the RCC on a monthly basis to ensure that the portfolio remains within the Group's risk appetite.

It is the Group's policy to ensure good customer outcomes and lend responsibly by ensuring at the outset that the customer can meet the mortgage repayments. This is achieved by obtaining specific information from the customer concerning income and expenditure but also external credit reference agency data.

The Group does not have any exposure to the sub-prime market.

The maximum credit risk exposure is disclosed in the table on page 73.

Notes to the accounts

32 FINANCIAL INSTRUMENTS (CONTINUED)

Loans and advances to customers are predominately made up of retail loans fully secured against UK residential property (£2,635.1 million), split between residential and buy-to-let loans with the remaining £76.0 million being secured on commercial property.

The Group operates throughout England & Wales with the portfolio well spread throughout the geographic regions.

An analysis of the Group's geographical concentration is shown in the table below:

Group and Society	2014	2013
Geographical analysis	**£m**	**£m**
Eastern	10.7	10.4
East Midlands	21.5	22.7
London	11.1	11.1
North East	3.2	3.1
North West	8.5	8.3
South East	15.0	14.7
South West	7.7	7.9
Wales	2.4	2.4
West Midlands	8.8	8.2
Yorkshire & Humberside	10.7	10.8
Other	0.4	0.4

Retail loans

Loans fully secured on residential property are split between residential and buy to let. The average loan to value (LTV) is the mean LTV for the portfolio. Each individual LTV is calculated by comparing the value of the mortgage loan to the value of collateral held adjusted by a house price index.

The average LTV of residential mortgages is 53% (2013: 55%). All residential loans above 80% LTV are insured with a Lloyds of London insurance firm.

Further LTV information on the Group's residential mortgage portfolio is shown below:

Group and Society	2014	2013
LTV analysis	%	%
Residential		
0% - 30%	7	7
30% - 60%	21	16
60% - 80%	57	51
80% - 90%	14	22
90% - 100%	1	4
> 100%	-	-
Average loan to value of residential mortgage loans	53	55
Average loan to value of new business	74	76
Buy-to-let		
0% - 30%	1	1
30% - 60%	22	9
60% - 80%	72	79
80% - 90%	4	7
90% - 100%	1	4
> 100%	-	-
Average loan to value of buy-to-let loans	64	70
Average loan to value of new business	69	71

Notes to the accounts

32 FINANCIAL INSTRUMENTS (CONTINUED)

The quality of the Group's retail mortgage book is reflected in the number and value of accounts in arrears. By volume 0.34% (2013: 0.48%) of loans are three months or more in arrears and by value it is 0.22% (2013: 0.30%).

The main factor for loans moving into arrears tends to be the condition of the general economic environment.

The table below provides information on retail loans by payment due status:

Group and Society	2014	2014	2013	2013
Arrears analysis	**£m**	%	**£m**	%
Not impaired:				
Neither past due or impaired	2,613.2	99.17	2,370.8	98.88
Past due up to 3 months but not impaired	13.6	0.52	16.3	0.68
Past due over 3 months but not impaired	4.5	0.18	2.4	0.10
Possessions	-	-	0.2	0.01
Impaired:				
Not past due	0.6	0.02	1.0	0.04
Past due up to 3 months	1.9	0.07	2.4	0.10
Past due 3 to 6 months	0.6	0.02	2.1	0.09
Past due 6 to 12 months	0.4	0.01	0.9	0.04
Past due over 12 months	0.2	0.01	0.3	0.01
Possessions	0.1	0.00	1.2	0.05
	2,635.1		**2,397.6**	
	Indexed	Unindexed	Indexed	Unindexed
Value of Collateral held:	**£m**	**£m**	**£m**	**£m**
Neither past due or impaired	4,794.3	4,170.2	4,123.4	3,879.2
Past due but not impaired	38.2	31.6	37.4	33.4
Impaired	4.9	4.5	9.1	9.3
	4,837.4	**4,206.3**	**4,169.9**	**3,921.9**

The collateral consists of residential property. Collateral values are adjusted by the Halifax price index produced by the Lloyds Banking Group Plc to derive the indexed valuation at 31 December. This is the UK's longest running house price index and takes into account regional data from the 12 standard planning regions of the UK. The Group uses the index to update the property values of its residential and buy-to-let portfolios on a quarterly basis.

With collateral capped to the amount of outstanding debt, the value of collateral held against loans 'Past due but not impaired' at 31 December is £18.1m (2013: £19.0m) against outstanding debt of £18.1m (2013: £19.0m). In addition, the value of collateral held against 'Impaired' assets at 31 December is £3.8m (2013: £7.6m) against outstanding debt of £3.8m (2013: £7.8m).

Mortgage indemnity insurance acts as additional security. It is taken out for all residential loans where the borrowing exceeds 80% of the value of the property at the point of application.

The status 'past due up to three months but not impaired' and 'past due over three months but not impaired' includes any asset where a payment due is received late or missed but no individual provision has been allocated. The amount included is the entire loan amount rather than just the overdue amount.

Possession balances represent those loans where the Group has taken ownership of the underlying security pending its sale. The Group has various forbearance options to support customers who may find themselves in financial difficulty. These include payment plans, capitalisations, term extensions and reduced payment concessions.

Notes to the accounts

32 FINANCIAL INSTRUMENTS (CONTINUED)

Forbearance

Temporary interest only concessions were, prior to the start of 2012 when the option was withdrawn for new forbearance cases, offered to customers in financial difficulty on a temporary basis with formal periodic review. The concession allowed the customer to reduce monthly payments to cover interest only, and if made, the arrears status will not increase. Interest only concessions are no longer offered and have been replaced by reduced payment concessions.

Reduced payment concessions allow a customer to make an agreed underpayment for a specific period of time. The monthly underpaid amount accrues as arrears and agreement is reached at the end of the concession period on how the arrears will be repaid.

Payment plans are agreed to enable customers to reduce their arrears balances by an agreed amount per month which is paid in addition to their standard monthly repayment.

Capitalisations occur where arrears are added to the capital balance outstanding for the purposes of re-structuring the loan.

The term of the mortgage is extended in order to reduce payments to a level which is affordable to the customer based on their current financial circumstances.

