2015

Annual Report and Accounts

The Nottingham

Bringing your finances closer to home

Contents

Key performance highlights

The Society has continued to focus on the development of its strategy to offer members a unique brand of advice, service, value and choice. The Society's approach is gathering pace, as it has delivered this unique proposition to more customers in more locations across its heartland and in doing so achieved another year of record performance, balance sheet size and profits.

Below are some of the key achievements and financial highlights of 2015:

Group pre-tax profit up 15% at £20.0m

Total assets of £3.3 billion

Gross mortgage lending of £651m resulting in mortgage book growth of 3%

Strong retail franchise – total branch balances up by 15% in the year and up over 90% in the last five years

The Society welcomed 24,000 new customers and opened five new branch locations

Net promoter score of 74%

Arrears levels remain very low at around a quarter of industry average

Net interest margin at 1.46%

Strong capital ratios with Tier 1 ratio at 16.7% and leverage ratio of 4.8%

We strive to be the leading home related financial services mutual in our heartland

Chairman's statement

John Edwards

Market and economic background

In my statement at the beginning of 2015, I outlined a number of headwinds and uncertainties which the Board believed the economy and Society could face over 2015 and 2016. Therefore we should not have been too surprised at the events of recent months.

The UK economy did encounter its first, albeit brief, period of deflation for six years, driven by a continued reduction in commodity prices, the impact of which is rippling through to a range of industries from oil to food retailers to steel producers. As we enter 2016 the reverberations of these price reductions, driven by a slower rate of growth in the Chinese economy, has resulted in one of the most significant periods of market turmoil since the 2008 crisis – with Brent crude oil standing around $30 a barrel down 46% on last January's price and global equity markets experiencing significant reduction in values.

In addition the government continues to pursue its plans to rebalance the nation's finances with the UK undertaking the largest fiscal consolidation of the OECD nations – with further moves to come in 2016, particularly focussed on pension savings and the housing market.

The UK housing market too has continued to operate somewhat irrationally. Latest figures suggest that the level of housing transactions for the year will fall; in fact at the end of Q3 they were down 6.9% over the previous year. Despite this, house prices continued to increase. The Halifax Price Index showed that house prices rose by 9.5% in 2015 – further evidence that the issues with the UK housing market are rooted in a lack of supply of good quality properties. The experience of our own estate agency across the nine counties in which we operate consistently shows a high level of demand for a relatively small number of properties coming onto the market for sale. This demand has been further increased by an increasing number of buy-to-let investors, seeking both higher yields than interest rates currently offer and new alternatives to pension savings. It will be interesting to observe the impacts on this growing market in 2016/17 following the Chancellor's recent moves on mortgage interest relief for residential lettings and the increased stamp duty levy for second and additional homes – will this increase tax revenues or dampen down demand for buy-to-let investments?

The result of these continued uncertainties is that UK interest rates remain at historic lows with the prospect of any increase continuing to get further and further away. This time last year, market commentators were forecasting a rate rise towards the end of 2015; currently most forecasters are now not expecting any change until 2017 at the earliest.

Although the UK economy remains well placed relative to many, it will not be immune to any significant global slowdown. Continued fiscal consolidation, uncertainty surrounding the outcome of the forthcoming EU referendum and the changing dynamic in the buy-to-let market will all add to the uncertainty and challenges we will face.

Closer to home, lower than long term average housing transactions, increased competition, rising appetites for lending from both traditional and new market participants and continued low interest rates have seen pricing for new mortgages reduce significantly, which is likely to continue in 2016. Whilst this is great news for borrowers, as we have said many times before, our role is to balance the competing needs of savers and borrowers, whatever the market conditions. This means that we will continue to set our organic growth plans, as we did in 2015, to attempt to best achieve this balance.

Regulation

The regulatory environment continues to be very busy with the Society facing even more changes.

The Prudential Regulation Authority (PRA) is initiating significant change in the way firms' capital and liquidity requirements are calibrated and measured, largely to align with EU requirements. Also as I highlighted last year, following the overhaul of mortgage lending regulation under the MMR (Mortgage Market Review) in 2014, 2016 brings another overhaul that the Society will be required to meet under the EU Mortgage Credit Directive. I am pleased to report that whilst these changes will require significant focus and work, due to the prudent manner in which we run the Society, the outcomes of these changes are that we remain very strongly capitalised, with high asset quality which is amongst the best in our sector and with very strong and robust liquidity. This strength will enable us to deal with a wide range of market stresses and scenarios in the challenging financial markets that I outlined earlier.

Indeed we already see further regulatory and legislative changes ahead in relation to the taxation of retail savings, impairment provision methodology (IFRS9) and most notably the introduction of the Senior Managers Regime which will require a completely new level of transparency around individual director and senior management responsibility for the safe and secure running of the Society.

Strategy and progress

Notwithstanding the macro-economic situation and the ever changing regulatory environment in which we operate, through a strong focus on the delivery of our strategy, the Society continues to develop and strengthen. As David highlights in his Chief Executive's review on page 6, 2015 has delivered a year of strong performance and record profits for the Group.

The Board remains focussed on developing our unique brand of advice, service, value and choice to an increasing number of customers across our heartland. Our uniqueness is best demonstrated by our continued commitment to branches remaining at the heart of our proposition delivering great service and advice to our members. We also remain the only building society in the UK to offer our mortgage customers whole-of-market mortgage advice. The response from customers to this and the success we have enjoyed in both of these areas in 2015 gives us confidence in the relevance and strength of our strategy for the years ahead.

Indeed despite the current challenging financial markets, we will take advantage of the Society's financial strength and performance by continuing to invest strongly in our proposition for the benefit of our members.

Board

Following a period of personnel change in 2014, the Board has had the benefit of continuity and stability over the past 12 months. Our new Board members have settled into their roles and brought their experience and knowledge in support of the management team to ensure enduring security and protection for the members.

During 2015, the following changes in Board Committees took place. In July 2015, Keith Whitesides stepped down as Chair of the Remuneration Committee and Jane Kibbey succeeded him in the role. Andrew Neden replaced Mary Phibbs as Chair of the Board Audit Committee with effect from March 2015 and Guy Thomas also succeeded me as the Chair of the Risk Committee with effect from November 2015. I would like to thank Keith and Mary for their strong stewardship during their time as Committee Chairs.

One forthcoming change in 2016 is that Mary Phibbs has made the Board aware of her intention not to seek re-election as a director of the Society at the end of her current three year term. Mary has been a strong contributor to the Board over the period of her tenure, including holding the role of Chair of the Board Audit Committee until March 2015. I would like to thank Mary for her wise counsel to me and the Board as a whole, particularly her focus on strengthening the Risk Management of the Society. The process of appointing a new director is already underway.

The Board is united in ensuring that we are fully accountable to the members for the manner in which we exercise our stewardship over the Society, protecting our capital and members' interests. In order to demonstrate this in a clear and unambiguous manner, it has been agreed that rather than seek re-election on a three year term basis, the Chairman and the Chief Executive will, from this year, seek re-election annually. We believe that this will provide members with a transparent opportunity to express their confidence in the management and strategic direction of your Society. This change will be reflected in the AGM 2016 voting forms.

Doing Good Together

As a local mutual organisation, we believe it is very important for us to play our full part in making our communities better places to live.

In 2015, the Board has been delighted by the enthusiasm and commitment of our staff to get involved in a wide range of community based activities.

During 2015 the Nottingham team has raised or donated over £100,000 for local causes who support our themes of homelessness, employability and raising financial awareness. Our staff have walked, run, jumped, painted, cleaned, baked and sung all in support of building stronger communities and the Board is proud to support all of these efforts and achievements. Further details on the Doing Good Together programme can be found within the corporate responsibility report on page 16.

Summary

In this statement, I have highlighted a number of issues, challenges and opportunities the Board will face in 2016.

The global market turmoil at the beginning of 2016 and outcome of the EU referendum is very likely to lead to a low inflation, low interest rate and potentially a low growth economy. The impacts of changes in our dynamic housing market arising from these economic factors and fiscal changes in the buy-to-let and pensions sector and the ever challenging and changing regulatory environment remain unclear.

However, your Society is positioned strongly to face these factors with confidence. Our experience of the past two to three years has reinforced our belief that such uncertainties drive more and more people to seek advice and help from a source that they can trust; particularly a strong local mutually-owned organisation such as The Nottingham Building Society.

We therefore expect to continue our strategy of developing our advice-based services, increasing the footprint of the Society by adding further branches, investing in our infrastructure and technology enablers that will build both our relevance and efficiency. We will seek to do this in such a way that continues to effectively balance the needs of our savings and mortgage customers, whilst supporting the communities in which we operate.

I would once again like to thank all our team members and my colleagues on the Board. Throughout 2015 their enthusiasm and commitment to deliver and develop our unique brand of advice, service, value and choice has been truly impressive.

We are also very grateful to our business partners, intermediaries and suppliers, without whose continued and full support, we would not have achieved our plans and objectives.

John Edwards
Chairman

17 February 2016

Chief Executive's review

David Marlow

In 2015 the Society has continued to focus on the development of our strategy to offer members a unique brand of advice, service, value and choice. It is pleasing to report that our approach is gathering pace, as we have delivered this unique proposition to more customers in more locations across our heartland and in doing so have achieved another year of record performance.

Your Society

In the pursuit of our 'all under one roof' proposition there are a number of elements that differentiate us clearly from banks and other building societies. We have a strong commitment to build and develop our branch network, believing firmly that the high street will continue to play a key role in our increasingly omni-channel world. We remain the only building society to offer our customers whole-of-market mortgage advice, acknowledging that in a complex world we can be more relevant to many more customers by finding the right solution for them, something that a Nottingham mortgage cannot always provide. We also offer a combined home buying, selling, renting and building society service in the majority of our locations; again significantly increasing our relevance to a much broader cross section of customers and we aim to deliver all this with top class customer service. In 2015 we have continued to work hard on these elements and have been delighted with the progress we have achieved.

The branch network is the core of our Society and has increased from 31 locations at the beginning of 2013 to 55 today. As we have invested in the network, it has performed even more strongly. A clear demonstration of this is the way our branches are used by our members for savings. Over the past five years, savings balances based in our branches have grown from £0.93 billion to £1.80 billion at the end of 2015 – a 94% increase and a mark of how our core franchise is growing and strengthening. In fact branch savings balances have grown by 15% in 2015 alone.

This gives us the confidence to grow further the number of branches we have. I reported in 2014 that we opened seven new building society locations and we have continued with this in 2015 adding a further five new branches in Ashbourne, Matlock, St Albans, Harpenden and Wigston. We have been delighted with the reception we have had from our new customers and the performance of all these locations. We are significantly ahead of our business case expectations in our new locations and in less than two years have built balances in excess of £100m. We expect this growth to continue in the years ahead.

In an increasingly complex world we believe it is becoming even more important to offer customers advice and choice from a source they can trust. In 2014 we launched our new whole-of-market mortgage advice service to customers and in 2015 have sought to build on what was a very encouraging start.

Supported by our first TV advert for many years, customers' response to our unique offering has been excellent. Reflecting the attraction of this service, in 2015 the number of people we have provided advice to has increased by almost 80%. In fact for most of the second half of the year our advisers have been working at full capacity, which has required us to bring forward growth plans for the number of advisers we have. In a further demonstration of the effectiveness of our strategy over 50% of customers were referred for mortgage advice by our estate agency.

Although a relatively new aspect of our service, customer satisfaction levels for Nottingham Mortgage Service are the highest in the Group – with a net promoter score of 78%. This level of customer response and advocacy is amongst the highest found across all sectors.

Clearly we are encouraged by such a strong start and will be seeking to take this offering to an increasing number of customers across our heartland in the years ahead.

In addition we have also continued to see more and more customers taking advantage of our estate planning service, financial planning offering and home insurance – all underscoring the focus of our strategy around advice, service, value and choice.

Easier to do business with

One other of our highlighted areas for focus in 2015 was ensuring we become 'easier to do business with'. There are of course many ways for us to further improve our processes and service – but we were particularly pleased to implement two significant enhancements in 2015.

In a world of increasing legislation and regulation surrounding anti-money laundering and know your customer requirements, our customers, both existing and new, had become increasingly frustrated with our extensive requirements for evidencing identification and address verification. We were delighted therefore to introduce an automated electronic ID and verification service across our branch network in 2015, meaning that we can now complete all our verification requirements automatically for at least 80% of all our customers without the need for them to produce paper documents.

Almost all our mortgage lending is received from brokers and until early 2015 all mortgage applications needed to be supported by a barrage of paperwork which was sent to us via the post. We have now introduced a new system for our brokers enabling them to send all documents to us electronically. These documents are then automatically distributed to the appropriate file and case managers in the Society – saving our brokers time and money – whilst also enabling us to process our cases quicker.

Our customer initiatives' working group continues to look at ways, both big and small, to improve our procedures and make us easier to deal with.

Our performance

The strategic report on page 9 covers our 2015 performance in detail, which was another year of records for the Society.

I would however like to highlight the following:

We have continued to grow the assets of the Society, however as stated last year we have moderated this growth somewhat in 2015 reflecting increased mortgage competition, in a market where housing transactions and remortgage demand remained someway below the long term average, but appetite for lending from existing market players and new market entrants saw yields achievable on new mortgage lending fall by approximately 0.35% in the year*. This meant that whilst higher growth would have been achievable, the Board determined that this would have had the undesirable impact of unacceptable reductions in savings rates to customers. It is always part of our challenge to strike the right balance between the competing needs of our savings and mortgage customers, particularly as mortgage rates continue to fall to new record lows.

We believe we struck the appropriate balance in 2015, lending £651m and growing our mortgage book by 3.0%. As in previous years this growth was strongly supported by very high levels of retention of mortgage customers coming to the end of their fixed rate or promotional period, maintaining our excellent record of retaining two out of every three customers.

It is crucial that we run the Society in an efficient and robust manner and naturally as the Society has grown markedly over recent years costs have risen too. It is particularly pleasing therefore to report in 2015 our total Group management expenses remained flat at £36.9m. In real terms they have actually reduced - this is particularly impressive when viewed in the context of a society increasing the number of branches it operates. This reflects our strong management focus and reward for our long term investment in the business to make us scalable at lower marginal cost. Our cost income ratios were broadly flat with the Group at 64.6% and the Society below the 60% mark at 59.8% - this compares favourably with the UK major banks despite our much smaller scale.

Overall this enabled us to deliver a strong performance in 2015. Supported by a good contribution from both our estate agency and mortgage advice subsidiaries, profit before tax rose 15% to reach £20.0m – a new record for the Society.

Quality and strength

Whilst strong annual performance is crucial to our on-going success it is vitally important that the Society has strong financial foundations and lends its members' money prudently, minimising losses.

In July, Moody's credit rating agency undertook an in-depth review of the UK banking sector whilst introducing their new enhanced rating methodology. Following this review, The Nottingham was one of only three rated institutions to receive a credit rating upgrade. This review highlighted the high quality asset metrics and extremely low level of problem loans relative to its peers. The sustainable franchise and business model as well as strength of the Society's funding profile were also noted.

Overall financial strength is most clearly highlighted by our leverage ratio which at 4.8% is 1.8% higher than the minimum requirement, that our loan book is almost entirely funded by our retail deposits and that as at the end of the year out of a total mortgage book of £2.8 billion and over 23,000 mortgage accounts, only 51 accounts were three months or more in arrears, a further reduction from our excellent performance the previous year with only 0.22% of accounts in arrears at the end of 2015.

*Market Monitoring

Serving our growing membership

As a member-owned organisation the manner in which we deliver service to our owners and attract new members to the Society is crucial.

We therefore place an enormous emphasis on delivering great service across the organisation. It is very pleasing to report that this has continued in 2015. In 2014 we saw an increase in customers rating us as excellent or better rise to 68%. We are delighted therefore to report that this has increased again in 2015 to 72% – a great improvement. Our net promoter score which enables us to compare directly our service levels with a range of different companies and sectors across the world measuring customer advocacy levels also increased and for 2015 our net promoter score stood at 74.2% – this places us amongst the very best companies across all sectors. In fact the average net promoter score for all financial services firms in the year is 30%.

An important element of our strategy to increase the number of branches and broaden our footprint is to attract new customers and members to the Group ensuring that we have a growing and vibrant membership. We were delighted therefore to welcome approximately 24,000 new customers to the Group in 2015 building on the progress of recent years. It is also encouraging to note that our efforts to increase our relevance through our unique proposition and raise the level of awareness of The Nottingham is gaining momentum. Our work alongside a wide range of groups and organisations including Nottingham Forest FC, Leicester Tigers, UK Tennis, UK Archery and Leicester City FC is really beginning to show benefits.

> "We delivered a strong performance in 2015 with profit before tax rising 15% to reach £20.0m – a new record for the Group."

Summary and outlook

We have been very pleased with our continued progress in 2015 and remain committed to our further development. As highlighted in both the Chairman's and my statement, the Society is expecting to operate in an uncertain and challenging environment over the next year or so.

Market turmoil, low growth, low inflation and low interest rates, against a backdrop of increasing lending capacity in the economy, has benefitted borrowers with ever decreasing mortgage interest costs. Whilst the Society is able to compete actively in this market we must also ensure that we strike an appropriate and fair balance with our savers in light of these conditions. During 2015 the Society has changed its view of the trading and economic conditions ahead and adjusted our financial plans accordingly.

In order to continue to grow our balance sheet in a prudent manner, we expect our income profile over the next three years to be slightly down – this will inevitably lead to lower levels of profitability than we have achieved in recent record years. However our strong financial platform and forecast performance means we will be able to continue delivering our strategy of investing in our member and customer proposition, whilst maintaining our financial strength.