All forbearance arrangements are formally discussed with the customer and reviewed by management prior to acceptance of the forbearance arrangement. By offering customers in financial difficulty the option of forbearance the Society potentially exposes itself to an increased level of risk through prolonging the period of non-contractual payment and/or potentially placing the customer into a detrimental position at the end of the forbearance period.

Regular monitoring of the level and different types of forbearance activity are reported to the retail credit committee (RCC) on a monthly basis. In addition the conduct risk committee monitors the level of arrears and forbearance cases. In addition all forbearance arrangements are reviewed and discussed with the customer on a regular basis to assess the ongoing potential risk to the Society and suitability of the arrangement for the customer.

The table below details the number of forbearance cases within the 'Not impaired' category:

Group and Society	2014	2013
Type of forbearance	**Number**	**Number**
Interest only concessions	22	28
Reduced payment concessions	5	3
Payment plans	56	96
Capitalisations	62	70
Mortgage term extensions	70	80
Less: cases with more than one form of forbearance	(66)	(73)
TOTAL	**149**	**204**

These are covered by an individual impairment provision of £0.1m (2013: £0.4m).

In total £2.6m (2013: £4.1m) of loans that would be past due are subject to forbearance.

Notes to the accounts

32 FINANCIAL INSTRUMENTS (CONTINUED)

Secured Business Loans

Secured Business Loans (SBL) are primarily made available to Small and Medium sized enterprises for either owner occupied or investment property purposes. Loans are also only granted against the 'bricks and mortar' of the property and not against working capital or machinery etc.

The make-up of the SBL book at 31 December is as follows:

Group and Society	2014	2014	2013	2013
	£m	%	£m	%
Owner occupied	37.7	49.7	41.0	51.6
Investment property	38.3	50.3	38.5	48.4
	76.0		**79.5**	

The table below provides information on the original LTV of the Group's SBL mortgage portfolio:

Group and Society	2014	2013
LTV analysis	%	%
SBL		
0% - 30%	3	3
30% - 60%	26	25
60% - 80%	47	47
80% - 90%	23	24
90% - 100%	-	-
> 100%	1	1
Average loan to value of SBL	63	63
Average loan to value of new business	54	53

The table below provides information on SBL by payment due status:

Group and Society	2014	2014	2013	2013
Arrears analysis	£m	%	£m	%
Not impaired:				
Neither past due or impaired	68.3	89.77	73.4	92.34
Past due up to 3 months but not impaired	1.1	1.41	1.1	1.38
Past due over 3 months but not impaired	0.4	0.56	0.4	0.50
Impaired:	0.4	0.58	-	-
Not past due	3.3	4.37	1.4	1.76
Past due up to 3 months	0.9	1.16	1.8	2.26
Past due 3 to 6 months	0.3	0.45	0.8	1.01
Past due 6 to 12 months	-	-	-	-
Past due over 12 months	-	-	-	-
Possessions	1.3	1.70	0.6	0.75
	76.0		**79.5**	
Fair value of collateral held:				
Neither past due or impaired	126.2		133.0	
Past due but not impaired	2.9		2.5	
Impaired	5.5		5.6	
	134.6		**141.1**	

Collateral reflects the latest valuation. If a property has had a desktop valuation since the latest full valuation, the collateral reflects the desktop valuation (47% of the SBL book has had a desktop valuation).

With collateral capped to the amount of outstanding debt, the value of collateral held against loans 'Past due but not impaired' at 31 December is £1.5m (2013: £1.5m) against outstanding debt of £1.5m (2013: £1.5m). In addition, the value of collateral held against 'Impaired' assets at 31 December is £4.9m (2013: £4.5m) against outstanding debt of £5.8m (2013: 4.9m).

Notes to the accounts

32 FINANCIAL INSTRUMENTS (CONTINUED)

The status 'past due up to three months but not impaired' and 'past due over three months but not impaired' includes any asset where a payment due is received late or missed. The amount included is the entire loan amount rather than just the overdue amount.

In terms of SBL risk, the single largest borrower represents less than 1.7% (2013: 1.7%) of the SBL mortgage book. SBL assets totalling £5.8 million (2013: £9.0m) have individual provisions against them.

Possession balances represent those loans where the Group has taken ownership of the property pending its sale.

Forbearance

The Group has various forbearance options to support customers who may find themselves in financial difficulty. These include 'interest only' concessions, re-negotiation of contractual payment, payment plans and capitalisations.

'Interest only' concessions are offered to customers in financial difficulty on a temporary basis with formal periodic review. The concession allows the customer to reduce monthly payments to cover interest only, and if made, the arrears status will not increase.

Re-negotiation of contractual payments is provided to reduce the monthly payment to a level affordable by the customer. The agreement remains within the Society's lending policy, for example within the maximum mortgage term.

Payment plans are agreed to enable customers to reduce their arrears balances by an agreed amount per month which is paid in addition to their standard monthly repayment.

Capitalisations occur where arrears are added to the capital balance outstanding for the purpose of re-structuring the loan.

The table below shows those loans subject to forbearance with the 'Not impaired' category:

Group and Society	2014	2013
Type of forbearance	**Number**	**Number**
Interest only concessions	-	3
Re-negotiation of contractual payment	4	6
Payment plans	-	6
Capitalisations	-	2
TOTAL	**4**	**17**

These loans are covered by the £1.1m (2013: £1.1m) collective provision.

£0.7m (2013:£2.8m) of loans that would be past due or impaired are subject to forbearance.

Liquidity risk

Liquidity risk is the risk that the Society will not have sufficient financial resources available to meet its obligations as they fall due, under either normal business conditions or a stressed environment. It is the Society's policy that a significant amount of its total assets are carried in the form of cash and other readily realisable assets in order to:

i) meet day-to-day business needs;
ii) meet any unexpected cash needs;
iii) maintain public confidence; and
iv) ensure maturity mismatches are provided for.

Monitoring of liquidity, in line with the Society's prudent policy framework, is performed daily. Compliance with these policies is reported to the Assets and Liabilities Committee (ALCO) monthly and to the board risk committee.

The Society's liquidity policy is designed to ensure the Society has sufficient liquid resources to withstand a range of stressed scenarios. A series of liquidity stress tests have been developed as part of the Individual Liquidity Adequacy Assessment (ILAA) process. They include scenarios that fulfil the specific requirements of the PRA (the idiosyncratic, market-wide and combination stress tests) and scenarios identified by the Society which are specific to its business model. The stress tests are performed monthly and reported to ALCO to confirm that liquidity policy remains appropriate.

The Society's liquid resources comprise high quality liquid assets, including a Bank of England reserves account, Gilts, time deposits and investment grade fixed and floating rate notes issued by highly rated financial institutions, supplemented by an amount of T-Bills issued to the Society under the Funding for Lending Scheme (FLS). At the end of the year the ratio of liquid assets to shares and deposits was 16.8% compared to 17.7% at the end of 2013. When the FLS T'bills are taken into account, the ratio of liquid resources to shares and deposits was 28.3%.

The Society maintains a contingency funding plan to ensure that it has so far as possible, sufficient liquid financial resources to meet liabilities as they fall due under each of the scenarios.

Notes to the accounts

32 FINANCIAL INSTRUMENTS (CONTINUED)

The table below analyses the Group's assets and liabilities into relevant maturity groupings, based on the remaining period to contractual maturity at the statement of financial position date. This is not representative of the Group's management of liquidity. Loans and advances to customers rarely run their full course. The actual repayment profile is likely to be significantly different from that shown in the analysis. For example most mortgages have a contractual maturity of around 25 years but are generally repaid much sooner. The average life of a mortgage at the Group, currently in product, is 3.3 years. Conversely, retail deposits repayable on demand generally remain on balance sheet much longer.

	Group					
Residual maturity as at 31 December 2014	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Financial assets						
Liquid assets						
Cash in hand	1.4	-	-	-	-	1.4
Loans and advances to credit institutions	327.5	10.0	6.0	-	-	343.5
Debt securities	-	52.8	41.3	71.7	-	165.8
Total liquid assets	328.9	62.8	47.3	71.7	-	510.7
Derivative financial instruments	-	3.3	3.4	0.4	2.8	9.9
Loans and advances to customers	5.5	17.7	60.7	380.2	2,254.2	2,718.3
Other assets	-	2.1	2.7	0.4	21.7	26.9
	334.4	**85.9**	**114.1**	**452.7**	**2,278.7**	**3,265.8**
Financial liabilities and reserves						
Shares	880.6	623.4	558.4	513.0	-	2,575.4
Amounts owed to credit institutions	22.8	147.6	93.8	-	-	264.2
Amounts owed to other customers	13.2	74.9	49.8	51.3	-	189.2
Debt securities in issue	-	-	3.5	-	-	3.5
Derivative financial instruments	-	0.1	0.4	13.1	-	13.6
Other liabilities	1.1	2.5	2.5	3.5	6.6	16.2
Subscribed capital	-	0.1	-	-	26.5	26.6
Reserves	-	-	-	-	177.1	177.1
	917.7	**848.6**	**708.4**	**580.9**	**210.2**	**3,265.8**
NET LIQUIDITY GAP	**(583.3)**	**(762.7)**	**(594.3)**	**(128.2)**	**2,068.5**	**-**

Notes to the accounts

32 FINANCIAL INSTRUMENTS (CONTINUED)

	Group					
Residual maturity as at 31 December 2013	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Financial assets						
Liquid assets						
Cash in hand	1.0	-	-	-	-	1.0
Loans and advances to credit institutions	324.9	16.0	6.2	-	-	347.1
Debt securities	-	31.3	40.3	76.0	-	147.6
Total liquid assets	325.9	47.3	46.5	76.0	-	495.7
Derivative financial instruments	-	-	7.2	10.6	2.3	20.1
Loans and advances to customers	6.0	15.5	53.0	331.1	2,065.8	2,471.4
Other assets	-	9.5	1.7	-	17.5	28.7
	331.9	**72.3**	**108.4**	**417.7**	**2,085.6**	**3,015.9**
Financial liabilities and reserves						
Shares	835.1	571.0	441.5	471.8	-	2,319.4
Amounts owed to credit institutions	1.7	159.6	90.4	2.0	-	253.7
Amounts owed to other customers	28.6	68.3	91.2	28.0	-	216.1
Debt securities in issue	-	5.0	8.5	-	-	13.5
Derivative financial instruments	-	0.2	1.6	7.1	-	8.9
Other liabilities	0.8	3.2	3.7	1.2	4.6	13.5
Subscribed capital	-	0.1	-	-	26.1	26.2
Reserves	-	-	-	-	164.6	164.6
	866.2	**807.4**	**636.9**	**510.1**	**195.3**	**3,015.9**
NET LIQUIDITY GAP	**(534.3)**	**(735.1)**	**(528.5)**	**(92.4)**	**1,890.3**	**-**

There is no material difference between the maturity profile for the Group and that for the Society.

All Group liquid assets are unencumbered as at the balance sheet date.

Notes to the accounts

32 FINANCIAL INSTRUMENTS (CONTINUED)

The following is an analysis of gross contractual cash flows payable under financial liabilities:

	Group					
31 December 2014	Repayable on demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Shares	904.3	637.4	558.3	513.0	-	2,613.0
Amounts owed to credit institutions	22.7	147.8	94.0	-	-	264.5
Amounts owed to other customers	13.2	75.0	50.2	52.5	-	190.9
Debt securities in issue	-	-	3.5	-	-	3.5
Derivative financial instruments	-	0.9	0.9	72.3	-	74.1
Subscribed capital	-	0.5	1.5	7.9	23.9	33.8
TOTAL LIABILITIES	**940.2**	**861.6**	**708.4**	**645.7**	**23.9**	**3,179.8**
31 December 2013						
Shares	859.9	588.6	447.3	472.2	-	2,368.0
Amounts owed to credit institutions	0.1	30.8	10.6	2.1	-	43.6
Amounts owed to other customers	28.6	68.4	91.9	28.8	-	217.7
Debt securities in issue	-	5.0	8.6	-	-	13.6
Derivative financial instruments	-	0.4	3.9	24.6	-	28.9
Subscribed capital	-	0.5	1.5	7.9	23.9	33.8
TOTAL LIABILITIES	**888.6**	**693.7**	**563.8**	**535.6**	**23.9**	**2,705.6**

The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the statement of financial position date.