Chief Executive's review (continued)

We therefore expect to:

- Continue to increase the number of locations we offer our 'all under one roof' proposition across our heartland.
- Continue to focus on how we can be easier to deal with. For example, we are currently piloting the provision of advice by video conferencing. Initially this will enable us to provide greater availability of advice in more branches and locations than we are currently able to.
- Continue to develop our infrastructure and technology to support the efficient delivery of our unique proposition – this will include continuing work on how we can utilise the benefits of the digital age to make us more accessible to our members.
- Develop our advice proposition further. Encouraged by the enthusiastic response from customers for whole-of-market mortgage advice, we expect to increase our capacity to meet this demand.
- Continue to find different ways to raise the profile and awareness of the Society, making more local people aware of our unique offering and demonstrating how as a successful local mutual organisation we are committed to playing our part in strengthening the communities in which we operate.

I am very proud to lead our team and the Society as we continue to strengthen and develop our unique proposition of advice, service, value and choice.

Our achievements have been made possible by the superb commitment and enthusiasm of our team members right across the whole Society who strive hard to ensure they serve customers in the manner in which they would wish to be served themselves.

Finally a big thank you to our loyal members who continue to place their trust and confidence in us to help them achieve their financial ambitions.

David Marlow
Chief Executive

17 February 2016

Strategic report

Ashraf Piranie

Business model and Group strategy

The Nottingham is now the UK's ninth largest building society with £3.3 billion of assets and a regional presence extending across nine counties and 55 branches, with a strong concentration throughout the East Midlands.

The essence of a successful building society is to provide a safe and secure home for members' savings and to use these funds to provide mortgages to members to purchase their homes. This places us in the pivotal position of balancing the conflicting needs of both sets of members; striving to find the optimal point between offering good value to savers and competitive rates to borrowers.

The Nottingham's Board believes it is our duty to ensure that our members are positioned strongly to manage their own financial affairs and plan for their futures. We believe 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 in recent years we have been developing our proposition to offer our customers expert whole-of-market mortgage and financial planning advice. Banks and major providers continue to restrict availability of this type of service to their wealthiest high net worth customers. Our unique mutual business model means that we can make this available to all our members and act in their best interests – a clear differentiator from the big banks.

In addition to our traditional building society offering and expert whole-of-market advice services, we also offer a range of home buying, selling, letting and legal services through our integrated building society and estate agency branch network. This 'all under one roof' proposition providing support, advice and help for all our customers' home related financial needs is an increasingly popular concept. This popularity has enabled us to extend our offer confidently to many more High Streets across our heartland trading area – the number of branch locations are in fact up 62% since the beginning of 2013 .

As a service– and advice-led provider of mortgages, savings, financial planning, legal and home buying services we see branches remaining as a core element of our offering. Whilst digital services will continue to become increasingly popular and relevant, we believe our target market will be attracted by a strong combination of both high street presence and digital accessibility and convenience. We will continue with our strategy to grow and develop in both these areas in the years to come.

Group structure and brands

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, Wren Sterling (formerly Towergate Financial (East).)

Principal risks and uncertainties

In common with other financial institutions, the nature of our business results in a number of inherent risks which are continuously monitored and managed by the Board. These inherent risks and how the Board manage them are considered in the risk management report on page 23 to 26.

Whilst we are a low-risk organisation, we inevitably face challenges that pose strategic risks to the delivery of our planned objectives. We continue to operate in an uncertain global environment and continued historically low interest rate environment which produces challenges for the mutual building society model. The following outlines our principal risks and uncertainties.

Core mortgage lending yield

Margin earned on core mortgage lending products may be reduced through increasing lending capacity and appetite in an already highly competitive marketplace. This constraining factor will be exacerbated if interest rates remain at a lower level for longer as it cannot be mitigated by a higher return on our free capital. The Society has clear risk-adjusted return thresholds which have to be met, and will adjust its growth plans to ensure it continues to deliver a long term sustainable return on its lending whilst delivering good value, relative to the market conditions, to savers.

Funding for Lending

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 through the availability of high levels of inexpensive funding. This has resulted in a reduction in new business market rates for both mortgages and savings. A further extension of FLS by HM Treasury in 2015 has lengthened the period this stimulus is available and therefore the impact it will have on both these markets. However there are forward looking risks in terms of how the market will adjust as this stimulus is removed. The continuing uncertainty surrounding these risks and impacts will need to be managed closely by the Society.

Housing market

The Group's business model has very close links to the housing market and therefore a downturn in the UK economy accompanied by challenging housing market conditions would have an adverse impact on the Group's performance.

The UK regulatory authorities continue to remain concerned over the significant growth in the buy-to-let market and the potential future risks this may bring. Following the Chancellor's summer budget where a number of changes to the reliefs available to buy-to-let investors were proposed, the autumn budget included changes to stamp duty which will have an impact in the same area. These changes will result in uncertainty in the buy-to-let sector of the market and potential knock on impacts to the overall housing market. The Society has already reduced its appetite for lending in the buy-to-let market in response to these uncertainties.

The Board actively monitors performance of the estate agency and lending activity and is well positioned to respond effectively to any impact, volatility or downturn in the market.

Global market volatility

Volatility has been experienced in the global equity and commodities market in the first two months of 2016 and the Eurozone continues to remain fragile with ongoing political tensions and social unrest arising from continued austerity measures and the refugee crisis. Overarching all of these factors in 2016 will be the UK's referendum on our future membership of the European community. The outcome of the referendum remains highly uncertain and furthermore it is very difficult to accurately assess the impact a vote to exit the community may have on a range of UK macro economic factors, both in the short and longer term. Although the Group has no direct exposure to any Eurozone countries and minimal exposure at global level, the contagion or ripple risks to the domestic economy and consumer confidence could be significant and would require the Group to respond effectively.

Retail lending impairments

The level of retail lending impairments has continued to remain benign with the number of arrears cases falling again from prior years. Although arrears are expected to continue to be 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 regularly conducts stress testing on the mortgage book to gauge possible impacts of higher interest rate costs on our borrowers and are confident that our customers are well placed to manage these rising costs.

Whole-of-market mortgage advice service

The Group launched a whole-of-market mortgage advice service for its customers in 2014 leveraging the experience in this area gained over a number of years through its broking service Nottingham Mortgage Services. The Group has strong governance and resources in place to ensure fair customer outcomes in the provision of this service. Whilst it is clear that the service is very popular and well regarded by our customers, the Board continues to monitor a range of risks arising such as the risk of lower sales of its own mortgage products, which is mitigated by a strong link with intermediaries and the quality of the advice we provide where we are supported through our relationship with Intrinsic Mortgage Planning Limited. This initiative also provides the Society with a clear picture of the factors and drivers within the UK mortgage market overall including any potential emerging risks.

Cyber risk

There have been a number of high profile cases of cyber attack in recent months which have had significant impacts on a number of large and high profile organisations in the UK. The regulatory authorities also continue to remind financial services organisations of the constant need to remain vigilant in this area. Whilst no organisation can give cast iron guarantees that they will not be subject to an attack, guarding against potential cyber attacks remains a key focus for Society management. We therefore strive to ensure that the Society keeps pace with market trends in the prevention and detection of any potential attacks, in order to safeguard the business and protect its members' data and savings. This vigilance will need to be ongoing and a permanent feature of our risk management.

Business performance

The Chief Executive's review includes a summary of factors affecting our performance in 2015 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 is pleased with the overall performance of the Group in the context of its strategic objectives as detailed below.

Strategic objective	Key Performance Indicator	2015 performance		Achieved
Capital	Maintain an excess over regulatory requirements	CET1 ratio:	15.3%	✔
		Tier 1 ratio:	16.7%	✔
	Retain a top quartile leverage ratio	Leverage ratio:	4.8%	✔
Profit	Ensure profit after tax ratio supports the capital objective for any given growth plan and investment in the business	PAT ratio:	0.47%	✔
		Interest margin:	1.46%	✔
Sustainability	Deliver strong efficiency ratio taking into account the scale of the Society	Cost income ratio:	59.8%	✔
		Manex ratio:	0.90%	✔
	Maintain strong asset quality with arrears levels in industry upper quartile	Arrears ratio:	0.22%	✔
Customer	To look after our member interests offering good value products and services	Net promoter score:	74.2%	✔
	To be seen as a leading source of expert advice	Customer satisfaction:	72%	✔

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Underlying profit before tax	**20.2**	**19.0**	**20.1**	**19.2**
FSCS costs	(1.4)	(1.8)	(1.4)	(1.8)
Gains from derivative financial instruments	1.2	0.2	1.2	0.2
Reported profit before tax	**20.0**	**17.4**	**19.9**	**17.6**

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 reflect underlying business performance and therefore underlying profit is also used to measure performance. Underlying profit before tax equates to reported results, adjusted to exclude charges in respect of the Financial Services Compensation Scheme (FSCS) and fair value gains or losses from derivatives and hedge accounting. The comparative periods are disclosed on a similar basis.

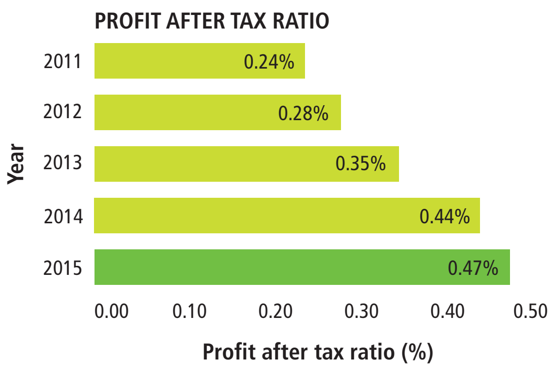
2015 Financial review and key performance indicators

The section below provides a summary of the performance of the Group in the context of its strategic objectives including details of the Group's Key Performance Indicators used to monitor performance.

Underlying profit and profit after tax ratio

The Group's underlying profit before tax increased by 6% to £20.2m in 2015 driven by a reduction in depreciation, down 15% to £3.3m, and lower loan impairment and other provision charges of £0.2m, a reduction of £2.3m from 2014.

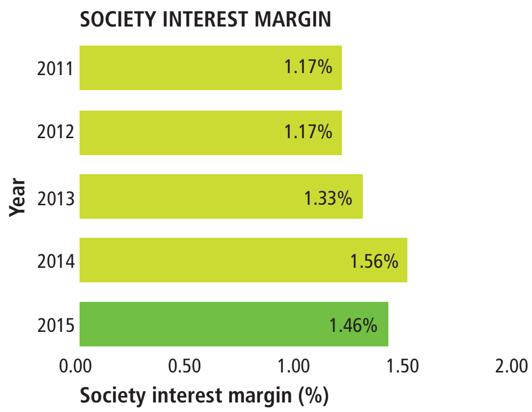
The strong underlying profit performance manifested itself in reported results with profit before tax up 15.1% to £20.0m, a record for the Group.



The profit after tax ratio has increased by 3 basis points from 0.44% to 0.47%. This improvement in the profit ratio reflects a relative reduction in the Group's cost base, lower impairment charges, increased gain from derivative financial instruments which more than offset a reduction in the Group's total income. The performance for 2015, in terms of profit ratio, is close to the current Board appetite, and is expected to reduce alongside the net interest margin over the coming years.

Net interest income

Net interest income reduced by £0.9m in the year to £48.0m representing a reduction in our net interest margin which reduced by 10 basis points to 1.46%. A reduction in our asset yield was partly offset by lower cost of funding.



The reduction in the asset yield reflects a reduction in mortgage rates due to the highly competitive mortgage market. This has to some extent been offset by the continued fall in retail savings rates across the industry. However, our branch retail savings rates continue to be competitively positioned in the market as we try to protect our members from the low interest rate environment. In fact our average savings rate in 2015 was 1.57%, more than three times bank base rate.

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.

Fee income

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

	2015 £m	2014 £m
Building society	2.7	2.9
Estate agency	6.2	7.1
Mortgage broking	1.0	0.7
Total	**9.9**	**10.7**

The overall fee income for the Society has fallen by 7% to £2.7m. This is predominantly a result of the intense competition in the mortgage market which has seen mortgage arrangement fees fall or disappear altogether on new mortgage lending. Third party estate planning income, through provision of wills, financial planning and protection products has continued to perform strongly with income up 10% from last year.

Income from the estate agency business has reduced by 13% to £6.2m, driven by the downturn in the housing market which has seen the supply of homes for sale at its lowest level since records began 37 years ago[1].

The success of the Group's whole-of-market mortgage advice proposition continues with income up by 43% to £1.0m in the year.

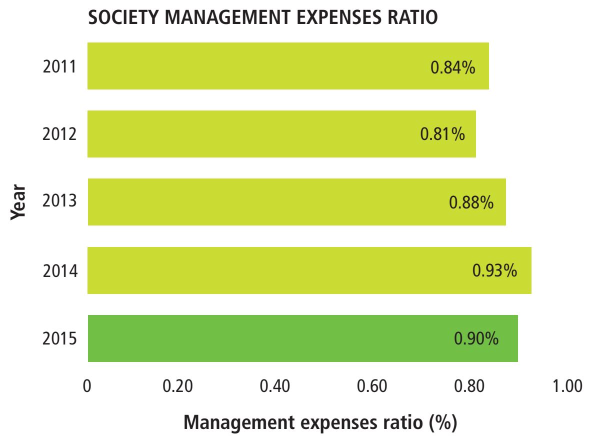
Derivatives

The Society uses derivative instruments to manage exposure to changes in interest rates 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 chose to sell the derivatives before they reach maturity. The Society has no need or intention to sell these derivatives and so expects the £1.2m 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

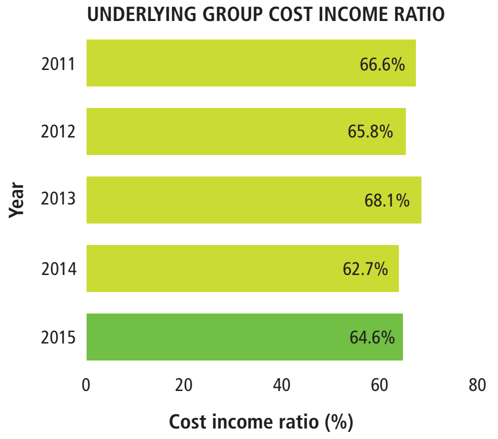
The Group's management expenses remained flat at £36.9m, a reduction in real terms, as the Group was able to deliver cost efficiencies in a number of areas including the emerging benefits from its unique combined location operating model. The Group's management expense ratio fell by 8 basis points from 1.20% to 1.12%.

The Society's management expenses ratio reduced from 0.93% to 0.90%, as management were able to control cost increases effectively in the year.

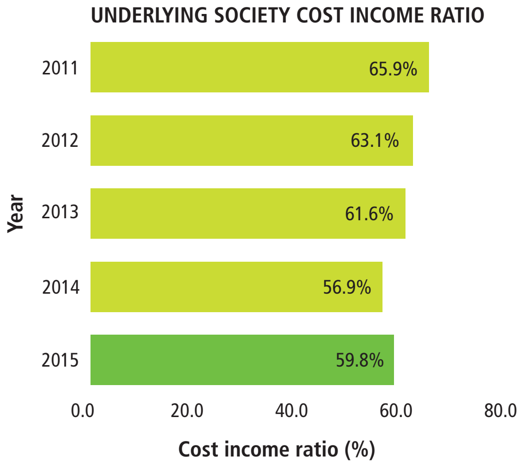


The reduction in the Society's management expenses ratio has been delivered despite the increasing cost of regulation and on-going costs associated with opening new branch locations.

The Group's cost income ratio incorporates the benefits of the Group's strategy to operate combined building society and estate agency locations. As a result of reduced income in the year, the cost income ratio has increased slightly to 64.6%. The increase has been limited through the Group's ability to hold costs flat despite increasing the number of locations from which it now operates.

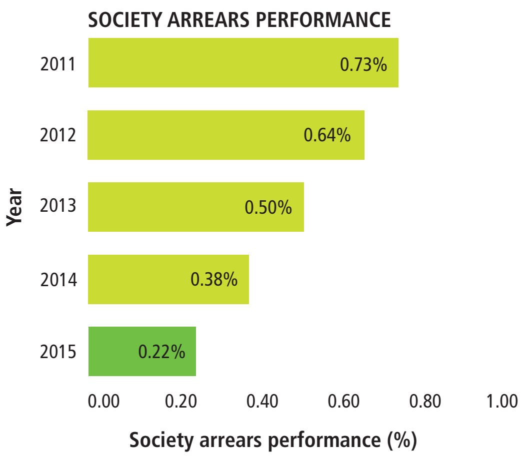


At the Society level the cost income ratio has remained below 60% at 59.8%. As with the Group ratio, the reduction in income has been partially offset by the delivery of cost efficiencies.



Impairment and provisions

The Society's arrears ratio measures the number of loans three months and more in arrears as a percentage of the total loan book.



[1] Royal Institute of Chartered Surveyors – June 2015

The Society's arrears ratio has continued the reducing trend, with the ratio at the end of 2015 at 0.22%, at less than a quarter of the industry average.

The reduction in the arrears ratio is reflective of the economic environment with continued low mortgage rates assisting customer repayment obligations coupled with low levels of unemployment and growth in household incomes. However it also reflects our low risk business model and prudent underwriting approach. 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 £4.5m (£4.8m in 2014), this equates to 0.16% of the total book. The lower impairment charge for the year of £0.2m reflects the impact of reducing arrears and positive house price inflation seen over the last few years.

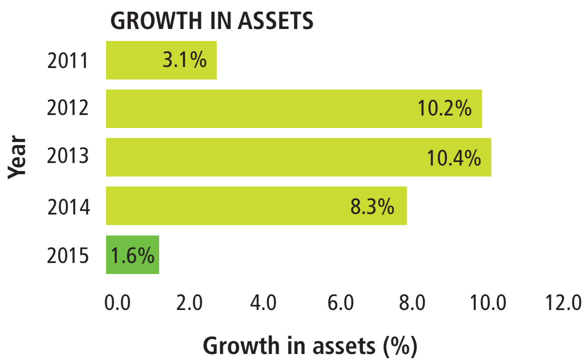
In common with all other UK regulated deposit takers the Society is required to pay levies under the Financial Services Compensation Scheme (FSCS) and has made provisions for the costs. For 2015 the FSCS levy covering both the interest and capital elements totalled £1.4m, a slight reduction from 2014.

Assets

The Group balance sheet increased by 1.6% in the year to £3.32bn, a record for the Society.

The growth was driven by a 3% increase to our residential mortgage book, partly offset by a reduction in on-balance sheet liquidity.

Liquid assets



The Society maintains a prudent level of liquid resources, of an appropriate level and quality, to meet its financial obligations as they fall due under normal and stressed conditions.

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 secured against approved mortgage portfolios. In time of a stress the Group is able to exchange these assets for cash.

The Group's liquidity is made up as follows:

	2015	2014
	£m	£m
Bank of England	366.6	311.4
Multilateral Development Banks	15.7	26.4
UK Gilts & T'Bills	32.6	40.9
Certificate of deposit	15.1	33.3
Floating rate notes	33.5	54.5
Fixed rate notes	5.4	10.7
Other	22.7	33.5
Total	**491.6**	**510.7**

By holding liquid resources of the highest quality which can be turned readily into cash, termed 'buffer' assets, the Group is able to reduce the total amount of on-balance sheet liquidity it holds. During the year, as planned, the Group further reduced the level of on-balance sheet liquidity but continued to maintain a level in excess of the regulatory minimum. The ratio of liquid assets to shares and deposits reduced to 16.0% compared to 16.8% at the end of 2014.

The Society also has access to the Bank of England's contingent liquidity facilities including the Funding for Lending Scheme (FLS). At the end of the year the Society had drawn down £482m (2014: £442m). When taking into account both on- and off-balance sheet liquidity, total liquidity was 24.9% (2014: 28.3%).

Under CRD IV, two new measures of liquidity were introduced, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The final requirements for the NSFR are still to be finalised, but the Society is currently in excess of the minimum levels required for both measures, with the LCR at the end of year being 159%.

Mortgages

Total mortgages balances increased by 3.0% during the year to £2,792.2m. Gross lending totalled £651m, of which £492m related to prime residential lending and £155m 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, excluding buy-to-let, account for 74% of the total lending book.

	2015	2014
	£m	£m
Residential	2,719.7	2,635.1
SBL	72.5	76.0
Total	**2,792.2**	**2,711.1**

The Secured Business Lending (SBL) book reduced to £72.5m.

Residential mortgage lending is primarily focused in the 60% to 80% LTV category but performance continues to be underpinned by the low interest rate environment and levels of House Price Inflation (HPI). The Society's LTV reduced from 56% to 54% during the year.

	2015	2014
	%	%
<60%	37.0	26.7
60% - 80%	53.6	60.8
80% - 90%	9.0	11.9
>90%	0.4	0.6

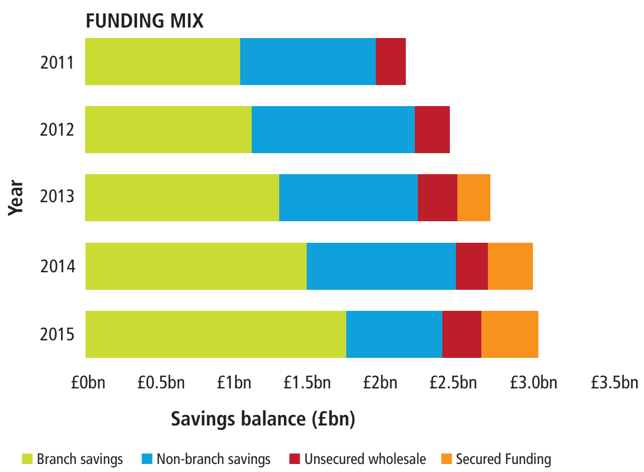
Geographic distribution continues to remain focused in two broad areas, our heartland of the East Midlands/Yorkshire and London/South East.

	2015	2014
	%	%
Heartland	33.0	32.2
London & South East	23.6	26.1
North	13.4	11.6
Eastern	10.3	10.7
West Midlands	9.5	8.8
South West	7.5	7.7
Other	2.7	2.9

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

We have continued to see inflows into our branch based retail accounts with branch balances having increased by £241m to £1.80bn by the end of the year. Branch balances now represent over 70% of total retail balances and provides further support of the Group's combined operating model. It also 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.

Overall retail savings have reduced by £142m to £2.43bn as we have looked to utilise the benefits of the Funding for Lending Scheme. As planned our wholesale funding ratio has increased from 15.1% to 20.9%.

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 2015 we have maintained our industry leading levels of satisfaction, with 72% of our customers rating us as excellent or good, an increase from 68.5% in 2014.

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, which results in a net percentage of our customers who would recommend the Society's products and services.

The Society's net promoter score also saw an improvement, increasing to 74.2% compared to 67.5% in 2014.

Capital

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

Common Equity Tier 1 (CET1) capital is the strongest form of capital and comprises the Society's general reserves. During the year CET1 resources increased by £8.6m driven by the strong profit performance of the Society, offset by a change in classification of qualifying holdings for our subsidiary investments. This resulted in a CET1 ratio of 15.3%.

The CET 1 ratio has also been impacted by an increase in risk weighted assets, primarily driven by the growth in mortgage assets.

The table opposite 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 remained broadly consistent at 16.7%.

Leverage ratio, which is calculated as Tier 1 capital divided by total balance sheet exposure, has fallen slightly in the year to 4.8%. The strong Society profit performance has been offset by an increase in assets and change in classification of qualifying holdings.

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

	2015 Society Transitional CRD IV £m	2014 Society Transitional CRD IV £m
COMMON EQUITY TIER 1 CAPITAL		
General reserves	193.5	178.0
Available for sale reserve	0.2	0.4
Regulatory adjustments and deductions	(12.7)	(6.2)
TOTAL COMMON EQUITY TIER 1 CAPITAL	**181.0**	**172.2**
ADDITIONAL TIER 1 CAPITAL		
Permanent Interest Bearing Shares	16.7	19.1
TOTAL ADDITIONAL TIER 1 CAPITAL	**16.7**	**19.1**
TIER 2 CAPITAL		
Collective provision	2.2	1.7
TOTAL TIER 2 CAPITAL	**2.2**	**1.7**
TOTAL REGULATORY CAPITAL	**199.9**	**193.0**
RISK WEIGHTED ASSETS	1,184.9	1,138.4
CAPITAL RATIOS		
Common Equity Tier 1 (CET 1) ratio	15.3%	15.1%
Total Tier 1 ratio	16.7%	16.8%
Leverage ratio – final rules	4.8%	4.9%
Leverage ratio – transitional rules	5.2%	5.4%

Ashraf Piranie
Deputy CEO and Finance Director

17 February 2016

Corporate responsibility report

Doing good together

Supporting our communities is at the heart of what we do at The Nottingham and 2015 has been no exception. We have continued to make a positive difference to charities and good causes throughout our trading area.

It was five years ago that we launched our community programme, Doing Good Together, and it has continued to go from strength to strength in 2015.

Key highlights this year have included:

- Staff from The Nottingham clocked up almost 500 voluntary hours to help local community projects, covering everything from community garden makeovers to helping out at local charity shops.

500 voluntary hours given by staff to support local community projects

Carlton Hill branch's garden makeover saw the whole community come together

- Support for our charity partner, Framework, has included Do it for Framework Day and the flagship Big Sleep Out, helping the charity raise £40,000 to provide a lifeline to people wanting to move away from homelessness forever.

framework
opening doors to homeless and vulnerable people

Team Nottingham were part of a 200-strong contingent that slept out for homelessness charity Framework

- In 2015 we doubled our support of aspiring professional athletes through the SportsAid programme, taking the number to 50. Covering 28 sports and aged between 12 and 36, a number have seen international success - with a few aspiring to Rio Olympics in 2016. Fundraising for athletes has also continued with staff raising £15,000 to help with the cost of equipment, training and travel to competitions.

James Shaw (19) from Ruddington is one of just 50 athletes to benefit from our funding through SportsAid

Local fundraising has also continued to develop this year and branch teams have raised over £10,000 for local charities and causes. These have included St Andrews Hospice in Cleethorpes, Melton Mencap and Trussell Trust Food Banks across the region. The Nottingham has also been official supporters of Macmillan Coffee Morning, Comic Relief and Children in Need.

Throughout the year we have given 25 Grants for Good to help support everything from CV writing workshops and debt advice services to homeless shelters to help local communities prosper.

Over £65,000 raised for charity partners and local causes

In 2015 we have also been pleased to begin our support of Young Enterprise, which provides students with the opportunity to learn and experience what it is like to run their own company for a year. Our local sponsorship has enabled ten schools in our heartland to benefit from the programme, whilst giving a number of Nottingham staff the opportunity to provide coaching and mentoring to students, forming part of their own development. The Company Programme and the Learn to Earn sessions teach students about earning and budgeting and different routes into employment as well as providing employability skills.

GLOW from Nottingham Academy were one of ten schools to be supported through our partnership with charity Young Enterprise

To find out more about our sponsorship and community events visit our website at **www.thenottingham.com**.

Our people

Our colleagues play a vital role in our success and we continue to focus on recruiting and retaining the best talent.

People strategy

Our people strategy supports the delivery of the Society's strategic ambitions and the key elements are:

Recruiting the best people with the skills and abilities to deliver for our organisation. 2015 has been a busy year for recruitment with 193 new recruits joining the Group. Focus has been on sourcing talented individuals directly in a timely and cost efficient manner, with 85% of roles in Society and head office office functions filled through direct or internal channels. This has been supported further by the introduction of an early careers strategy which has seen eight apprentices join the Society on an 18 month programme.

Establishing and supporting our people in their first two years through clearly structured development pathways which enable them to grow and contribute effectively. Insight, the Group induction programme, has been updated to reflect our evolving business to enable new joiners to have the best possible start to their career with us.

Developing our people through their career with us by providing tailored support and development specific to their role. During 2015, we were delighted to be involved with the Building Societies Association and Loughborough University in setting up a Masters programme geared specifically for those who work in a customer-owned/ mutual financial services firm. One of our aspiring leaders is part of the first cohort of 26. We have invested in a high potential programme for three talented individuals involving development projects, an external leadership programme, mentoring by the Executive Directors and ono-to-one coaching. The programme has resulted in promotions for two of the participants. In the Estate Agency division we have launched the Moving on Up management development programme and supported our colleagues to gain Estate Agency NAEA professional qualifications.

Inspiring and motivating our people by engaging and involving them with our business plan and purpose, leading them to deliver excellent performance and seeking feedback on how we can improve. In 2015, we launched a new approach to the employee opinion survey which enables us to benchmark against industy peers. We are pleased to report that the survey achieved a response rate of 86% and the engagement index was 83% compared to the financial services benchmark of 72%.

Rewarding and recognising employee performance through a strategy that identifies a number of measures of success that we believe are critical to The Nottingham and the achievement of our vision. All of our variable pay schemes contain a modular approach from Executive level downwards and recognise individual and team contribution against our business objectives while also driving the relevant desired behaviours. The Executive hosted our inaugural annual loyalty awards lunch in the summer for 15 colleagues to celebrate their 25 or 40 years service. In addition in 2015, we held two Golden Arrows recognition events for 50 individuals who have gone above and beyond their day job and are nominated by their colleagues.

Environment

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. The Society recognises that improving its management of energy, use of paper and digital expansion offers environmental benefits as well as improvements to the customer experience.

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 executive 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 was the senior independent non-executive director of the LV Group and Chairman of their Investment Committee until September 2015.

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 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 a Justice of the Peace in Nottinghamshire, was national Commissioner for Racial Equality and a Council member of The University of Nottingham. He is Chairman of the Society's Pension Scheme Trustees.

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 in the financial services industry. Before joining The Nottingham, David held a number of senior posts in retail banking at Alliance & Leicester Plc, including Director of Current Accounts & Savings and Managing Director Alliance & Leicester Direct. 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. Ashraf is also a member of the PRA Practitioner Panel.

Simon Taylor*

ACIB, MBA

Chief Operating Officer

Simon joined the Board in February 2011 and is responsible for Customer Service, Distribution, the Branch Network, Estate Agency, 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 a number of senior roles within Lloyds Banking Group.

Guy Thomas

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

Guy joined the board in 2014. He is a qualified accountant 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. Prior to that he was Finance Director at three different building societies.

Board Committees

Audit

Andrew Neden - Chairman
Jane Kibbey
Guy Thomas

Nominations

John Edwards – Chairman
David Marlow
Keith Whitesides

Remuneration

Jane Kibbey – Chairman
John Edwards
Guy Thomas

Risk

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

* Executive Director

**Senior Independent Director

Directors' report

The Directors' report should be read in conjunction with the Chairman's statement, Chief Executive's review and Strategic report on pages 4 to 15.

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 Strategic report on pages 9 to 15.

Business review, future developments and key performance indicators

The Group's business activities and future plans are reviewed in the Strategic report section of the Annual Report and Accounts on pages 9 to 15. Additionally within the Strategic report, we comment upon the financial (and other) key performance indicators used by the Board during the year to assist its control, direction and drive for business results.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group are outlined on page 9 and our approach to managing can be found in the Risk management report on pages 23 to 26.

Financial risk management objectives and policies

As a result of its normal business activities, the Group is exposed to a variety of risks, including credit, market and liquidity. The Group's objective is to minimise the impact of these risks as well as financial risk upon its performance. The risk management report on pages 23 to 26 considers this in detail. A further explanation of the financial risks and the controls in place to manage them (including the use of derivatives) is given in note 28 to the annual accounts.

Results

Group reported profit before tax for the year was £20.0 million (2014: £17.4 million). The Group profit after tax for the year transferred to general reserves was £15.4 million (2014: £13.9 million.) As at 31 December 2015, total Group reserves and equity were £192.5 million (2014: £177.1 million).

Capital

Group gross capital at 31 December 2015 was £218.7 million, (2014: £203.7 million) being 7.11% (2014: 6.72%) of total shares and borrowings. Free capital, at the same date, amounted to £199.6 million (2014: £183.7 million) and 6.49% (2014: 6.06%) of total shares and borrowings.

The annual business statement on page 91 gives the explanation of these ratios. The directors remain committed to maintaining a strong capital position.

Loans and advances

During 2015, total lending was £651 million (2014: £706 million) and the average advance made was £154,485 (2014: £160,319), with the average debt at the end of the year being £119,711 (2014: £116,808).

At 31 December 2015 there were 7 cases (2014: 9 cases) of properties being 12 or more months in arrears or in possession. The total amount of balances outstanding in those cases was £441,799 (0.02% of the total mortgage book), with arrears of £76,245.

Mortgage losses of £0.6 million were realised during the year from existing provisions. Provisions for potential mortgage losses total £4.5 million, (0.16% 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 31 December 2015 the Group had 163 loans (2014: 166) subject to some form of forbearance. Note 28 to the accounts on page 80 provides further details.

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 2015 by the Group's professional services team, indicates that market value is £0.8 million (2014: £1.7 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 2015, the total amount owed to suppliers was equivalent to 10 days' credit (2014: 7 days.)

Charitable and political donations

During the year the Group made charitable donations of £106,000 (2014: £77,000). No contributions were made for political purposes.

Country-by-country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 came into effect on 1 January 2014 and place certain reporting obligations on financial institutions within scope of the Capital Requirements Directive (CRD IV).

The nature of the activities of the Society are set out under business objectives of this report and for each of the Society's subsidiaries in note 15 to the accounts. All of the activities of the Society and its subsidiaries are conducted in the United Kingdom and therefore 100% of the total income, profit before tax and tax shown in the Income Statement as well as employee figures disclosed in note 7 are related to the United Kingdom. The Society and its subsidiaries have not received any public subsidies.

Environmental policy

The environmental policy is set out in the corporate responsibility report on page 17.

Our people

Recruiting and retaining the best talent is key to delivering the Society's vision and is reflected in the Society's people strategy, as outlined in the corporate responsibility report on page 17.

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.

Finally, as reported on page 16, our Doing Good Together initiative continued to flourish during 2015 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 in accordance with International Accounting Standard 8: Accounting Polices, Changes in Accounting Estimates and Errors and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- 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.

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 Regulation 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.

Directors' statement pursuant to the UK Corporate Governance Code

As required by the UK Corporate Governance Code, the directors confirm their opinion that the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for members to assess the performance, strategy and business model of the Society. Details of the governance procedures which have been implemented to support this can be found in the Audit committee report on page 32.

Going concern and viability

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 pages 9 and 10 and pages 23 to 26, 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 8. In addition, note 28 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.

Viability statement

In accordance with the 2014 revision of the Corporate Governance Code, the Board have also assessed the prospects of the Society over a period longer than the 12 months required by the going concern provision. The Board has conducted this review for a period of four years, which has been selected to align it to the Group's corporate planning period.

The four year corporate plan considers the Group's profitability, cash flows, liquidity and capital requirements as well as other key financial ratios over the period. These ratios are subject to sensitivity analysis and stress testing, which involves varying a number of the main assumptions underlying the forecast both individually and in unison. Where appropriate, this stress testing is carried out to evaluate the potential impact of the Group's principal risks, as outlined on pages 9 to 10 of the Strategic report and the risk management report on pages 23 to 26, actually occurring. Based on the reviews completed, the Board considers that the Society is viable over the medium term.