Notes to the accounts

32 FINANCIAL INSTRUMENTS (CONTINUED)

Market risk

Market risk is the risk of changes to the Society's financial condition caused by market interest rates. The Society is exposed to market risk in the form of changes (or potential changes) in the general level of interest rates, changes in the relationship between short and long-term interest rates and divergence of interest rates for different balance sheet elements (basis risk).

The Society has adopted the 'Extended' approach to interest rate risk, as defined by the PRA, which aims to undertake the hedging of individual transactions within an overall strategy for structural hedging, based on a detailed analysis of the statement of financial position. This analysis is then used to enable the positioning of the Group's statement of financial position to take advantage of a particular interest rate view.

The management of interest rate risk is based on a full statement of financial position gap analysis. The statement of financial position is subjected to a stress test of a 2% rise in interest rates on a weekly basis and the results are reported to the monthly ALCO meeting. In addition management review interest rate basis risk. Both sets of results are measured against the risk appetite for market risk which is currently set at a maximum of 2.5% of capital. These are in turn reviewed monthly by the ALCO and reported to the board risk committee.

The table below summarises the Group's exposure to interest rate risk. Included in the table are Group assets and liabilities, including derivative financial instruments which are principally used to reduce exposure to interest rate risk, categorised by repricing date.

	Group					
Interest rate risk as at 31 December 2014	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Non interest bearing	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Financial assets						
Cash in hand	-	-	-	-	1.4	1.4
Loans and advances to credit institutions	336.6	3.0	-	-	3.9	343.5
Debt securities	106.9	21.1	35.6	-	2.2	165.8
Derivative financial instruments	-	-	-	-	9.9	9.9
Loans and advances to customers	675.4	533.5	1,491.5	7.2	10.7	2,718.3
Other assets	-	-	-	-	26.9	26.9
	1,118.9	**557.6**	**1,527.1**	**7.2**	**55.0**	**3,265.8**
Financial liabilities and reserves						
Shares	1,519.2	546.6	488.2	-	21.4	2,575.4
Amounts owed to credit institutions	173.2	90.7	-	-	0.3	264.2
Amounts owed to other customers	88.5	49.7	51.0	-	-	189.2
Debt securities in issue	-	3.5	-	-	-	3.5
Derivative financial instruments	-	-	-	-	13.6	13.6
Other liabilities	-	-	-	-	16.2	16.2
Subscribed capital	-	-	-	23.9	2.7	26.6
Reserves	-	-	-	-	177.1	177.1
	1780.9	**690.5**	**539.2**	**23.9**	**231.3**	**3,265.8**
Impact of derivative instruments	987.7	45.6	(1,040.1)	6.8	-	-
Interest rate sensitivity gap	**325.7**	**(87.3)**	**(52.2)**	**(9.9)**	**(176.3)**	
Sensitivity to profit and reserves						
Parallel shift of +1%	-	0.2	-	0.4	-	0.6
Parallel shift of +2%	-	0.4	-	0.9	-	1.3

Notes to the accounts

32 FINANCIAL INSTRUMENTS (CONTINUED)

	Group					
Interest rate risk as at 31 December 2013	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Non interest bearing	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Financial assets						
Cash in hand	-	-	-	-	1.0	1.0
Loans and advances to credit institutions	340.0	4.0	-	-	3.1	347.1
Debt securities	79.1	25.1	40.7	-	2.7	147.6
Derivative financial instruments	-	-	-	-	20.1	20.1
Loans and advances to customers	790.8	312.2	1,371.8	1.7	(5.1)	2,471.4
Other assets	-	-	-	-	28.7	28.7
	1,209.9	**341.3**	**1,412.5**	**1.7**	**50.5**	**3,015.9**
Financial liabilities and reserves						
Shares	1,437.2	431.4	430.5	-	20.3	2,319.4
Amounts owed to credit institutions	164.9	88.3	-	-	0.5	253.7
Amounts owed to other customers	96.4	90.7	27.9	-	1.1	216.1
Debt securities in issue	5.0	8.5	-	-	-	13.5
Derivative financial instruments	-	-	-	-	8.9	8.9
Other liabilities	-	-	-	-	13.5	13.5
Subscribed capital	-	-	-	23.9	2.3	26.2
Reserves	-	-	-	-	164.6	164.6
	1,703.5	**618.9**	**458.4**	**23.9**	**211.2**	**3,015.9**
Impact of derivative instruments	814.9	123.4	(948.3)	10.0	-	-
Interest rate sensitivity gap	**321.3**	**(154.2)**	**5.8**	**(12.2)**	**(160.7)**	**-**
Sensitivity to profit and reserves						
Parallel shift of +1%	-	0.4	(1.2)	0.5	-	(0.3)
Parallel shift of +2%	(0.1)	0.9	(2.3)	1.0	-	(0.5)

There is no material difference between the interest rate risk profile for the Group and that for the Society.

The Group is not exposed to foreign currency risk.

Notes to the accounts

32 FINANCIAL INSTRUMENTS (CONTINUED)

The Society does not have any financial assets or liabilities that are offset with the net amount presented in the statement of financial position as IAS32 'Financial Instruments – Presentation' requires both an enforceable right to set off and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Neither of these conditions are met by the Society.

All financial assets and liabilities are presented on a gross basis in the statement of financial position.

The Society has entered into Credit Support Annexes (CSA's) for its derivative instruments which typically provide for the exchange of collateral on a daily basis to mitigate net mark to market credit exposure.