Directors

The names of the directors of the Society who served during the year and up to the date of signing the accounts, their roles and membership of Board committees are detailed in the governance section on pages 18 to 19. 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 2015.

In accordance with the agreement made by the Board and in line with the rules for re-election outlined on page 28, John Edwards, David Marlow, Jane Kibbey, Simon Taylor and Keith Whitesides will all stand for re-election at the 2016 AGM. Mary Phibbs is retiring at the end of the AGM and will not seek re-election.

Auditor

A resolution to reappoint Ernst & Young LLP as auditors of the Society will be proposed at the Annual General Meeting.

On behalf of the Board of directors,

John Edwards
Chairman

17 February 2016

Risk management report

For the year ended 31 December 2015

The Society recognises risk as a natural consequence of its business activities and environment. It endeavours through positive risk strategies, to manage these in a manner that ensures delivery of its strategic objectives and business plan, 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.

To ensure the Group's risk management framework continues to deliver effectively, the Board commissioned a comprehensive review of its governance and risk management framework during the year. The goal of the review was to ensure the Society had robust and scalable governance and risk management processes to enable delivery of its long term strategy for growth.

The scope of the review included a revised risk management framework containing the following key elements:

- A revised governance framework;
- Updated major categories of risk faced by the Society;
- Review, standardisation and alignment of all risk management and Board level policy and appetite documentation;
- A revised risk management committee structure with standardised terms of reference; and
- Standardised reporting of risk profile against appetite through management and Board Risk committees.

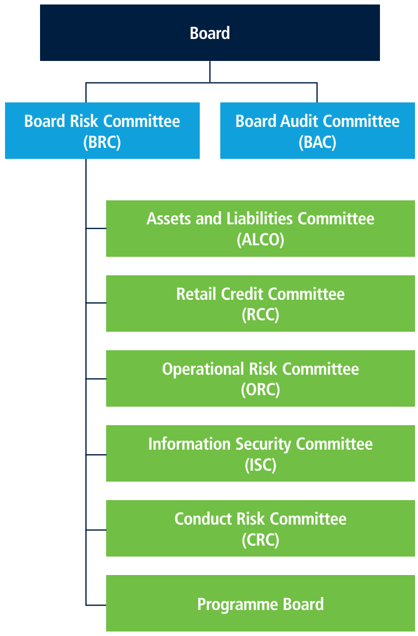
The new framework is expected to be fully operational during 2016. As such this report focuses on the risk management framework that was in operation during 2015.

The Board Risk Framework

The Board Risk Committee is an integral part of the Group's formal structure, assisting the Board in overseeing all aspects of risk management. It reviews regularly 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 29) 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 above) 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 reviews regularly risk management activities to ensure focus on managing not only existing risks but also identifying emerging risk areas such as the impact to the buy-to-let market following recent Government reforms and the impact of integrating new business streams into the Group.

The scope of the Board Risk Committee extends to all types of risk faced by the Group with the management of certain risks delegated to the six 'management' committees. However, the following risk types remain the responsibility of the Board Risk Committee.

Business risk

Business risk is the risk of unexpected changes in the external environment that have the potential to affect the Group's business model either through the level of demand for the Group's products and services and/or its ability to meet that demand. Business risk includes changes to regulation which may impact upon the Society's ability to compete, how it conducts business and the Society's liquidity and capital requirements.

Risk management report (continued)

The Group looks to mitigate this exposure through reviewing its business plan annually, ensuring it is consistent and within risk appetites and 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. In addition each business area is responsible for ensuring that all regulatory and statutory requirements are complied with on a day-to-day basis, with oversight provided by the Regulatory and Conduct team within our Risk function.

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 future 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 ICAAP also incorporates the Capital Requirement Directive IV (CRD IV) requirements.

The Prudential Regulation Authority (PRA) use the ICAAP during their Supervisory Review and Evaluation Process (SREP) through which it determines the Society's Individual 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 current and future capital levels remain well in excess of the PRA requirements. An analysis of the components of the Society's current capital position can be found in the strategic report on page 15.

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.

Assets and Liabilities Committee

The Assets and Liabilities Committee (ALCO) is responsible for overseeing the Society's wholesale credit risk, liquidity risk, market risk, reviewing treasury activity, performance and compliance with approved treasury policy.

It comprises two Executive Directors and relevant senior managers.

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.

The risk to the Society of counterparty default has reduced over the past couple of years with the high proportion of total liquidity held in UK Sovereign debt securities and the Bank of England reserve account, which remains significantly above the level required to be held by the PRA. The composition of the Treasury loans can be found on page 76.

Wholesale credit is managed through our treasury policy statement, which only permits sterling denominated lending to the UK government, UK banks and building societies plus highly rated overseas banks. In addition, every bank must have a minimum 'A' rating from an external credit assessment institution and satisfy the Society's internal assessment thresholds. This has led to a reduction in the number of available counterparties over the past few years. However, as permitted by policy we have continued to hold liquidity with carefully selected European based Multilateral Development Banks in instances where it qualifies as High Quality Liquid Assets (HQLA). The Society has not permitted any lending directly to sovereign states, other than the UK.

The Board approved policy statement restricts further 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 and geographical regions.

The Society's Treasury team take day-to-day responsibility for operating within Board approved credit limits. Monitoring and oversight, including assessment of counterparty credit worthiness, is undertaken by the Treasury Risk team to ensure the Society's exposures remain within risk appetite. ALCO members receive updates on a monthly basis.

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, other high quality liquid assets and maintaining wholesale funding facilities. In addition the Society uses sale and repurchase agreements or 'repos' which convert existing high quality liquid assets into cash ensuring that a sufficient level of readily realisable assets are available at all time.

A Board approved treasury policy statement ensures day-to-day activities of the Treasury team are conducted within approved risk appetite through defined control limits which determines the overall level of liquidity to be maintained. 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.

From 1 October 2015 the Society is required to be compliant with the new short-term liquidity stress metric, the Liquidity Coverage Ratio (LCR) requirement, which measures the amount of high quality liquid assets relative to estimated net stressed cash outflows within a 30 day period. The measure is being phased in, with a minimum LCR of 80% from 1 October 2015 rising to 100% by 1 January 2018.

In addition a longer term funding measure, the Net Stable Funding Ratio (NSFR), is to be introduced from 2018. The final rules are yet to be published.

Based on the Society's current interpretations of the standards, it comfortably exceeds the minimum requirements of both the LCR and NSFR.

Furthermore, the Society maintains a Contingency Funding Plan which describes metrics that would indicate an emerging market wide or Society only stress. The plan includes a range of options available to the Society in the event of such a stress to allow an adequate level of liquidity to be maintained.

Stress testing is performed monthly to confirm the Society's available liquidity is adequate, within risk appetite and is able to withstand extreme cash outflows.

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 by maintaining a diverse funding base, 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 daily compliance review against the limits is undertaken by the Finance team with monitoring and oversight provided by the Treasury Risk team which reports to ALCO on a monthly basis.

A detailed analysis of the Society's liquidity profile can be found in note 28 to the annual accounts.

Market risk

Market risk is the risk of changes to the Society's net interest income and economic value arising from changes in market interest rates and mismatches in the Society's balance sheet.

The economy is still dominated by low interest rates and an uncertain economic environment. Current LIBOR futures and gilt yields indicate 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 against its basis risk appetite to ensure any future change to interest rates does not adversely affect the Society's interest margin.

Previous Bank of England intervention to stimulate the economy such as the Funding for Lending Scheme (FLS) has seen reductions to market rates for both retail lending and savings products. Additionally, increasing competition in an already highly competitive lending market is leading to a tightening of interest margins across the industry. The Society is maintaining a watching brief on future market rate changes and the impact of the further FLS extension to ensure it does not adversely affect the Society's position.

The Board look to mitigate this risk through quarterly review of the Society's corporate plan to ensure it is consistent with risk appetite.

The Society manages market risk through a Board approved treasury policy statement which defines the maximum acceptable level of risk and what steps may be taken to reduce it. A subset of market risk is basis risk, which arises from changes in the relationship between different interest rates which have similar but not identical characteristics e.g. Bank of England Base Rate and LIBOR.

The Treasury Risk team measure the levels of basis risk inherent in the Societys' balance sheet as well as subjecting the balance sheet to monthly stress tests designed to measure the likely impact of a sudden change in interest rates. This is assessed and monitored against the Society's risk appetite and Board approved limits.

The Treasury team is responsible for operating within risk appetite and managing the Society's interest rate and basis risk exposures. Typically interest rate risk is managed by taking advantage of natural hedging opportunities within the Society's balance sheet or where this is not possible through the use of appropriate hedging strategies.

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 28 to the annual accounts.

Retail Credit Committee

The Retail Credit Committee (RCC) is responsible for oversight of the Group's retail assets which includes Residential and buy-to-let mortgages and Secured Business Loans.

It comprises two Executive Directors and a number of senior managers.

Retail credit risk

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. Exposure to retail credit risk is limited to the provision of loans secured on property within the UK.

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 continue until at least the first half of 2016. The extension of the Funding for Lending Scheme and a number of new entrants into the mortgage market has generated a highly competitive marketplace with a number of mortgage rate offerings significantly at an historical low.

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.

Whilst the Society lends throughout the UK, geographic distribution is focused in two broad areas (as detailed on page 78), our heartland of the East Midlands/Yorkshire and London/South East which has generally been driven by buy-to-let lending.

The buy-to-let (BTL) market remains a core part of our offering and the BTL proposition of the mortgage portfolio stands at 23.8% with a strong arrears track record.

However, earlier in 2015 and ahead of the recent Bank of England concerns over the BTL market, the Society reduced its appetite for further BTL growth and is targeting to reduce the proportion of BTL lending over the next few years.

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 approved risk appetite.

The Society remains committed to promoting home ownership and its risk appetite allows lending to first time buyers, with a minimum deposit of 5%, but restricts the overall level to ensure the risk is managed sufficiently. Similarly, the Society continues to follow its long term policy of offering interest only products. However, the Society operates strict policies and monitoring procedures to ensure an appropriate repayment vehicle is in place.

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.

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.

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, as well as our manual underwriting processes. Should customers find themselves in financial difficulty, we respond with appropriate forbearance activities to ensure fair customer outcomes. 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 granted only against the 'bricks and mortar' value (i.e. loans are provided only for the purchase or re-mortgaging of a property and not for working capital or machinery etc.).

A Secured Business Lending (SBL) policy is used to manage levels of business lending risk with loans manually underwritten. 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) is responsible for overseeing actively the management of operational risk and adherence to policy. It comprises two Executive Directors and relevant senior managers.

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 used by management to ensure that both risks and controls within their business area are managed effectively.

These two processes help to encourage first line ownership of risks with the second line performing more of an oversight role.

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.

Cybercrime represents an increasing risk to all businesses with a number of high profile cases being reported during the year. As financial criminals continue to innovate and exploit new vulnerabilities, 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 Society, being a retailer of mortgage, savings and insurance products, is regulated by the Financial Conduct Authority (FCA).

The Conduct Risk Committee (CRC) is responsible 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.

It comprises one Executive Director and a number of senior managers.

The Society has an extremely low appetite for any conduct risk events. Therefore, in line with stated risk appetite, the Society restricts the products and services it is able to offer (e.g. the Society does not offer structured investments) and ensures the appropriate level of expertise and oversight in the activities that it does operate.

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:

- European Mortgage Credit Directive ('EMCD') (2016-2019); and
- Senior Managers Regime ('SMR') (2016).

Programme Board

The Programme Board supports the Board in ensuring the optimum use of resources when managing the Society's strategic programme of projects. It performs this role through the approval and prioritisation of all requests to initiate or materially change a project and ensures their ongoing monitoring of status at a corporate level.

It comprises all three Executive Directors and senior managers from across the business.

As the scale and pace of change intensifies, it is essential that the Society manages and prioritises resources effectively to serve both current and future members while maximising member benefit.

On behalf of the Board of directors,

Guy Thomas
Chairman

17 February 2016

Corporate governance report

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 revised UK Corporate Governance Code (September 2014), which is intended to apply to listed companies, to the extent that they are relevant to a building society. In the interest of transparency, the regulator encourages each building society to explain in its Annual Report and Accounts whether, and to what extent, it adheres to the Code.

During 2015, the Society has reviewed its corporate governance practices in line with the revised Code issued by the Financial Reporting Council (FRC) in September 2014. This report sets out how the Board has operated in 2015 and complied with the provisions of the Code. The Board is committed to complying with best practice in corporate governance but where it believes that there is a justifiable reason to depart from the Code then it will do so. The key consideration being that such a departure is believed to be in the best interests of members and that the governance of the Society is not compromised.

The Board does not comply with the Code provision that all directors should be subject to annual election. The Board is concerned that in extreme circumstances that requirement could have implications for the financial stability of the Society which would not be in the best interests of members.

All directors are submitted for election at an annual general meeting in accordance with the Society's rules. The rules require re-election at three-yearly intervals. The Board has decided that from the 2016 AGM onwards the Chairman and the Chief Executive will each stand for re-election annually. Subject to that, 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.

Leadership

The Board

At 31 December 2015, 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 11 meetings and two strategy review meetings during 2015.

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 and ensuring that the necessary resources are in place for the Group to meet this objective. It has a schedule of reserved matters and 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, and have access to the services and advice of the Group Secretary.

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, with division of responsibility set out in writing.

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.

One of the independent non-executive directors is appointed as the senior independent director, to provide a sounding board for the Chairman and to serve as an intermediary for the other directors as necessary. The senior independent director is identified on page 18.

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 below 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 2015.

Director	Board	Risk	Nominations	Remuneration	Audit
J. Edwards	11/11	4/4	2/2	7/7	-
J. Kibbey	11/11	4/4	-	7/7	6/6
D. Marlow	11/11	4/4	2/2	-	-
A. Neden	11/11	4/4	-	-	6/6
M. Phibbs	9/11	3/4	-	-	1/1
M. Piranie	11/11	4/4	-	-	-
S. Taylor	11/11	4/4	-	-	-
G. Thomas	10/11	4/4	-	4/4	6/6
K. Whitesides	11/11	4/4	2/2	3/3	2/2

Corporate governance report (continued)

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 considers annually 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 balancing skills, experience, independence and knowledge on the Board. 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, recognising the need for availability in the event of crises. 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, new directors receive a full, formal and tailored induction and throughout their tenure all directors receive timely and appropriate training to enable them to properly fulfil their roles. The information and training requirements of all directors are reviewed annually.

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 advisers 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 evaluate formally their own performance and effectiveness each year. 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 stability of the Society as well as a continuity of experience and knowledge. However the requirement 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, subject to rigorous review 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, has 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, in coming to that decision. Being eligible, he offers himself for re-election this year. Jane Kibbey has completed nine years as a non-executive director and will now seek re-election. The Board considers that her experience and contribution continues to be extremely valuable and she continues to be independent in character and judgement and recommends her re-election to members.

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 and audit

Financial and business reporting

The directors' report on pages 20 to 22 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, business model and strategy, consideration of which is contained within the Chief Executive's review on pages 6 to 8, the Strategic report on pages 9 to 15 and within the report and accounts taken as a whole.

Viability statement

In accordance with the 2014 revision of the Code, the Board have assessed the prospects of the Society over a period longer than the 12 months required by the going concern provision. The viability statement is considered on page 22 within the directors' report.

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.

The Board have carried out a robust assessment of the principal risks facing the Group, including those that would threaten the business model, future performance, solvency and liquidity. These principal risks are detailed on page 9 of the Strategic report and further information on risk management is given in the report commencing on page 23.

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 and there is an annual review of risk management and internal control systems. During 2015 the Board have overseen an extensive exercise which will continue into 2016 to improve further the governance and risk management and to formalise the lines of risk identification and acceptance.

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 2015 there were no material breaches of control or regulatory standards and that the Society maintained an adequate system of internal control. Where weaknesses in controls are identified by the three lines of defence the Board monitor the steps taken to remedy the issues and to ensure that the Society responds to changing external threats and economic circumstances and to the changing regulatory environment.

Corporate governance report (continued)

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 the Code principles relating to remuneration, is covered in the directors' remuneration report on pages 33 to 37.

Membership

The Committee consists of non-executive directors only and met on seven 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.

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 mainstream 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 results of this feedback are shared in Board meetings. Members of the Board visit branches and meet with members as part of their role. 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 members' 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

17 February 2016

Board Audit Committee report

Board Audit Committee

The principal role of the Board Audit Committee is to have oversight of financial reporting, internal control, internal audit operations and effectiveness and external audit operations and effectiveness. The Committee's primary functions are:

- Monitor the integrity of the financial statements of the Society, including significant financial reporting issues and judgements within;
- Review the financial statements;
- Review the integrity of the Society's systems of internal control and risk management;
- Monitor and review the performance of the internal audit function;
- Oversee the relationship with the external auditor; monitor the independence of the external auditor; and consider the effectiveness of the external audit process;
- Review and approve the annual internal and external audit plans;
- Monitor the provision of non-audit services by the external auditor; and
- Review the adequacy and security of the Society's arrangements for handling concerns raised through the Society's whistleblowing policy.

Membership and attendance

The Board Audit Committee consists of three non-executive directors. The members of the Committee are Andrew Neden (Chairman), Jane Kibbey and Guy Thomas.

The Committee invites the Chief Executive, Deputy Chief Executive and Finance Director, Chief Operating Officer, Head of Risk, Head of Internal Audit, Head of Finance and the external auditor to attend meetings on a regular basis. Other senior managers are invited to attend as required. Private meetings are held at least once a year with the external auditor and with the Head of Internal Audit in the absence of management to enable issues to be raised directly if necessary. The Committee chairman also meets regularly with the Head of Internal Audit and the external auditor.

Following each Committee meeting, the minutes of the meeting are distributed to the Board and the Committee chairman provides a verbal update to the Society's Board on key matters discussed by the Committee.

Meeting frequency and reporting

The Committee met six times during 2015 and the main activities during the year were:

- Reviewed the results and draft annual report and accounts for the year ending 31 December 2014 ;
- Reviewed the going concern assumptions and all key issues and areas of judgement relating to the financial statement reporting;
- Considered reports by the external auditor on its audit and review of the financial statement reporting;
- Reviewed the year-end and interim financial statements and draft press releases, with consideration of the fair, balanced and understandable requirements of the Corporate Code;
- Considered the audit strategy for 2015, with particular regard to the new requirements contained in the UK Corporate Governance Code 2014, which has been adopted for 2015;
- Received and reviewed reports from internal audit;
- Reviewed and approved the Society's risk-based internal audit plan for the next year;
- Reviewed the adequacy and effectiveness of the Society's arrangements for handling matters raised through the whistleblowing policy;
- Reviewed the adequacy and effectiveness of the Society's internal financial controls, internal control and risk management systems;
- Carried out a review of the Committee's own effectiveness.

Significant issues in relation to the financial statements

The Committee considers a wide range of issues in relation to the financial statements, which relate mainly to judgements and estimates which management have to make during the preparation of the statements. The key areas of judgement and sensitivity are considered by the Society's external auditor and presented to the Committee in the reports received in advance of the interim and final financial results. During 2015, the significant issues considered by the Committee included:

- **Loan loss provisioning – residential and SBL mortgages**
  The Society estimates the level of provisions required in the residential and commercial book using historical default and loss experience and applying judgement. The Committee reviewed and challenged the approach to calculating the provisions and confirmed that the assumptions made are appropriate. The Committee is satisfied with the approach adopted to calculate the provision for impairment and the overall level of provision recognised.
- **Effective interest rate ('EIR') methodology**
  The Society recognises interest income using a constant level of interest over the expected behavioural life of the loan. The Committee reviewed the basis of the EIR calculations as well as the results from the testing performed by the external auditor and concluded it was appropriate.
- **FSCS levy provision and other provisions**
  The Committee reviewed and challenged the estimates and assumptions made by management when calculating the level of such provisions at the reporting period and concluded it was appropriate.
- **Hedge accounting**
  The Committee reviewed the Society's approach to hedge accounting, including valuation techniques, accounting ineffectiveness and key movements during the year. The Committee concluded that the approach adopted was appropriate and the hedging activity had been effective in mitigating the underlying risk.
- **Calculation of the defined benefit pension plan position**
  The Society has a defined benefit pension scheme which was closed to new entrants in 1997 and closed to future service accrual from 31 January 2009. The Committee reviewed the methodologies and acceptable ranges from which assumptions had been selected in calculating the latest estimate of the scheme's assets and liabilities. This review was supported by a report provided by the Society's advisors. Noting that the assumptions adopted by management were consistent with this report, the Committee is satisfied with the position reported in the accounts.
- **Fair value of investment in subsidiary undertakings**
  The Society purchased the Harrison Murray estate agency business in 2013 and the Committee considered the carrying value of the investment

and intercompany loan balances held in the Society books as well as the level of consolidated goodwill recognised at a Group level. Having reviewed forecast profitability and cash flows for the business unit, the Committee is satisfied that the carrying value is appropriate and there was no impairment arising.

- **Going concern assumption**
  The Committee evaluated whether the going concern basis of accounting was appropriate by considering forecast profitability, liquidity position, funding availability and regulatory capital positions. The review also took into account the detailed stress testing scenarios completed as part of the annual liquidity and capital adequacy assessments.
- **Fair, balanced and understandable**
  The Committee reviewed the integrity of the financial statements and any formal announcements. The content of the annual report and accounts was reviewed and the Committee advised the Board, that, in its view, and taken as a whole, it is fair, balanced and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy. The Committee therefore recommended that the Board approve the annual report and accounts.
- **Viability statement**
  The Committee reviewed the requirements of the Corporate Governance Code to provide the medium-term viability statement in the annual report and accounts.
- **New accounting standards**
  Regular updates on financial reporting developments were presented to the Committee during the year to enable it to provide effective oversight of the financial reporting within the interim and full year accounts.
- **External audit findings**
  The external auditor did not highlight any material control weaknesses arising from their review of key financial reporting processes and systems.

Internal controls

The Board recognises the importance of strong systems of internal control in the protection of member and Group assets. Robust internal controls can also facilitate efficient and effective operations, reliable internal and external reporting and compliance with applicable laws and regulations.

The Society operates a risk management framework that gives rise to a strong internal control framework. It is accepted that it is the responsibility of management to design, operate and monitor internal controls which adhere to the Board's policies on risk and control. All colleagues have a responsibility for internal control as part of their role and accountabilities.

The Committee reviews the effectiveness of the Society's risk management and internal control systems throughout the year to ensure they continue to be appropriate.

Further details on the risk management framework are provided in the corporate governance report on pages 27 to 30.

Independence and effectiveness of external auditor

In 2014, the Society tendered its external audit relationship in line with best practice and Ernst & Young LLP succeeded KPMG LLP. The UK Corporate Governance Code now requires the audit contract to be put out to tender every ten years, with transitional provisions for compliance and the Board will monitor this.

In advance of the commencement of the annual audit, the Committee reviewed a report presented by the external auditor, Ernst & Young LLP, detailing the audit plan, planning materiality, areas of audit focus, terms of engagement and fees payable. Following the review of the interim financial statements and the audit of the annual financial statements, the Committee received a report detailing the work performed in areas of significant risk, a summary of misstatements identified and internal control related issues identified. The Committee considered the matters set out in these reports as part of recommending the interim and annual financial statements for approval.

In order to monitor and assess any threats to the independence of the auditor, the Committee reviews a report on the level of spend with the auditor on audit and non-audit services. A formal policy regarding the provision of such non-audit services is being established. Details of fees paid for non-audit services are outlined in note 6 to the accounts.

The Committee considered the performance of Ernst & Young LLP as external auditor for 2015, and is satisfied with their objectivity, independence and effectiveness as external auditor and recommended that they be re-appointed at the AGM for the current year.

Oversight and effectiveness of internal audit

The Committee receives regular reports from the Head of Internal Audit setting out the results of assurance activity, proposed changes to the audit plan and level of resource available. Significant findings and themes identified were considered by the Committee, alongside management's response and the tracking and completion of outstanding actions. In addition to approving the annual plan and budget, throughout the year, the Committee reviewed and approved amendments to the Internal Audit plan and resources.

The Committee therefore regularly monitors whether internal audit have delivered their reports in accordance with the agreed plan and to the expected standard. On this basis, the Committee regards the internal audit function to be effective.

Audit committee performance and effectiveness

As outlined in the corporate governance report on page 29, the Board and each of the committees formally evaluate their own performance and effectiveness annually. The Board Audit Committee therefore considers itself to be effective.

On behalf of the Board of Directors,

Andrew Neden
Chairman of the Board Audit Committee

17 February 2016

Directors' remuneration report

Nottingham Building Society is committed to best practice in its remuneration of directors. This report explains how the Society applies the relevant principles and requirements of the remuneration regulations and Codes.

Statement by the Chairman of the Remuneration Committee

On behalf of the Committee, I am pleased to present the directors' remuneration report, which sets out the remuneration policy, and details of the basic salary, variable pay and benefits for the directors in the year to 31 December 2015.

Context for remuneration in 2015

The Chairman's statement, Chief Executive's review and Strategic report on pages 4 to 15 describe 2015 as another very successful year for the Society in all aspects of its activities. It is in this context and the Executive Directors' Remuneration Review carried out during 2015 that the payments to Executive Directors have been determined and are detailed in this report.

As highlighted in last year's report, one of the key priorities for the Remuneration Committee in 2015 was to finalise a review of Executive Director remuneration taking account of the following factors:

- There had been no formal independent review of total Executive Directors remuneration for at least five years;
- The significant changes in the external and regulatory environment over that time;
- A requirement from the Board, in the context of these changes, to reduce the overall amount of variable pay available to Executive Directors, reinforcing our mutual ethos; and
- Reflect the marked increase in the scale and complexity of the organisation over the last five years (asset size has grown by 38% from £2.4 billion to £3.3 billion, income growth of 125% and, an increase in operational scale from 34 branches and 392 staff in 2010 to 55 branches and 677 staff in 2015), as well as consistent all round strong performance over this period securing sustainable financial security for the Society and its members following the financial crisis.

The review was carried out with the support and expertise of external professional advisors who provided sector and industry insight as well as benchmarking the composition and level of executive remuneration within the sector and advice to ensure compliance with regulatory and Remuneration Code requirements.

As a result, a number of principles were applied to Executive Directors' remuneration in 2015:

- Changes to overall executive remuneration arrangements incorporating a rebalancing of fixed versus variable pay opportunity resulting in a lower percentage of variable pay available overall;
- The replacement of the existing variable pay plans with a single executive bonus plan, with transitional provisions to facilitate the introduction of a significant deferral element, which incorporate malus[2] and clawback rules;
- An increase to Executive Directors' base salaries to take account of both the reduction in variable remuneration potential, up to date external market data and benchmarking, as well as the significant change in the scale and complexity of the Society; and
- An increase to Executive Directors' pension contributions to take account of market data, benchmarking and the change in scale and complexity of the Society.

The resulting changes to the Executive remuneration are outlined in the tables on page 37.

Remuneration Committee

The primary objective of the Remuneration Committee, under delegated authority from the Board, is to make recommendations to the Board on the general remuneration policy of the Society and specifically on the remuneration of Executive Directors. The Committee also has oversight of the remuneration of both the Society's senior management team and remuneration code staff, ensuring that remuneration is in line with the Society's business drivers, values and ambitions. In addition, the Committee is responsible for approving the Society's reward schemes principles and compliance with the Remuneration Code and policy statement.

The Committee met seven times in 2015 and is made up of three non-executive directors, as detailed on page 19. The Chief Executive, Head of HR and Group Secretary attend the meetings.

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, along with the Committee terms of reference.

The Remuneration Committee's activities in 2015 also included:

- Reviewing regulatory updates and assessing the impact on the Society;
- Reviewing and approving the Remuneration Policy Statement ensuring its compliance with the Remuneration Code;
- Consideration of the annual pay review and bonus scheme approval and payment;
- Approving the corporate objectives for the 2015 incentive schemes;
- Reviewing the findings and actions from a Financial Incentives Internal Audit; and
- Reviewing and approving of executive variable pay for the 2015 financial year.

Remuneration policy

The Group's remuneration policy is there to ensure the following:

- 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 in line with our mutual ethos; and
- Incentives are structured to strike the right balance between fixed and variable pay. To incentivise appropriate behaviour, aligned with the Society's position on risk, rewards are only attributed to the delivery of success.

[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.

Directors’ remuneration report (continued)

The Chairman and other non-executive directors each receive an annual fee, reflective of the time commitment and responsibilities of the role. Executive Directors’ emoluments comprise a basic salary, variable pay, pension entitlement and other taxable benefits as outlined on pages 35 to 36.

Payment for loss of office of Executive Directors

Any compensation in the event of early termination is subject to Committee recommendation and Board approval. Pension contributions cease on termination under the rules of the pension scheme.

Recruitment policy for Executive Directors

The Committee’s approach to recruitment remuneration is to pay no more than is necessary to attract appropriate candidates to the role. Any new Executive Director’s remuneration package will be consistent with our remuneration policy as outlined in this report. Any payments made to executives on joining the Society to compensate them for forfeited remuneration from their previous employer will be compliant with the provisions of the Remuneration Code.

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.

Other directorships

None of the Executive Directors currently hold any paid external directorships.

Executive Director’s total remuneration

The total remuneration received by Executive Directors is detailed on page 37. The information has been audited and shows remuneration for the years ending 31 December 2014 and 31 December 2015 as required under the Building Society’s (Accounts and Related Provisions) Regulations 1998.

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.

The Chief Executive is the Society’s most highly paid employee and no employee earns more than any Executive Director.

Non-executive directors

The Chairman and other non-executive directors each receive an annual fee. Fees for non-executive directors are set by reference to benchmark information from a building society comparator group and taking into consideration the annual Society employee salary review.

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.

Executive Directors

The table below provides a summary of the different components of remuneration for Executive Directors:

Component	Purpose	Operation	Performance measures	Opportunity
Basic salary	Fixed remuneration set to attract and retain executives of appropriate calibre and experience. 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.	Reviewed annually and linked to personal performance and market sector benchmarking.	Increases based on: • Role and experience; • Personal performance; • Benchmarking comparisons; and • Overall employee pay increases in the Group.	The base salaries of Executive Directors are reviewed as for any other employee in accordance with the reward matrix, except in circumstances where: • Market peer benchmarking indicates that remuneration is moving out of line of the appropriate peer group; • There has been a material increase in scope or responsibility to the Executive Director's role.
Variable pay Executive Bonus Plan	Linked to the delivery of the Society and personal objectives. Used to reward Executive Directors within the context of achieving the Society's goals and objectives. Payments under the variable pay schemes are not pensionable.	The Plan was introduced in 2015 and will be the single variable pay scheme going forward. The bonus will only be awarded if Society and individual performance targets are met and a payment is triggered in the Society Core Bonus Scheme. 60% of the bonus is deferred for three years and payment is subject to meeting Society and individual performance threshold criteria in each of the years from award to payment. The Committee has the discretion to reduce or withhold the deferred element if it becomes apparent that the basis on which the variable pay award was made was wrong or that financial performance has deteriorated materially since the award. The deferred payment is also subject to clawback for a period of three years after payment.	The scheme is based upon three elements: • **The Building Society Core Scheme Balanced Scorecard** which has a 50% weighting. This scorecard measures Society financial performance, customer satisfaction, teamwork and risk & quality; • **Additional Group measures** which has a 20% weighting; and • **Individual performance** including achievement of strategic objectives with a 30% weighting. Personal performance objectives, appropriate to the responsibilities of the director, including the achievement of appropriate strategic progress over a three year period as agreed with the Board, are set at the start of each year and agreed by the Committee. Objectives are set within board risk appetite and regulatory requirements.	On target of 30% and maximum of 50% of basic salary payable with 60% of the award deferred over a three year period.

Directors' remuneration report (continued)

Executive Directors (continued)

Variable pay Legacy Long Term Incentive (LTI)	Linked to the delivery of the Society and personal objectives. Used to reward Executive Directors within the context of achieving the Society's goals and objectives and designed to incentivise individuals to produce successful, sustainable business results. Payments under the variable pay schemes are not pensionable.	There are three remaining LTI schemes 2013-15, 2014-16 and 2015-17 which are payable in 2016, 2017 and 2018 respectively. The schemes all require achievement of Society and individual performance threshold criteria. Payment under these legacy schemes is made in the July following the year-end when all comparator societies' annual accounts are available.	Payments under the scheme maturing in 2015 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. In addition, the 2016 and 2017 maturing scheme requires achievement of customer service scores.	**2013-15 and 2014-16 LTI Schemes** On target of 21% and 22% and maximum of 40% of basic salary. These schemes will be paid with a salary reference date of December 2014, to reflect the previous reward structure. **2015-17 LTI Scheme** On target of 16% and maximum of 30% of eligible basic salary as at 31 December 2015.
Pension or pension allowance	A part of fixed remuneration to attract and retain executives of appropriate calibre and experience.	Executive Directors are invited to join the Society's defined contribution pension plan, or, as an alternative be provided with an equivalent cash allowance.	Not applicable	Contribution of 15% of base salary or paid as cash allowance.
Benefits	A part of fixed remuneration to attract and retain executives of appropriate calibre and experience.	The benefits received by Executive Directors are private medical insurance and car allowance.	Not applicable	Set at a level considered appropriate for each Executive Director by the Committee in line with market practice.

Annual report on remuneration

Executive Director remuneration

Audited Society	2015 D J Marlow £000	2015 M A Piranie £000	2015 S J Taylor £000	2015 Total £000	2014 D J Marlow £000	2014 M A Piranie £000	2014 S J Taylor £000	2014 Total £000
Salary	273	228	207	**708**	209	193	164	**566**
Benefits	10	9	9	**28**	10	9	8	**27**
Annual bonus[1]	35	28	25	**88**	42	35	33	**110**
Long term incentive plans	68	63	54	**185**	82	75	62	**219**
	386	328	295	**1,009**	343	312	267	**922**
Pension contribution	40	36	31	**107**	21	20	18	**59**
	426	**364**	**326**	**1,116**	**364**	**332**	**285**	**981**

The directors are able to sacrifice elements of their salary and variable pay. All figures disclosed in the table above are presented pre-sacrifice.

[1] The annual bonus figure reflects the amount awarded in the year which is not subject to deferral and is the total paid. The remaining 60% , which is subject to deferral and the achievement of future performance measure, will be disclosed in the year of payment.