The following table shows the impact on derivative financial instruments and repurchase agreements after collateral:

Group and Society	Gross* Amounts	Financial collateral**	Net amounts
2014	**£m**	**£m**	**£m**
Financial assets			
Derivative financial instruments	9.9	(9.9)	-
TOTAL FINANCIAL ASSETS	**9.6**	**(9.9)**	**-**
Financial liabilities			
Derivative financial instruments	13.6	(13.6)	-
Repurchase agreements	246.5	(246.5)	-
TOTAL FINANCIAL LIABILITIES	**260.1**	**(260.1)**	**-**
2013	**£m**	**£m**	**£m**
Financial assets			
Derivative financial instruments	20.1	(18.7)	1.4
TOTAL FINANCIAL ASSETS	**20.1**	**(18.7)**	**1.4**
Financial liabilities			
Derivative financial instruments	8.9	(8.0)	0.9
Repurchase agreements	209.4	(209.4)	-
TOTAL FINANCIAL LIABILITIES	**218.3**	**(217.4)**	**0.9**

*As reported in the statement of financial position

** Financial collateral disclosed is limited to the amount of the related financial asset and liability.

33 CAPITAL STRUCTURE

The Society's policy is to maintain a strong capital base to maintain member, creditor and market confidence and to sustain future development of the business. The formal ICAAP process (Internal Capital Adequacy Assessment Process) assists the Society with its management of capital. Through its quarterly business plan update the board monitors the Society's capital position to assess whether adequate capital is held to mitigate the risks it faces in the course of its business activities. The Society's actual and expected capital position is reviewed against stated risk appetite which aims to maintain capital at a specific level above its Internal Capital Guidance (ICG).

The Board manages the Society's capital and risk exposures to maintain capital in line with regulatory requirements which includes monitoring of:

a) **Lending and Business Decisions -** The Society uses application scorecards to help it assess whether mortgage applications fit within its appetite for credit risk. Once loan funds have been advanced behavioural scorecards are used to review the ongoing risk profile of both the portfolio's and individual customers. In addition, for residential and buy-to-let mortgages property values are updated on a quarterly basis.

b) **Pricing -** Pricing models are utilised for all mortgage product launches. The models include expected loss estimates and capital utilisation enabling the calculation of a risk adjusted return on capital.

c) **Concentration risk -** The design of retail products takes into account the overall mix of products to ensure that exposure to market risk remains within permitted parameters.

d) **Counterparty risk -** Wholesale lending is only carried out with approved counterparties in line with the Society's lending criteria and is subject to a range of limits. The limits are monitored daily to ensure the Society remains within risk appetite.

This is subjected to regular stress tests to ensure the Society maintains sufficient capital for future possible events.

The Group's capital requirements are set and monitored by the Prudential Regulatory Authority (PRA). During 2014 the Society has complied with the new requirements included within the EU Capital Requirements Directive IV (Basel III). Further details of these requirements and their impact on the Society are provided in the Strategic report on page 17.

There were no reported breaches of capital requirements during the year. There have been no material changes in the Society's management of capital during the year.

Under Basel III Pillar 3 the Society is required to publish further information regarding its capital position and exposures. The Society's Pillar 3 disclosures are available on our website **www.thenottingham.com.**

Notes to the accounts

34 GUARANTEES AND FINANCIAL COMMITMENTS

a) The Society guarantees its subsidiaries' bank overdrafts; at the year end this was £nil (2013: £nil).

	Group 2014	Group 2013 Restated	Society 2014	Society 2013
b) Capital commitments	**£m**	**£m**	**£m**	**£m**
Capital expenditure contracted for but not provided for in the accounts	0.2	0.6	0.2	0.6
c) Leasing commitments				
The total of future minimum lease payments under non-cancellable operating leases are payable as follows:				
Land and buildings:				
Commitments expiring:				
Less than one year	0.1	0.1	0.1	-
Between one year and five years	1.3	0.5	0.6	0.3
In more than five years	3.3	3.1	2.4	1.6
Other:				
Commitments expiring:				
Less than one year	0.4	-	0.4	-
Between one year and five years	0.3	0.3	0.1	0.1
	5.4	**4.0**	**3.6**	**2.0**

35 RELATED PARTY TRANSACTIONS

a) Transaction with Group companies
Details of the Society's shares in group undertakings are given in note 16.
During the normal course of business the following transactions were undertaken during the year:

Society	2014	2013
	£m	**£m**
Management charges paid by NPS	0.1	0.3
Fees and commissions paid to NPS	-	(0.1)
	0.1	**0.2**

Details of the intercompany debtor are disclosed in note 16.
At the end of the year the following balances were outstanding with Group companies:

	Loans owed by subsidiaries 2014	Loans owed by subsidiaries 2013
Loans owed by subsidiaries	**£m**	**£m**
Harrison Murray Ltd	(0.6)	0.4
HM Lettings Ltd	0.1	0.3
Nottingham Mortgage Services Ltd	0.2	-
Nottingham Property Services Ltd	8.3	8.2
TMAC Ltd	0.2	0.2
	8.2	**9.1**

Transactions and balances between Group companies are on normal commercial terms and conditions.

Notes to the accounts

35 RELATED PARTY TRANSACTIONS (CONTINUED)

b) Key management personnel compensation

The directors of the Society are considered to be the only key management personnel as defined by IAS 24.

Total compensation for key management personnel for the year by category of benefit was as follows:

Group and Society	2014	2013
	£m	**£m**
Short term employee benefits	1.2	1.2

c) Transactions with key management personnel, and their close family members with Nottingham Building Society.

The following transactions were undertaken through the normal course of business:

Group and Society	Number of key management personnel and their close family members	Amounts in respect of key management personnel and their close family members	Number of key management personnel and their close family members	Amounts in respect of key management personnel and their close family members
	2014	**2014**	**2013**	**2013**
Loans and advances		**£m**		**£m**
Net movements in the year				0.2
Balances outstanding 31 December	2	0.2	2	0.2
Deposits, share accounts and investments				
Net movement in the year		(0.1)		(0.1)
Balances outstanding 31 December	10	0.2	10	0.3

Key management personnel and members of close family paid interest totalling £6,397 (2013: £4,767), and received interest totalling £5,000 (2013: £12,000) during the year.

Secured loans made to key management personnel and members of their close family would be on the same terms and conditions that are applicable to all other employees and members of Nottingham Building Society.

Amounts deposited by key management personnel and members of their close family earn interest at the same rates and on the same terms and conditions as applicable to all other employees and members of Nottingham Building Society.

d) Directors' loans and transactions

At 31 December 2014 there was one outstanding secured mortgage loan of £208,339 (2013: £220,911) made in the ordinary course of business at a normal commercial rate to directors and their connected persons. A register is maintained at the head office of the Society which shows details of all loans, transactions and arrangements with directors and their connected persons. A statement of the appropriate details contained in the register, for the financial year ended 31 December 2014, will be available for inspection at the head office for a period of 15 days up to and including the annual general meeting.