The unpaid deferred elements of the annual bonus scheme are as follows:

Executive Directors	Performance Year	Due 2019 £000	Total Deferred £000
D J Marlow	2015	53	53
M A Piranie	2015	42	42
S J Taylor	2015	38	38
		133	**133**

Non-Executive Director remuneration

Audited Society		2015 £000	2014 £000
J S Edwards (Chairman)		66	59
R W Fiddis	(resigned 30 September 2014)	-	26
J C Kibbey		39	34
A F J Neden	(appointed 17 September 2014)	43	10
M C Phibbs		37	44
W G Thomas	(appointed 01 December 2014)	37	3
D A R Thompson	(retired 30 April 2014)	-	21
K R Whitesides (Vice-Chairman)		42	43
TOTAL EMOLUMENTS FOR SERVICES AS DIRECTORS		**264**	**240**

On behalf of the Board of directors,

Jane Kibbey
Chair of the Remuneration Committee

17 February 2016

Independent auditor's report

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

Our opinion on the financial statements

In our opinion:

- the Group's and Society's financial statements (the 'financial statements') give a true and fair view of the state of the Group's and Society's affairs as at 31 December 2015 and of the Group's and Society's profit for the year then ended;
- the Group and Society financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the financial statements have been prepared in accordance with the requirements of the Building Societies Act 1986, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

Nottingham Building Society's financial statements comprise:

Group	Society
Consolidated balance sheet as at 31 December 2015	Balance sheet as at 31 December 2015
Consolidated income statement for the year then ended	Income statement for the year then ended
Consolidated statement of comprehensive income for the year then ended	Statement of comprehensive income for the year then ended
Consolidated statement of changes in members' interests	Statement of changes in members' interests
Consolidated cash flow statement for the year then ended	Cash flow statement for the year then ended
Related notes 1 to 32 to the financial statements	Related notes 1 to 32 to the financial statements

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Overview of our audit approach

Risks of material misstatement	• Revenue recognition and the risk of management override of control in relation to effective interest rate (EIR) and estate agency commissions. • Valuation and measurement of loan impairment provisions. • Valuation of goodwill.
Audit scope	• We performed an audit of the financial statements of the Group and Society. • Our Group audit scope included all of the Society's subsidiaries. Our audit did not involve any component teams.
Materiality	• Overall Group materiality of £1.9m which represents 1% of members' interests and equity.

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	What we concluded to the Audit Committee
Revenue recognition and the risk of management override of internal control in relation to effective interest rate (EIR) accounting and estate agency commissions Refer to page 31 (Board Audit Committee report) and page 47 (Accounting policies). Effective interest rate accounting is a judgemental area driven by management assumptions. Changes in these assumptions, notably the expected life of mortgages and prepayments rates within the EIR calculation, can have a material impact on income recognition. As such, this was classified as a significant audit risk. Estate agency commission revenues are recognised on contract completion. We assessed there to be an increased risk of incorrect revenue recognition in this area due to the incentive to manipulate the timing of revenues and therefore a significant risk in our audit.	We reviewed the design effectiveness of the key controls in operation over the EIR process and in the recording of estate agency revenue. Our audit approach did not seek to rely on the controls identified. We tested the completeness and accuracy of data, on a sample basis, from the Society's source system to the EIR models. We agreed the model output to the general ledger. We challenged the assumptions regarding the expected lives of loans by comparing them to recent actual redemption behaviour. In relation to commission revenues recorded in the estate agency business we performed testing, on a sample basis, to agree revenue recorded in the year, and around the year end, to supporting evidence. We performed testing of journals recorded throughout the year and at the year-end using an approach based on risk of management override of controls. In each case we substantiated journals recorded to supporting evidence.	We concluded to the Audit Committee that the effective interest rate adjustments made to the Group's loan portfolios were materially correct at 31 December 2015. We found that key assumptions in relation to behavioural lives of assets and prepayment rates were consistent with the underlying data and observed characteristics of the Society's portfolios. We found no significant errors or differences from our testing of estate agency commission revenues, and no evidence of management override of controls from testing of journal entries.
Valuation and measurement of loan impairment provisions Refer to page 31 (Board Audit Committee report), page 48 (Accounting policies) and page 59 (Provision for impairment losses on loans and advances to customers note). Measurement of loan impairment provisions is an area of estimation that requires significant management judgement. Whilst the vast majority of the Society's loan book is high quality with low arrears and low historical loss rates, impairment estimates are an inherently subjective area and involve a number of assumptions. Consequently we classified the valuation and measurement of loan impairment provisions as a significant audit risk.	We tested the design and operating effectiveness of key controls over the impairment provisioning process. We tested the completeness and accuracy of data used within the impairment models through reconciliation to source systems and the general ledger. For specific provisions we tested a sample of loans as to whether each case was reasonably estimated. Our procedures included establishing the circumstances in each case, reviewing collateral valuations and challenging the key assumptions using historical data and our knowledge and experience of the industry. In relation to the collective provision models we examined management's methodology for compliance with IAS 39 *Financial instruments* and challenged key assumptions such as the probability of default, forced sales discount and changes in house price valuations.	We concluded to the Audit Committee that the provision levels held by the Group in relation to loan impairment adequately reflected incurred losses in the lending portfolios at the year end. We observed that the area of most subjectivity was the provisions held against the commercial lending portfolio, and, after considering the Group's recent history of low levels of actual losses, that the Group's impairment provisions are at the conservative end of an acceptable range.
Valuation of goodwill Refer to page 31 (Board Audit Committee report), page 50 (Accounting policies) and page 62 (Intangible assets note). The valuation of goodwill is assessed by management through an impairment assessment. The nature of this assessment is judgemental and involves future projections of future cash flows that are inherently uncertain. There are a number of assumptions used in the goodwill impairment assessment which could materially impact the outcome, including selection of an appropriate discount rate. Given the carrying value of goodwill compared to audit materiality, we classified this as a significant audit risk.	We reviewed the design effectiveness of the key controls in operation over the goodwill impairment assessment. Our audit approach did not seek to rely on the controls identified. We examined management's impairment assessment to assess compliance with IAS 36 *Impairment of assets*. We challenged the forecasts and assumptions used within the assessment including assessing the discount rate assumption in conjunction with our in house valuation modelling specialists. A core element of our challenge was to compare current forecasts and assumptions with those determined by the Society at the time of acquisition, to determine consistency in approach and basis of preparation. We also tested current forecasts to validate the appropriate inclusion of actual performance since acquisition, and consistency of future cash flow projections with the Group-wide corporate plan.	We concurred with management's assessment that the carrying value of goodwill did not require an impairment adjustment at 31 December. We concluded that the discount rate used was reasonable and conservative. We observed that the updated cash flow forecasts for the acquired business had been prepared on a consistent basis with the original business case at the time of acquisition, and that the discounted cash flows exhibited headroom above the carrying value of goodwill.

Independent auditor's report (continued)

Our work with respect of comparatives and opening balances

Given this was an initial audit engagement we performed certain procedures as required by the International Standards on Auditing (UK and Ireland), in relation to comparatives and opening balances, including:

- Reading the prior year financial statements and auditor's report;
- Determining whether the prior year's closing balances have been correctly brought forward to the current year;
- Determining whether the opening balances reflect the application of appropriate accounting policies; and
- Reviewing predecessor auditor's working papers to obtain evidence over opening balances.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £1,900,000, which is 1% of members' interests and equity (excluding other equity instruments). Members' interests and equity is an important overall indicator of the financial strength of the Group and we consider members' interests and equity to be an appropriate basis for materiality given the Group focuses on its mutual status above maximisation of profit generation.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

As an initial audit engagement, together with our assessment of risk and the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £950,000. We used a lower value of materiality for performing the audit work on the subsidiaries based on their individual financial statements. Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in the financial statements did not exceed our materiality level.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £95,000, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 21, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements 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.

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.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the accounting records and the financial statements; 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

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the annual report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for members to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.	We have no exceptions to report.
Building Societies Act 1986	We are required to report to you if, in our opinion: • proper accounting records have not been kept by the Society; or • the Society financial statements 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.	We have no exceptions to report.

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; • the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and • the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Steven Robb (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds

17 February 2016

Income statements

for the year ended 31 December 2015

	Notes	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Interest receivable and similar income	3	94.6	100.7	94.6	100.7
Interest payable and similar charges	4	(46.6)	(51.8)	(46.6)	(51.8)
NET INTEREST INCOME		**48.0**	**48.9**	**48.0**	**48.9**
Fee and commissions receivable		9.9	10.7	2.7	3.0
Fees and commissions payable		(0.5)	(0.4)	(0.5)	(0.4)
Net gains from derivative financial instruments	5	1.2	0.2	1.2	0.2
TOTAL NET INCOME		**58.6**	**59.4**	**51.4**	**51.7**
Administrative expenses	6	(33.6)	(33.0)	(26.6)	(25.4)
Depreciation and amortisation	16,17	(3.3)	(3.9)	(3.2)	(3.7)
Finance cost	25	(0.2)	(0.2)	(0.2)	(0.2)
Impairment losses on loans and advances	14	(0.2)	(1.3)	(0.2)	(1.3)
Provisions for liabilities - FSCS levy	24	(1.4)	(1.8)	(1.4)	(1.8)
Provisions for liabilities - Other	24	-	(1.2)	-	(1.2)
Profit/(loss) on disposal of property, plant and equipment and intangible assets	16,17	0.1	(0.6)	0.1	(0.6)
PROFIT BEFORE TAX		**20.0**	**17.4**	**19.9**	**17.5**
Tax expense	8	(4.6)	(3.5)	(4.6)	(3.5)
PROFIT AFTER TAX FOR THE FINANCIAL YEAR		**15.4**	**13.9**	**15.3**	**14.0**

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 11.

The notes on pages 47 to 90 form part of these accounts.

Statements of comprehensive income

for the year ended 31 December 2015

	Notes	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Profit for the financial year		15.4	13.9	15.3	14.0
Items that will not be re-classified to the income statement					
Remeasurements of defined benefit obligation	25	0.3	(2.5)	0.3	(2.5)
Tax on items that will not be re-classified	8	(0.1)	0.5	(0.1)	0.5
Items that may subsequently be re-classified to the income statement					
Available-for-sale reserve					
Valuation (losses)/ gains taken to reserves	11	(0.2)	0.8	(0.2)	0.8
Tax on items that may subsequently be re-classified	8	-	(0.2)	-	(0.2)
Other comprehensive expense for the period net of income tax		-	(1.4)	-	(1.4)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**15.4**	**12.5**	**15.3**	**12.6**

The notes on pages 47 to 90 form part of these accounts.

Statements of financial position

as at 31 December 2015

	Notes	Group 31 December 2015 £m	Group 31 December 2014 £m	Society 31 December 2015 £m	Society 31 December 2014 £m
ASSETS					
Cash in hand	9	1.3	1.4	1.3	1.4
Loans and advances to credit institutions	10	388.0	343.5	387.5	342.7
Debt securities	11	102.3	165.8	102.3	165.8
Derivative financial instruments	12	3.8	9.9	3.8	9.9
Loans and advances to customers	13	2,796.5	2,718.3	2,796.5	2,718.3
Investments in subsidiary undertakings	15	-	-	7.7	8.2
Other assets		3.2	2.4	2.6	2.0
Property, plant and equipment	16	13.1	12.5	11.9	11.5
Intangible assets	17	8.2	9.2	3.5	4.4
Deferred tax assets	18	2.0	2.8	2.0	2.7
TOTAL ASSETS		**3,318.4**	**3,265.8**	**3,319.1**	**3,266.9**
LIABILITIES					
Shares	19	2,433.2	2,575.4	2,433.2	2,575.4
Amounts owed to credit institutions	20	410.4	264.2	410.4	264.2
Amounts owed to other customers	21	223.6	189.2	223.6	189.2
Debt securities in issue	22	9.0	3.5	9.0	3.5
Derivative financial instruments	12	9.3	13.6	9.3	13.6
Other liabilities and accruals	23	4.8	5.5	4.3	5.3
Current tax liabilities		2.1	1.4	2.1	1.5
Deferred tax liabilities	18	0.4	0.9	0.4	0.8
Provisions for liabilities	24	1.4	1.8	1.4	1.8
Retirement benefit obligations	25	5.5	6.6	5.5	6.6
Subscribed capital	26	26.2	26.6	26.2	26.6
TOTAL LIABILITIES		**3,125.9**	**3,088.7**	**3,125.4**	**3,088.5**
RESERVES					
General reserves		192.3	176.7	193.5	178.0
Available-for-sale reserves	27	0.2	0.4	0.2	0.4
Total reserves attributable to members of the Society		**192.5**	**177.1**	**193.7**	**178.4**
TOTAL RESERVES AND LIABILITIES		**3,318.4**	**3,265.8**	**3,319.1**	**3,266.9**

The notes on pages 47 to 90 form part of these accounts.

These accounts were approved by the Board of directors on 17 February 2016 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

for the year ended 31 December 2015

	General reserves £m	Available-for-sale reserves £m	Total £m
GROUP 2015			
Balance as at 1 January 2015	176.7	0.4	177.1
Profit for the year	15.4	-	15.4
Other comprehensive income for the period (net of tax)			
Net losses from changes in fair value	-	(0.2)	(0.2)
Remeasurement of defined benefit obligation	0.2	-	0.2
Total other comprehensive income/(expense)	0.2	(0.2)	-
Total comprehensive income/(expense) for the period	15.6	(0.2)	15.4
BALANCE AS AT 31 DECEMBER 2015	**192.3**	**0.2**	**192.5**
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	**176.7**	**0.4**	**177.1**

	General reserves £m	Available-for-sale reserves £m	Total £m
SOCIETY 2015			
Balance as at 1 January 2015	178.0	0.4	178.4
Profit for the year	15.3	-	15.3
Other comprehensive income for the period (net of tax)			
Net losses from changes in fair value	-	(0.2)	(0.2)
Remeasurement of defined benefit obligation	0.2	-	0.2
Total other comprehensive income/(expense)	0.2	(0.2)	-
Total comprehensive income/(expense) for the period	15.5	(0.2)	15.3
BALANCE AS AT 31 DECEMBER 2015	**193.5**	**0.2**	**193.7**
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	**178.0**	**0.4**	**178.4**

The notes on pages 47 to 90 form part of these accounts.

Cash flow statements

for the year ended 31 December 2015

	Notes	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax		20.0	17.4	19.9	17.5
Depreciation and amortisation		3.3	3.9	3.2	3.7
(Profit)/loss on disposal of property, plant and equipment		(0.1)	0.6	(0.1)	0.6
Interest on subscribed capital		2.0	2.0	2.0	2.0
Net gains on disposal and amortisation of debt securities		(0.6)	(1.2)	(0.6)	(1.2)
Increase in impairment of loans and advances		0.2	0.9	0.2	0.9
		24.8	**23.6**	**24.6**	**23.5**
CHANGES IN OPERATING ASSETS AND LIABILITIES					
Decrease/(increase) in prepayments, accrued income and other assets		5.4	(4.3)	6.0	(3.6)
(Decrease)/increase in accruals, deferred income and other liabilities		(5.9)	5.4	(6.2)	5.7
(Increase) in loans and advances to customers		(78.4)	(234.0)	(78.4)	(234.0)
(Decrease)/increase in shares		(142.2)	256.8	(142.2)	256.8
Increase/(decrease) in amounts owed to other credit institutions and other customers		180.6	(15.9)	180.6	(15.9)
Decrease/(increase) in loans and advances to credit institutions		6.2	(16.1)	6.2	(16.1)
Increase/(decrease) in debt securities in issue		5.5	(9.9)	5.5	(9.9)
(Decrease) in retirement benefit obligation		(1.1)	(0.4)	(1.1)	(0.4)
Taxation paid		(3.6)	(3.8)	(3.6)	(3.6)
NET CASH (USED IN)/GENERATED BY OPERATING ACTIVITIES		**(8.7)**	**1.4**	**(8.6)**	**2.5**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of debt securities		(124.3)	(107.8)	(124.3)	(107.8)
Disposal of debt securities		188.4	90.4	188.4	90.4
Purchase of property, plant and equipment		(2.5)	(1.7)	(2.3)	(1.7)
Disposal of property, plant and equipment		0.1	1.1	0.1	0.6
Purchase of intangible assets		(0.5)	(0.8)	(0.5)	(0.8)
NET CASH GENERATED BY/(USED IN) INVESTING ACTIVITIES		**61.2**	**(18.8)**	**61.4**	**(19.3)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Interest paid on subscribed capital		(1.9)	(1.9)	(1.9)	(1.9)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**50.6**	**(19.3)**	**50.9**	**(18.7)**
Cash and cash equivalents at 1 January		318.6	337.9	317.8	336.5
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	**369.2**	**318.6**	**368.7**	**317.8**

The notes on pages 47 to 90 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 21.

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

There were no IFRS prouncements, relevant to the Group, that have been adopted with effect from 1 January 2015.

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 or 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 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;
- *IFRS 16 'Leases'* – effective from 1 January 2019 but not yet endorsed by the EU. The standard provides a single lessee accounting model requiring lessees to recognise assets and liabilities for all leases. The financial impact of IFRS 16 will be considered by the Group as the standard is finalised.

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.

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 acquiree, 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. This may include fees and commissions if they are an integral part of the effective interest rate of a financial instrument.

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 the inception date of the product 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.

Notes to the accounts (continued)

1. ACCOUNTING POLICIES (CONTINUED)

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 documents formally the relationship between the hedging instruments and hedged 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

Portfolio fair value hedges are 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.

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.

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.

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 28 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

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.

1. ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

Fair value of financial assets and liabilities

IFRS 13 requires an entity to classify financial instruments held at fair value and those not measured at fair value but for which the fair value is disclosed according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. The three levels of the fair value hierarchy are defined as:

Level 1 – Valuation using quoted market process

Financial instruments are classified as level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price reflects actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Level 2 – Valuation technique using observable inputs

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include derivative financial instruments such as swaps and forwards which are valued using market standard pricing techniques and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable. They also include investment securities valued using consensus pricing or other observable market prices.

Level 3 – Valuation technique using significant unobservable inputs

Financial instruments are classified as level 3 if their valuation incorporates significant inputs that are not based on observable market data ('unobservable inputs'). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Unobservable input levels can generally be determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

Subscribed capital

Subscribed capital comprises Permanent Interest Bearing Shares (PIBS) which have no voting rights and have contractual terms to settle interest and is therefore 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.

Notes to the accounts (continued)

1. ACCOUNTING POLICIES (CONTINUED)

Intangible assets

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.

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 (Revised), 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 pre-tax 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.

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.

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 property, plant and equipment value in the statement of financial position 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

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. Where long term incentive schemes run over more than one year, the costs are recognised over the life of the scheme. The long term incentive bonuses disclosed in the Directors' remuneration report are included when paid. The annual bonus figure disclosed reflects the amount awarded in the year which is not subject to deferral and is the total paid. The element subject to deferral is disclosed in the year of payment.

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.

1. ACCOUNTING POLICIES (CONTINUED)

For this scheme the cost is charged to the income statement as contributions become due.

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.

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 21. 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.

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 as follows:

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.

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 £0.8 million.

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 £0.6 million.

Financial Services Compensation Scheme ('FSCS')

The Society has provision for a levy of £1.0m covering the period March 2015 to March 2016. 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.

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 £45.5 million.

2. SEGMENTAL REPORTING

Nottingham Building Society and its subsidiaries are all UK registered entities, the activities of which are detailed below and in Note 15. 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 Ltd.
- **Mortgage Broking** – Provides whole of market mortgage broking services. Includes all income and costs associated with Nottingham Mortgage Services Ltd and TMAC Ltd.

2015	Building Society £m	Estate Agency £m	Mortgage Broking £m	Consolidation adjustments £m	Total £m
Net interest income	48.0	-	-	-	48.0
Net fees and commission receivable	2.2	6.2	1.0	-	9.4
TOTAL INCOME	**50.2**	**6.2**	**1.0**	**-**	**57.4**
Administrative expenses	(26.6)	(6.1)	(0.9)	-	(33.6)
Depreciation and amortisation	(3.2)	-	-	(0.1)	(3.3)
Finance income	(0.2)	-	-	-	(0.2)
Impairment losses on loans and advances	(0.2)	-	-	-	(0.2)
Provisions for other liabilities	-	-	-	-	-
Profit on disposal of property, plant and equipment	0.1	-	-	-	0.1
UNDERLYING PROFIT	**20.1**	**0.1**	**0.1**	**(0.1)**	**20.2**
Net gains from derivative financial instruments	1.2	-	-	-	1.2
Provisions for liabilities – FSCS levy	(1.4)	-	-	-	(1.4)
PROFIT/(LOSS) BEFORE TAX	**19.9**	**0.1**	**0.1**	**(0.1)**	**20.0**
Tax expense	(4.6)	-	-	-	(4.6)
PROFIT/(LOSS) AFTER TAX	**15.3**	**0.1**	**0.1**	**(0.1)**	**15.4**
Total assets	3,319.1	6.9	0.1	(7.7)	3,318.4
Total liabilities	3,125.4	8.1	0.1	(7.7)	3,125.9
Capital expenditure	2.3	0.2	-	-	2.5

2. SEGMENTAL REPORTING (CONTINUED)

2014	Building Society £m	Estate Agency £m	Mortgage Broking £m	Consolidation adjustments £m	Total £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

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 42 to 46.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

Group and Society	2015 £m	2014 £m
On loans fully secured on residential property	99.1	105.3
On other loans	2.6	2.7
On liquid assets	1.8	1.7
On instruments held at amortised cost	103.5	109.7
On debt securities	1.3	1.5
On derivative hedging of financial assets	(10.2)	(10.5)
	94.6	**100.7**

Interest on debt securities includes £0.8 million (2014: £0.7 million) arising from fixed income investment securities.

Included within interest income is £0.4 million (2014: £0.6 million) in respect of interest income accrued on impaired loans two or more months in arrears.

4. INTEREST PAYABLE AND SIMILAR CHARGES

Group and Society	2015 £m	2014 £m
On shares held by individuals	40.0	46.4
On deposits and other borrowings	5.7	4.8
On subscribed capital	2.0	2.0
On derivative hedging of financial liabilities	(1.1)	(1.4)
	46.6	**51.8**

5. NET GAINS FROM DERIVATIVE FINANCIAL INSTRUMENTS

Group and Society	2015 £m	2014 £m
Derivatives in designated fair value hedge relationships	3.9	(12.9)
Adjustments to hedged items in fair value hedge accounting relationships	(2.6)	13.2
Derivatives not in designated fair value hedge relationships	(0.1)	(0.1)
	1.2	**0.2**

The net gains from derivative financial instruments of £1.2 million (2014: £0.2million) 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.

6. ADMINISTRATIVE EXPENSES

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Wages and salaries	18.5	16.6	14.1	12.2
Social security costs	1.4	1.1	1.1	1.0
Other pension costs	0.8	0.9	0.7	0.8
Total staff costs	**20.7**	**18.6**	**15.9**	**14.0**
Operating lease rentals	0.1	0.9	0.1	0.4
Other administrative costs	12.8	13.5	10.6	11.0
	33.6	**33.0**	**26.6**	**25.4**

The 2015 wages and salaries costs include £0.2 million (2014: £0.1 million) in respect of redundancy costs.

	Group 2015 £000	Group 2014 £000	Society 2015 £000	Society 2014 £000
Other administrative costs include:				
Remuneration of auditors and associates (excluding VAT)				
Audit of these financial statements	95	83	95	83
Audit of subsidiary undertakings	29	30	-	-
Audit of associated pension schemes	6	5	6	5
Other assurance services	27	5	27	5
Other services related to taxation	-	22	-	22

7. EMPLOYEES

	Group 2015 Number	Group 2014 Number	Society 2015 Number	Society 2014 Number
The average number of persons employed during the year was:				
Full time	477	443	348	307
Part time	201	207	115	117
	678	**650**	**463**	**424**
Building Society				
Central Administration	229	208	229	208
Branches	234	216	234	216
Subsidiaries	215	226	-	-
	678	**650**	**463**	**424**

The average number of employees on a full time equivalent basis in the Society was 430 (2014: 389) and all of these are employed within the United Kingdom.

8. TAX EXPENSE

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Current tax	4.2	4.0	4.2	4.0
Adjustments for prior years	0.2	(0.3)	0.2	(0.3)
TOTAL CURRENT TAX	**4.4**	**3.7**	**4.4**	**3.7**
Deferred tax (note 18)	0.1	(0.2)	0.1	(0.2)
Adjustments for prior years	0.1	-	0.1	-
TOTAL DEFERRED TAX	**0.2**	**(0.2)**	**0.2**	**(0.2)**
	4.6	**3.5**	**4.6**	**3.5**

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 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Profit before taxation	20.0	17.4	19.9	17.5
Expected tax at 20.25% (2014: 21.5%)	4.0	3.8	4.0	3.8
Expenses not deductible for corporation tax purposes	0.1	0.1	0.1	0.1
Effect of tax change in tax rate on deferred tax	0.2	-	0.2	-
Losses brought forward	-	(0.1)	-	(0.1)
Adjustment for prior years	0.3	(0.3)	0.3	(0.3)
TAX EXPENSE FOR THE YEAR	**4.6**	**3.5**	**4.6**	**3.5**

Tax recognised directly in other comprehensive income

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Tax on available-for-sale assets	-	0.2	-	0.2
Deferred tax on pension scheme	0.1	(0.5)	0.1	(0.5)
TAX CHARGE/ (CREDIT) FOR THE YEAR	**0.1**	**(0.3)**	**0.1**	**(0.3)**

Factors affecting future tax charges

The Finance Act 2013 reduced the rate of UK corporation tax from 21% to 20% with effect from 1 April 2015. The Finance Act 2015 further reduced the rate to 19% from 1 April 2017 and 18% from 1 April 2020 and these rate changes were substantively enacted in October 2015. Therefore existing temporary differences may unwind in future periods subject to these reduced rates. This results in a weighted average rate of 20.25% for 2015 (2014: 21.5%).

9. CASH AND CASH EQUIVALENTS

	Notes	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Cash in hand		1.3	1.4	1.3	1.4
Loans and advances to credit institutions	10	367.9	317.2	367.4	316.4
		369.2	**318.6**	**368.7**	**317.8**

10. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	Notes	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Repayable on call and short notice		367.9	312.2	367.4	311.4
Placements with credit institutions		-	5.0	-	5.0
Included within cash and cash equivalents	9	367.9	317.2	367.4	316.4
Other loans and advances to credit institutions		20.1	26.3	20.1	26.3
		388.0	**343.5**	**387.5**	**342.7**

At 31 December 2015 £17.2 million (2014: £15.2 million) of cash has been deposited by the Group and Society as collateral against derivative contracts.

11. DEBT SECURITIES

Group and Society	2015 £m	2014 £m
Securities available-for-sale		
Gilts	30.6	20.9
Treasury bills	2.0	20.0
Certificate of deposit	15.1	33.3
Fixed rate notes	21.1	31.5
Floating rate notes	33.5	60.1
	102.3	**165.8**
Movements on debt securities during the year may be analysed as follows:		
At 1 January	165.8	147.6
Additions	124.9	107.8
Disposals and maturities	(188.2)	(90.4)
Net (losses)/gains from changes in fair value recognised in other comprehensive income	(0.2)	0.8
	102.3	**165.8**

Of this total £68.9 million (2014: £105.6 million) is attributable to fixed income debt securities.

Debt securities include items with a carrying value of £2.1 million (2014: £5.4 million) which have been pledged as collateral under Bank of England facilities.

12. DERIVATIVE FINANCIAL INSTRUMENTS

Group and Society	2015 Contract/ notional amount £m	2015 Fair value of assets £m	2015 Fair value of liabilities £m	2014 Contract/ notional amount £m	2014 Fair value of assets £m	2014 Fair value of liabilities £m
Unmatched derivatives						
Interest rate swaps	166.7	0.1	(0.2)	30.1	0.1	(0.1)
Derivatives designated as fair value hedges						
Interest rate swaps	1,440.2	3.7	(9.1)	1,746.4	9.8	(13.5)
	1,606.9	**3.8**	**(9.3)**	**1,776.5**	**9.9**	**(13.6)**

13. LOANS AND ADVANCES TO CUSTOMERS

Group and Society	Notes	2015 £m	2014 £m
Loans fully secured on residential property		2,719.7	2,635.1
Other loans fully secured on land		72.5	76.0
		2,792.2	2,711.1
Provision for impairment losses on loans and advances	14	(4.5)	(4.8)
		2,787.7	2,706.3
Fair value adjustment for hedged risk		8.8	12.0
		2,796.5	**2,718.3**

The Group has participated in the Funding for Lending Scheme, which provides Treasury bills in return for eligible collateral. For accounting purposes the underlying collateral is retained on balance sheet and the Treasury bills are not. At 31 December 2015, the Group has pledged £987.4 million (2014: £981.5 million) of mortgage loan pools as collateral with the Bank of England. Of these mortgage loan pools £706.7 million (2014: £686.0 million) 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.

14. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

Impairment provisions have been deducted from the appropriate asset values on the Statement of Financial Position. Movement in provision for impairment losses on loans and advances may be analysed as follows:

Group and Society	Notes	2015 Loans fully secured on residential property £m	2015 Other loans fully secured on land £m	2015 Total £m	2014 Loans fully secured on residential property £m	2014 Other loans fully secured on land £m	2014 Total £m
At 1 January							
Collective impairment		0.6	1.1	1.7	0.6	1.0	1.6
Individual impairment		0.3	2.8	3.1	0.8	1.5	2.3
		0.9	**3.9**	**4.8**	**1.4**	**2.5**	**3.9**
Income statement							
Charge/ (release) for the year							
Collective impairment		0.1	0.4	0.5	-	0.1	0.1
Individual impairment		0.1	(0.3)	(0.2)	(0.1)	1.6	1.5
		0.2	**0.1**	**0.3**	**(0.1)**	**1.7**	**1.6**
Amount utilised in the year							
Individual impairment		-	(0.6)	(0.6)	(0.4)	(0.3)	(0.7)
At 31 December							
Collective impairment		0.7	1.5	2.2	0.6	1.1	1.7
Individual impairment		0.4	1.9	2.3	0.3	2.8	3.1
	13	**1.1**	**3.4**	**4.5**	**0.9**	**3.9**	**4.8**
The charge/ (credit) to the income statement comprises:							
Provision for impairment		0.2	0.1	0.3	(0.1)	1.7	1.6
Recoveries of debts previously written off		(0.1)	-	(0.1)	(0.3)	-	(0.3)
		0.1	**0.1**	**0.2**	**(0.4)**	**1.7**	**1.3**

15. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Society	2015 Shares £m	2015 Loans £m	2014 Shares £m	2014 Loans £m
At 1 January	-	8.2	-	9.1
Repayment	-	(0.5)	-	(0.9)
	-	**7.7**	**-**	**8.2**

The Society has the following subsidiary undertakings which operate in the United Kingdom 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 Ltd	Mortgage Broking	100%
Nottingham Property Services Ltd	Estate Agency and related services	100%

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

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.

16. PROPERTY, PLANT AND EQUIPMENT

2015	Group			Society		
	Land and buildings £m	Equipment, fixtures, fittings £m	Total £m	Land and buildings £m	Equipment, fixtures, fittings £m	Total £m
Cost						
At 1 January	15.3	17.5	32.8	13.3	17.1	30.4
Additions	0.8	1.7	2.5	0.8	1.5	2.3
Disposals	-	(0.1)	(0.1)	-	(0.1)	(0.1)
At 31 December	**16.1**	**19.1**	**35.2**	**14.1**	**18.5**	**32.6**
Depreciation						
At 1 January	7.9	12.4	20.3	6.8	12.1	18.9
Charge for the year	0.4	1.4	1.8	0.4	1.4	1.8
On disposals	-	-	-	-	-	-
At 31 December	**8.3**	**13.8**	**22.1**	**7.2**	**13.5**	**20.7**
Net Book Value						
At 31 December	**7.8**	**5.3**	**13.1**	**6.9**	**5.0**	**11.9**

2014	Group			Society		
	Land and buildings £m	Equipment, fixtures, fittings £m	Total £m	Land and buildings £m	Equipment, fixtures, fittings £m	Total £m
Cost						
At 1 January	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	**15.3**	**17.5**	**32.8**	**13.3**	**17.1**	**30.4**
Depreciation						
At 1 January	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	**7.9**	**12.4**	**20.3**	**6.8**	**12.1**	**18.9**
Net Book Value						
At 31 December	**7.4**	**5.1**	**12.5**	**6.5**	**5.0**	**11.5**

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
The net book value of land and buildings comprises:				
Freehold	7.1	6.7	6.2	5.8
Short Leasehold	0.7	0.7	0.7	0.7
	7.8	**7.4**	**6.9**	**6.5**
The net book value of land and buildings occupied for own use:				
Building Society	6.5	6.1	6.5	6.1
Subsidiaries	0.9	0.9	-	-
Non - Group	0.4	0.4	0.4	0.4
	7.8	**7.4**	**6.9**	**6.5**

17. INTANGIBLE ASSETS

GROUP 2015	Goodwill £m	Purchased Software £m	Developed Software £m	Other Intangibles £m	Total £m
Cost					
At 1 January	4.5	6.9	11.6	0.7	23.7
Additions	-	0.1	0.4	-	0.5
At 31 December	**4.5**	**7.0**	**12.0**	**0.7**	**24.2**
Amortisation					
At 1 January	-	6.6	7.5	0.4	14.5
Charge for the year	-	0.2	1.2	0.1	1.5
At 31 December	**-**	**6.8**	**8.7**	**0.5**	**16.0**
Net Book Value					
At 31 December	**4.5**	**0.2**	**3.3**	**0.2**	**8.2**

GROUP 2014	Goodwill £m	Purchased Software £m	Developed Software £m	Other Intangibles £m	Total £m
Cost					
At 1 January	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	**4.5**	**6.9**	**11.6**	**0.7**	**23.7**
Amortisation					
At 1 January	-	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	**-**	**6.6**	**7.5**	**0.4**	**14.5**
Net Book Value					
At 31 December	**4.5**	**0.3**	**4.1**	**0.3**	**9.2**

17. INTANGIBLE ASSETS (CONTINUED)

SOCIETY	2015 Purchased Software £m	2015 Developed Software £m	2015 Total £m	2014 Purchased Software £m	2014 Developed Software £m	2014 Total £m
Cost						
At 1 January	6.8	11.6	18.4	7.2	11.3	18.5
Additions	0.1	0.4	0.5	0.2	0.6	0.8
Written off in the year	-	-	-	(0.6)	(0.3)	(0.9)
At 31 December	**6.9**	**12.0**	**18.9**	**6.8**	**11.6**	**18.4**
Amortisation						
At 1 January	6.5	7.5	14.0	6.1	6.3	12.4
Charge for the year	0.2	1.2	1.4	0.6	1.4	2.0
Written off in the year	-	-	-	(0.2)	(0.2)	(0.4)
At 31 December	**6.7**	**8.7**	**15.4**	**6.5**	**7.5**	**14.0**
Net Book Value						
At 31 December	**0.2**	**3.3**	**3.5**	**0.3**	**4.1**	**4.4**

18. DEFERRED TAX

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
At 1 January	1.9	1.2	1.9	1.2
(Charge)/ credit to the income statement	(0.2)	0.2	(0.2)	0.2
Recognised directly in other comprehensive income	(0.1)	0.5	(0.1)	0.5
At 31 December	**1.6**	**1.9**	**1.6**	**1.9**

The deferred tax (charge)/ credit in the income statement comprises the following temporary differences:

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Property, plant and equipment	(0.1)	(0.1)	(0.1)	(0.1)
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)	(0.1)	(0.1)	(0.1)
Intangible assets	0.2	0.4	0.2	0.4
Effect of change in tax rate	(0.2)	-	(0.2)	-
Other provisions	(0.1)	(0.1)	(0.1)	(0.1)
	(0.2)	**0.2**	**(0.2)**	**0.2**

Deferred income tax assets and liabilities as at 31 December are attributable to the following items:

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Deferred tax assets				
Pensions and other post-retirement benefits	1.0	1.4	1.0	1.4
Property, plant and equipment	0.5	0.7	0.5	0.6
Other provisions	0.1	0.2	0.1	0.2
Transfer of engagements – fair value adjustments	0.4	0.5	0.4	0.5
	2.0	**2.8**	**2.0**	**2.7**
Deferred tax liabilities				
IFRS transitional adjustments	-	0.1	-	0.1
Property, plant and equipment	-	0.1	-	-
Intangibles	0.4	0.7	0.4	0.7
	0.4	**0.9**	**0.4**	**0.8**

The Finance Act 2013 reduced the rate of UK corporation tax from 21% to 20% with effect from 1 April 2015. The Finance Act 2015 further reduced the rate to 19% from 1 April 2017 and 18% from 1 April 2020 and these rate changes were substantively enacted in October 2015. Therefore existing temporary differences may unwind in future periods subject to these reduced rates.