36 CONTINGENT LIABILITIES

Contingent liabilities represent potential future obligations that at 31 December 2014 are not recognised in the Statement of financial position because there is significant uncertainty at the date as to the requirement for the Group to make payments in respect of them.

In May 2014, a European Court of Justice (ECJ) ruling indicated that under the European Working Time Directive, 'normal pay' for the purposes of calculating statutory holiday pay should include an element in respect of contractual commission payments, rather than being limited to basic salary. A UK Employment Tribunal is soon to consider the implications for UK employees, applying the principles set out by the ECJ to the Working Time Directive 1988. A decision is expected in 2015 but had not been made by the date of approval of these financial statements. Should the tribunal determine that 'normal pay' includes contractual commission, there is a possibility that employees may seek compensation for a shortfall in their holiday pay in prior years. This gives rise to a possible obligation for the Group but, given the uncertainty of the outcome, the timing of the UK decision and the uncertainty around the scope of any compensation arising, the Group is unable to quantify, if any liability may arise.

Notes to the accounts

37 TRANSFER OF ENGAGEMENTS

On the 1 July 2013 the Society acquired the business of Shepshed Building Society (Shepshed) following approval of the shareholders and borrowing members of Shepshed.

The assets and liabilities acquired and the associated accounting adjustments are set out below:

Assets	Notes	Cessation accounts £m	Adjustments £m	Take on balances £m
Cash in hand		0.1	-	0.1
Loans and advances to credit institutions		2.2	-	2.2
Debt securities		24.9	-	24.9
Loans and advances to customers	c)	70.4	(3.2)	67.2
Intangible assets	d)	-	0.1	0.1
Property, plant and equipment		0.4	-	0.4
Other assets and prepayments		0.1	-	0.1
Deferred tax	e)	-	0.7	0.7
TOTAL ASSETS		**98.1**	**(2.4)**	**95.7**

Liabilities	Notes	Cessation accounts £m	Adjustments £m	Take on balances £m
Shares	f)	88.4	0.2	88.6
Amounts owed to credit institutions		3.0	-	3.0
Amounts owed to other customers		0.8	-	0.8
Derivative financial instruments	g)	-	0.1	0.1
Other liabilities and accruals		0.3	-	0.3
Provisions for liabilities	h)	0.1	0.2	0.3
General reserves		5.5	(2.9)	2.6
TOTAL LIABILITIES		**98.1**	**(2.4)**	**95.7**
Goodwill				
Fair value of net assets				2.6
Less: deemed purchase consideration	i)			(2.4)
Negative Goodwill	j)			0.2

Notes to the accounts

37 TRANSFER OF ENGAGEMENTS (CONTINUED)

Notes to the adjustments

a) The income and expenditure account for Shepshed for the period to 30 June 2013 is reported in the table below for information only and is not included in these financial statements.

b) The cessation accounts of Shepshed have been prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP)

c) The mortgage balances have been adjusted to fair value by considering the rates at which new lending would be made in the market by comparison to the actual rates applicable in the acquired mortgage book. The acquisition fair value adjustment reflects both the credit and interest rate risks associated with these assets.

d) A £0.1m core deposit intangible has been recognised representing the intrinsic value of the retail savings book.

e) Corporation and deferred tax assets have been provided where subsequent tax benefits or charges will arise from the fair value adjustments.

f) The retail savings balances have been adjusted to fair value by considering the rates at which new retail savings would be obtained in the market by comparison to the actual rates applicable in the acquired retail savings book. The acquisition fair value adjustment reflects the interest rate risk associated with these liabilities.

g) Derivative financial instruments were previously carried at amortised costs and these are now included at fair value based on discounted future cashflows, with market inputs valued consistently across the Society.

h) The fair value adjustment aligns the Shepshed's provisioning for liabilities to that for the rest of the Group.

i) The combination of the two societies did not result in any transfer of consideration. The deemed purchase price has been calculated be measuring the fair value of the Shepshed's business. This calculation has been based on forward projections of cash flows generated by the business assuming modest growth in business assets and a saving in management expenses through achievement of cost efficiencies.

j) Negative goodwill results from the transaction and has been recognised in the income statement.

Income and expenditure account of the Shepshed Building Society
For the period 1 January 2013 to 30 June 2013

	£000
Net interest income	670
Net fee and commission income	5
Administration expenses	(1,172)
Depreciation	(60)
Impairment losses on loans and advances	12
Provision for FSCS Levy	(40)
Loss before tax	(585)
Tax	7
NET LOSS FOR THE PERIOD *	**(578)**

*The above income and expenditure account relates to the cessation accounts of Shepshed and these amounts have not been included in the income Statements of Nottingham Building Society or the Group. They are reported here for information only. It is not felt practicable to disclose what the results for the enlarged Society would have been for the period to 30 June 2013 if the merger had taken place on 1 January 2013.

Following the merger, Shepshed ceased to exist, being subsumed by Nottingham Building Society. It is impractical to separate its results post the transfer of engagements.

Annual business statement

for the year ended 31 December 2014

1. Statutory percentages	2014	Statutory limit
	%	%
Lending limit		
Proportion of business assets not in the form of loans fully secured on residential property	5.27	25
Funding limit		
Proportion of shares and borrowings not in the form of shares held by individuals	15.07	50

The percentages are calculated in accordance with, and the statutory limits are those prescribed by, sections 6 and 7 of the Building Societies Act 1986 and are based on the Group statement of financial position.

Business assets are the total assets of the Society and its subsidiary undertakings as shown in the Group statement of financial position plus impairment for losses on loans and advances (note 15), less property, plant and equipment, intangible assets and liquid assets.

Loans fully secured on residential property are the amount of principal owing by borrowers and interest accrued not yet payable.

Total 'shares and borrowings' are the aggregate of 'shares', 'amounts owed to credit institutions', 'amounts owed to other customers' and 'debt securities in issue' in the Group statement of financial position. Shares held by individuals are found in note 21.

2. Other percentages	2014	2013
	%	%
As a percentage of shares and borrowings		
Gross capital	6.72	6.81
Free capital	6.06	6.00
Liquid assets	16.84	17.69
As a percentage of mean total assets		
Profit after taxation	0.44	0.35
Management expenses (Group)	1.17	1.13
Management expenses (Society)	0.93	0.88
As a percentage of year end assets		
Return on assets	0.43	0.34

The above percentages have been calculated from the Group accounts. The 2013 gross capital and free capital percentages have been restated for the prior year adjustment in respect of the change to accounting policies for IFRIC 21 Levies (see note 1 for further details).

'Shares and borrowings' are the aggregate of 'shares', 'amounts owed to credit institutions', 'amounts owed to other customers' and 'debt securities in issue' in the Group statement of financial position.

'Gross capital' is the aggregate of subscribed capital and aggregated reserves as shown in the Group statement of financial position.

'Free capital' is gross capital plus collective impairment for losses on loans and advances (note 15) less property, plant and equipment and intangible assets in the Group statement of financial position.

'Mean total assets' are calculated by halving the aggregate of total assets at the beginning and end of the financial year for the Group/Society.

'Liquid assets' are the first three items on the asset side of the Group statement of financial position.

'Management expenses' are the aggregate of administrative expenses (excluding acquisition and merger costs) and depreciation and amortisation taken from the Group/Society statements of comprehensive income.

3. Information about the directors at 31 December 2014:

Director's name	Date of appointment	Date of birth	Business occupation	Other directorships (and offices)
J. S. Edwards Chairman	10.01.12	10.06.56	Director	Liverpool Victoria Friendly Society Limited
K. R. Whitesides, MBE, LLB, MPhil Vice-Chairman	18.08.04	06.09.43	Director	Christel House Europe Limited Dingley Hall Apartments Ltd The Staff Pension Scheme of Nottingham Building Society (Trustee)
J.C. Kibbey, BSc, MCIPD	01.05.06	23.08.50	Director	Governor Oundle School
D.J. Marlow ACIB Chief Executive	16.01.06	18.10.65	Building Society Executive	Harrison Murray Limited HM Lettings Limited Nottingham Mortgage Services Ltd Nottingham Property Services Ltd The Mortgage Advice Centre (East Midlands) Limited
A.F.J. Neden MA, FCA	17.09.14	04.02.62	Director	Grace Church Dulwich Ltd Momo Money Ltd Northgate (Warwick) Developments Ltd The Great St Helen's Trust Ltd The Prince of Wales Youth Business International Ltd St Peter's Canary Wharf Trust Ltd Wesleyan Assurance Society
M.C. Phibbs BSc (Hons), FCA	01.02.13	06.07.57	Director	Edendiclare Ltd Morgan Stanley & Co International Plc Morgan Stanley Bank International Ltd Morgan Stanley International Ltd Morgan Stanley Securities Ltd Newday/Newday Cards Ltd Novae Group Plc Novae Syndicates Ltd
M. A. Piranie MBA, FCCA Deputy Chief Executive & Finance Director	16.04.07	13.04.63	Building Society Executive	Dubai Property Consortium (2011) Ltd Elite Star Investments Ltd Harrison Murray Ltd HM Lettings Ltd Nottingham Mortgage Services Ltd Nottingham Property Services Ltd The Mortgage Advice Centre (East Midlands) Ltd
S. J. Taylor ACIB, MBA Chief Operating Officer	01.02.11	31.07.70	Building Society Executive	Harrison Murray Limited HM Lettings Limited Nottingham Mortgage Services Ltd Nottingham Property Services Ltd The Mortgage Advice Centre (East Midlands) Limited
W.G. Thomas BSc (Hons), ACA, FCT, C.Dir	01.12.14	05.11.55	Director	Tai Tirion Ltd

Correspondence to directors jointly or individually should be addressed 'Private and Confidential' and c/o KPMG LLP, 1 The Embankment, Neville Street, Leeds, LS1 4DW.

Directors' service contracts:

David Marlow entered into his contract as Chief Executive on 21 February 2011, however, he has been a Director of the Society since 16 January 2006. Ashraf Piranie entered into his current contract as Deputy Chief Executive and Finance Director on 21 February 2011 however, he has been a Director of the Society since 16 April 2007. Simon Taylor entered into his contract as Operations Director on 1 February 2011. All contracts are terminable at any time by the Society on 12 months' notice and by the individual on 6 months' notice.

All the contracts are reviewed annually in June.

Auditor: KPMG LLP, 1 The Embankment, Neville Street, Leeds, LS1 4DW

Bankers: National Westminster Bank Plc, 148-149 Victoria Centre, Nottingham

Solicitors: Nelsons Solicitors, 8 Stanford Street, Nottingham

Glossary

Set out below are the definitions of the terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions:

Arrears	A customer is in arrears when they are behind in meeting their contractual obligations with the result that an outstanding loan payment is overdue. The value of the arrears is the value of any payments that have been missed.
Additional Tier 1 capital (AT1)	Capital that meets certain rules under CRD IV and which comprises the Society's pibs but only under the transitional provisions.
Basel III	The Basel Committee on Banking Supervision issued the Basel III rules text in December 2010, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity. Basel III became effective from 1 January 2014 through CRD IV.
Buy to let loans	Buy to let loans are those loans which are offered to customers buying residential property specifically to let out.
Common Equity Tier 1 capital (CET1)	CET1 capital consists of general reserves, other reserves less intangible assets and other regulatory deductions.
Common Equity Tier 1 ratio	Common Equity Tier 1 capital as a percentage of risk weighted assets.
Contractual maturity	The date at which a loan or financial instrument expires, at which point all outstanding principal and interest has been paid.
Core Tier 1 capital	Core Tier 1 capital comprises general reserves, other reserves less intangible assets and other regulatory deductions.
Credit risk	This is the risk that a customer or counterparty fails to meet their contractual obligations.
Capital Requirements Directive (CRD IV)	CRD IV is the European legislation which came into force from 1 January 2014 to implement Basel III. It has revised the capital requirements framework and introduced liquidity requirements, which regulators use when supervising firms.
Debt securities	Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.
Debt securities in issue	Transferable certificates of indebtedness of the Society to the bearer of the certificates. These are liabilities of the Group and include certificates of deposit.
Deferred tax asset	Corporation tax recoverable (or payable) in future periods resulting from temporary or timing differences, between the accounting value of assets and liabilities and the tax base of those assets and liabilities.
Defined benefit obligation	The present value of expected future payments required to settle the obligations of a defined benefit plan resulting from employee service.
Derivative financial instruments	A derivative financial instrument is a contract between two parties whose value is based on an underlying price or index rate it is linked to, such as interest rates, exchange rates of stock market indices. The Society uses derivative financial instruments to hedge its exposure to interest rates.
Effective interest rate method (EIR)	The method used to measure the carrying value of a financial asset or liability and to allocate associated interest income or expense over the relevant period. The calculation includes all fees and penalties paid and received between parties which are integral to the contract.
Fair value	Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Financial Conduct Authority (FCA)	The statutory body responsible for conduct of business regulation and supervision of UK authorised firms for 1 April 2013.
Financial Services Compensation Scheme	The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every firm authorised by the FCA is obliged to pay an annual levy, which goes towards its running costs and compensation payments.
Forbearance strategies	Strategies to support borrowers in financial difficulty, such as agreeing a temporary reduction in the monthly payment, extending mortgage terms and a conversion to an interest-only basis. The aim of forbearance strategies is to avoid repossession.
Free Capital	The aggregate of gross capital and provisions for collective impairment losses on loans and advances to customers less property, plant and equipment and intangible assets.
Funding Limit	Measures the proportion of shares and borrowings (excluding the fair value adjustment for hedged risk) not in the form of shares held by individuals. The calculation of the funding limit is explained in the Annual Business Statement.
General reserves	The accumulation of the Society's historic and current year profits which is the main component of Common Equity Tier 1 capital.
Gross capital	The aggregate of general reserves, available for sale reserves and subscribed capital.
Impaired loans	Loans where there is objective evidence that an impairment event has occurred, meaning that the Society does not expect to collect all the contractual cash flows or expect to collect them later than they are contractually due.
Individual liquidity adequacy assessment (ILAA)	The Society's own assessment of the liquidity resources it requires in order to remain within the risk tolerances it has set. This will include an evaluation of potential stresses based on multiple market environments.
Individually/collectively assessed impairment	Individual assessments are made of all mortgage loans where objective evidence indicates losses are likely or the property is in possession. A collective impairment provision is made against the remaining group of loans and advances where objective evidence indicates that it is likely that losses may be realised.
Interest rate risk	The risk of loss due to a change in market interest rates. Interest rate risk can have an impact on Society's mortgages and savings products.

Internal Capital Adequacy Assessment Process (ICAAP)	The Society's own assessment, as part of Basel II requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements for risks it faces under a business as usual scenario including stress events.
Lending limit	Measures the proportion of business assets not in the form of loans fully secured on residential property.
Leverage ratio	Leverage ratio is defined as Tier 1 capital divided by the total exposures which includes on and off balance sheet items, with this ratio expressed as a percentage.
Liquid Assets	Total of cash in hand, loans and advances to credit institutions, and debt securities.
Liquidity risk	Liquidity risk is the risk that the Society is unable to meet its financial obligations as they fall due, or can only secure them at excessive cost. This risk arises from timing mismatches of cash inflows and outflows.
Loan to value (LTV)	LTV expresses the amount of a mortgage as a percentage of the value of the property.
Loans past due	Loans are past due when a loan payment that has not been made as of its due date.
Management expenses	The aggregate of administrative expenses, depreciation and amortisation. The management expense ratio is management expenses expressed as a percentage of mean total assets.
Market risk	The risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads and customer-driven factors will create potential losses or decrease the value of the Society balance sheet.
Mean total assets	Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
Member	A person who has a share investment or a mortgage loan with the Society.
Net interest income	The difference between interest receivable on assets and similar income and interest paid on liabilities and similar charges.
Operational risk	The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.
Permanent interest bearing shares (PIBS)	Unsecured, deferred shares of the Society that are a form of of Additional Tier 1 capital under the transitional rules of CRD IV. PIBS rank behind the claims of all depositors, payables and investing members of the Society. PIBS are also known as subscribed capital.
Renegotiated loans	Loans are classed as renegotiated where an agreement between a borrower and a lender has been made to modify the loan terms either as part of an on-going relationship or if the borrower is in financial difficulties. The renegotiated loan may no longer be treated as past due or impaired.
Risk appetite	The articulation of the level of risk that the Society is willing to accept (or not accept) in order to safeguard the interests of the Society's members whilst also achieving business objectives.
Risk weighted assets (RWA)	The value of assets, after adjustment, under the relevant Basel II capital rules to reflect the degree of risk they represent.
Residential loans	Loans that are loaned to individuals rather than institutions. Residential mortgage lending is secured against residential property.
Prudential Regulation Authority (PRA)	The statutory body responsible for the prudential supervision of banks, building societies, insurers and small number of significant investment firms in the UK from the 1 April 2013. The PRA is a subsidiary of the Bank of England.
Secured business lending (SBL)	Loans secured on commercial property which is only made available to Small and Medium sized Enterprises.
Shares	Funds deposited by a person in a retail savings account with the Society. Such funds are recorded as liabilities for the Society.
Shares and borrowings	The aggregate of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.
Standardised approach	The basic method used to calculate capital requirements for credit risk under Basel II. In this approach the risk weighting used in the capital calculation are determined by specified percentages.
Subscribed capital	See permanent interest bearing shares (PIBS)
Tier 1 capital	A measure of financial strength as defined by the FSA. Comprises general reserves from retained profits and permanent interest bearing shares (PIBS), less intangible assets and other regulatory adjustments.
Tier 2 capital	Comprises the collective impairment allowance (for exposures treated on a Basel II Standardised basis), less certain regulatory deductions.
Tier 1 ratio	Tier 1 capital as a percentage of risk weighted assets.
Underlying profit	Profit before tax adjusted to exclude derivative fair value movements and the FSCS levy.
Wholesale funding	The total of amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

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YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

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