19. SHARES

Group and Society	2015 £m	2014 £m
Held by individuals	2,433.1	2,575.3
Fair value adjustment for hedged risk	0.1	0.1
	2,433.2	**2,575.4**

20. AMOUNTS OWED TO CREDIT INSTITUTIONS

Group and Society	2015 £m	2014 £m
Amounts owed to credit institutions	410.4	264.2
	410.4	**264.2**

At 31 December 2015 no (2014: £nil) cash has been received by the Group and Society as collateral against derivative contracts. Amounts owed to credit institutions include £314.1 million (2014: £241.5 million) secured against certain loans and advances to credit institutions and loans and advances to customers.

21. AMOUNTS OWED TO OTHER CUSTOMERS

Group and Society	2015 £m	2014 £m
Demand accounts		
Retail customers	2.3	5.0
Other	6.1	6.3
	8.4	**11.3**
Term deposits		
Local Authorities	112.3	85.5
Pension Funds/ Insurers	10.0	2.9
Other	92.9	89.5
	215.2	**177.9**
	223.6	**189.2**

22. DEBT SECURITIES IN ISSUE

Group and Society	2015 £m	2014 £m
Certificates of deposit	9.0	3.5
	9.0	**3.5**

23. OTHER LIABILITIES AND ACCRUALS

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Income tax	0.2	0.2	0.2	0.2
Trade creditors	0.1	0.3	0.1	0.3
Accruals and deferred income	2.9	3.0	2.5	2.9
Other creditors	1.6	2.0	1.5	1.9
	4.8	**5.5**	**4.3**	**5.3**

24. PROVISION FOR LIABILITIES

Group and Society	2015 FSCS £m	2015 Customer redress & other provisions £m	2015 Total £m	2014 FSCS £m	2014 Customer redress & other provisions £m	2014 Total £m
At 1 January	1.2	0.6	1.8	1.3	0.5	1.8
Charge for the year	1.4	-	1.4	1.8	1.2	3.0
Provision utilised	(1.6)	(0.2)	(1.8)	(1.9)	(1.1)	(3.0)
	1.0	**0.4**	**1.4**	**1.2**	**0.6**	**1.8**

FSCS levy
The levy represents the estimated amount payable under the FSCS for the 2015/2016 scheme year, which runs from March 2015 to March 2016, and is calculated with reference to the protected deposits held at 31 December 2014. The amount payable includes the Society's share of interest payable.

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 predominantly crystallise over the next 12 to 24 months.

25. RETIREMENT BENEFIT OBLIGATIONS

a) Defined benefit obligations

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 2014. This review showed that the market value of the scheme assets at 1 April 2014 was £40.8 million and that the actuarial value of those assets represented 85% of the benefits that had accrued to members after allowing for expected future increase in salaries.

An updated actuarial valuation at 31 December 2015 was carried out on a market value basis by a qualified independent actuary, as follows:

Group and Society	2015 %	2014 %
The principal actuarial assumptions used were as follows:		
Discount rate	3.7	3.4
Rate of increase in salaries	3.1	3.0
Rate of increase in pensions	3.5	3.4
Inflation	3.1	3.0

The table below shows the assumptions used for expected life at 31 December (normal retirement age of 62).

Group and Society	2015 Male Years	2015 Female Years	2014 Male Years	2014 Female Years
Expected life at retirement for a new pensioner	26.4	28.6	27.0	28.5
Expected life at retirement in 20 years' time	27.9	30.1	29.8	30.6

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	Change in assumption	2015 £m	2014 £m
Principal actuarial assumption			
Discount rate	+/- 0.25%	(2.3)	(2.6)
Rate of increase in salaries	+/- 0.25%	0.2	0.2
Rate of increase in pensions	+/- 0.25%	0.5	0.4
Mortality age adjustment	+/- 0.25%	0.6	0.7

25. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Group and Society	2015 £m	2014 £m
Fair value of scheme assets:		
As at 1 January	45.8	42.0
Interest on pension scheme assets	1.5	1.8
Contributions by employer	1.0	0.7
Benefits paid	(1.4)	(2.4)
Expenses paid by trustees	(0.1)	(0.1)
Decrease in secured pensioners value due to scheme experience	(0.1)	(0.1)
(Loss)/gain on asset returns	(1.4)	3.9
As at 31 December	**45.3**	**45.8**
Present value of defined benefit obligations:		
As at 1 January	(52.4)	(46.6)
Interest on pension scheme liabilities	(1.7)	(2.0)
Benefits paid	1.4	2.4
Decrease in secured pensioners value due to scheme experience	0.1	0.2
Experience (loss)/gain on liabilities	(0.6)	0.4
Gain/(loss) on changes in financial assumptions	2.1	(5.9)
Gain/(loss) on changes in demographic assumptions	0.3	(0.9)
As at 31 December	**(50.8)**	**(52.4)**
LIABILITY IN THE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER	**(5.5)**	**(6.6)**

The actual return on plan assets was a gain of £0.2 million (2014: £5.7m gain).

The major categories of plan assets are as follows:

Group and Society	2015 £m	2014 £m
Equities	20.8	20.8
Bonds	23.0	23.5
Cash	0.2	0.1
Secured pensioners	1.3	1.4
Fair value of scheme assets	**45.3**	**45.8**
The amounts recognised in finance income are:		
Interest cost	(1.7)	(2.0)
Interest on pension scheme assets	1.5	1.8
	(0.2)	**(0.2)**

The movement in the liability recognised in the statement of financial position is as follows:

Group and Society	2015 £m	2014 £m
Opening defined benefit obligation at 1 January	(6.6)	(4.6)
Amount recognised in the income statement	(0.2)	(0.2)
Employer contributions	1.0	0.7
Remeasurement gains/(losses)	0.3	(2.5)
CLOSING DEFINED BENEFIT OBLIGATION AS AT 31 DECEMBER	**(5.5)**	**(6.6)**

25. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The amount recognised in the statement of other comprehensive income for remeasurement gains and losses is as follows:

Group and Society	2015 £m	2014 £m
Actual return less expected return on plan assets	(1.5)	3.9
Experience (loss)/gain arising on scheme liabilities	(0.6)	0.4
Changes in assumptions underlying the present value of the scheme liabilities	2.4	(6.8)
REMEASUREMENT OF DEFINED BENEFIT OBLIGATION	**0.3**	**(2.5)**

The average duration of the defined benefit obligation at 31 December 2015 is 17 years (2014: 18 years). This number can be analysed as follows:

Group and Society	2015 Years	2014 Years
Active members	22	25
Deferred members	22	25
Retired members	10	14

During the year, the Group made additional contributions of £1.0 million (2014: £0.7 million) as part of its funding plan. The Group and Society expect to contribute £0.7 million to the fund during 2016.

b) Defined contribution obligations

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 £0.7 million (2014: £0.6 million) and for the Society £0.6 million (2014: £0.6 million). There were no outstanding or prepaid contributions at either the beginning or end of the year.

26. SUBSCRIBED CAPITAL

Group and Society	2015 £m	2014 £m
7.875% sterling permanent interest bearing shares	23.9	23.9
Fair value adjustment for hedged risk	2.3	2.7
	26.2	**26.6**

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.

27. AVAILABLE-FOR-SALE RESERVES

Group and Society	2015 £m	2014 £m
At 1 January	0.4	(0.2)
Net (loss)/ gain from changes in fair value	(0.2)	0.6
	0.2	**0.4**

28. FINANCIAL INSTRUMENTS

Classification & Measurement

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. Six sub committees, the Assets and Liabilities Committee (ALCO), Retail Credit Committee (RCC), Operational Risk Committee (ORC), Information Security Committee (ISC), Conduct Risk Committee (CRC) and Programme Board 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 portfolio fair value hedging techniques to reduce its exposure to interest rate risk as follows:

Hedged item	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 2015 are shown in note 12.

28. FINANCIAL INSTRUMENTS (CONTINUED)

Classification & Measurement (continued)

Below are the 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

28. FINANCIAL INSTRUMENTS (CONTINUED)

Classification & Measurement (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:

Carrying values by category	Held at amortised cost		Held at fair value			
Group **As at 31 December 2015**	Loans and receivables **£m**	Financial assets and liabilities at amortised cost **£m**	Available-for-sale **£m**	Derivatives designated as fair value hedges **£m**	Unmatched derivatives **£m**	Total **£m**
Financial assets						
Cash in hand	-	1.3	-	-	-	1.3
Loans and advances to credit institutions	388.0	-	-	-	-	388.0
Debt securities	-	-	102.3	-	-	102.3
Derivative financial instruments	-	-	-	3.7	0.1	3.8
Loans and advances to customers	2,796.5	-	-	-	-	2,796.5
Other assets	-	26.5	-	-	-	26.5
	3,184.5	**27.8**	**102.3**	**3.7**	**0.1**	**3,318.4**
Financial liabilities						
Shares	-	2,433.2	-	-	-	2,433.2
Amounts owed to credit institutions	-	410.4	-	-	-	410.4
Amounts owed to other customers	-	223.6	-	-	-	223.6
Debt securities in issue	-	9.0	-	-	-	9.0
Derivative financial instruments	-	-	-	9.1	0.2	9.3
Subscribed capital	-	26.2	-	-	-	26.2
Other liabilities	-	14.2	-	-	-	14.2
	-	**3,116.6**	**-**	**9.1**	**0.2**	**3,125.9**

28. FINANCIAL INSTRUMENTS (CONTINUED)

Classification & Measurement (continued)

Carrying values by category	Held at amortised cost		Held at fair value			
Group As at 31 December 2014	Loans and receivables £m	Financial assets and liabilities at amortised cost £m	Available-for-sale £m	Derivatives designated as fair value hedges £m	Unmatched derivatives £m	Total £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
Subscribed capital	-	26.6	-	-	-	26.6
Other liabilities	-	16.2	-	-	-	16.2
	-	**3,075.1**	**-**	**13.5**	**0.1**	**3,088.7**

There have been no reclassifications during either year.

Accounts

28. 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		2015 Book value £m	2015 Fair value £m	2014 Book value £m	2014 Fair value £m
Financial assets					
Cash in hand	a	1.3	1.3	1.4	1.4
Loans and advances to credit institutions	b	388.0	388.0	343.5	343.5
Loans and advances to customers	c	2,796.5	2,804.6	2,718.3	2,732.1
Financial liabilities					
Shares	d	2,433.2	2,436.4	2,575.4	2,593.1
Amounts owed to credit institutions	d	410.4	411.2	264.2	264.2
Amounts owed to other customers	d	223.6	224.2	189.2	194.1
Debt securities in issue	e	9.0	9.1	3.5	3.5
Subscribed capital	f	23.9	30.2	23.9	30.5

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

The estimated fair value of fixed interest bearing debt is based on its active market price as at the period end.

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 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 the period end.

28. 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	Notes	2015 Level 1 £m	2015 Level 2 £m	2015 Total £m	2014 Level 1 £m	2014 Level 2 £m	2014 Total £m
Financial assets							
Available-for-sale – Debt securities	11	87.2	15.1	102.3	132.5	33.3	165.8
Derivative financial instruments –Interest rate swaps	12	-	3.8	3.8	-	9.9	9.9
		87.2	**18.9**	**106.1**	**132.5**	**43.2**	**175.7**
Financial liabilities							
Derivative financial instruments –Interest rate swaps	12	-	(9.3)	(9.3)	-	(13.6)	(13.6)
		-	**(9.3)**	**(9.3)**	**-**	**(13.6)**	**(13.6)**

There are no level 3 financial instruments carried at fair value.

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

- **Level 1** – Market prices have been used to determine the fair value of listed debt securities
- **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 fully collateralised and therefore no adjustment is required for credit risk in the fair value of derivatives.

Transfers between fair value hierarchies

Transfers between fair value hierarchies occur when either it becomes possible to value a financial instrument using a method that is higher up the valuation hierarchy or it is no longer possible to value it using the current method and it must instead be valued using a method lower down the hierarchy. There have been no transfers during the current or previously reported periods.

28. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial assets and liabilities carried at fair value (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	2015 £m	2014 £m
Credit risk exposure		
Cash in hand	1.3	1.4
Loans and advances to credit institutions	388.0	343.5
Debt securities	102.0	165.3
Derivative financial instruments	3.8	9.9
Loans and advances to customers	2,787.7	2,706.3
Total statement of financial position exposure	**3,282.8**	**3,226.4**
Off balance sheet exposure – mortgage commitments	157.7	57.8
	3,440.5	**3,284.2**

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	2015 £m	2015 %	2014 £m	2014 %
Industry sector				
Banks	106.6	21.7	161.7	31.6
Building Societies	-	-	8.0	1.6
Multilateral Development Banks	15.7	3.2	26.4	5.2
Central Government	369.3	75.1	314.6	61.6
	491.6		**510.7**	

Group	2015 £m	AAA %	AA %	A %	Other %	2014 £m
Geographic region						
United Kingdom	446.9	-	86.5	5.6	7.9	434.2
Multilateral Development banks	15.7	100.0	-	-	-	26.4
Canada	20.1	-	100.0	-	-	21.3
Australia	8.9	-	100.0	-	-	28.8
	491.6					**510.7**

28. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

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

The Group has no exposure to foreign exchange risk. All instruments are denominated in Sterling. The Group also has no direct exposure to any sovereign states, other than the UK.

The Group's derivative financial instruments are fully collateralised with a central clearing house in the United Kingdom and as a result there is no exposure to the Group.

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 credit-worthiness 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 76.

Loans and advances to customers are predominantly made up of retail loans fully secured against UK residential property (£2,719.7 million), split between residential and buy-to-let loans with the remaining £72.5 million being secured on commercial property.

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

28. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (continued)

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

Group and Society	2015 %	2014 %
Geographical analysis		
Eastern	10.3	10.7
East Midlands	21.3	21.5
London	9.3	11.1
North East	4.0	3.2
North West	9.4	8.5
South East	14.3	15.0
South West	7.5	7.7
Wales	2.4	2.4
West Midlands	9.5	8.8
Yorkshire & Humberside	11.7	10.7
Other	0.3	0.4
	100.0	**100**

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 52% (2014: 53%). All residential loans above 80% LTV are insured.

The indexed loan-to-value analysis on the Group's residential mortgage portfolio is shown below:

Group and Society	2015 Residential %	2015 Buy-to-let %	2014 Residential %	2014 Buy-to-let %
Loan to Value analysis				
< 60%	36.0	40.1	27.7	23.3
60% - 80%	52.1	58.4	57.2	72.5
80% - 90%	11.4	1.4	14.3	3.7
> 90%	0.5	0.1	0.8	0.5
	100.0	**100.0**	**100.0**	**100.0**
Average loan to value of loans	52.2	60.8	53.4	64.1
Average loan to value of new business	68.4	75.0	73.8	68.6

The quality of the Group's retail mortgage book is reflected in the number and value of accounts in arrears. By volume 0.2% (2014: 0.3%) of loans are three months or more in arrears and by value it is 0.1% (2014: 0.2%).

The main factor for loans moving into arrears tends to be the condition of the general economic environment. In general, the lower the loan-to-value percentage, the greater the equity within the property, and the lower the losses expected to be realised in the event of default or repossession.

28. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (continued)

The table below shows the fair value of collateral held for residential mortgages.

Group and Society	2015 Indexed £m	2015 Unindexed £m	2014 Indexed £m	2014 Unindexed £m
Value of collateral held:				
Neither past due or impaired	5,132.7	4,283.4	4,794.3	4,170.2
Past due but not impaired	35.0	27.6	38.2	31.6
Impaired	1.5	1.4	4.9	4.5
	5,169.2	**4,312.4**	**4,837.4**	**4,206.3**

The collateral held 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 £15.6million (2014: £18.1million) against outstanding debt of £15.6million (2014: £18.1million). In addition, the value of collateral held against 'Impaired' assets at 31 December is £1.3million (2014: £3.8million) against outstanding debt of £1.3million (2014: £3.8million).

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

Group and Society	2015 £m	2015 %	2014 £m	2014 %
Arrears analysis				
Not impaired:				
Neither past due or impaired	2,702.8	99.38	2,613.2	99.17
Past due up to 3 months but not impaired	13.7	0.51	13.6	0.52
Past due over 3 months but not impaired	2.0	0.07	4.5	0.18
Impaired:				
Not past due	0.7	0.03	0.6	0.02
Past due up to 3 months	-	-	1.9	0.07
Past due 3 to 6 months	0.3	0.01	0.6	0.02
Past due 6 to 12 months	-	-	0.4	0.01
Past due over 12 months	0.1	-	0.2	0.01
Possessions	0.1	-	0.1	-
	2,719.7	**100.0**	**2,635.1**	**100.0**

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.

28. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (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	2015 Number	2014 Number
Type of forbearance		
Interest only concessions	15	22
Reduced payment concessions	1	5
Payment plans	73	56
Capitalisations	65	62
Mortgage term extensions	70	70
Less: cases with more than one form of forbearance	(66)	(66)
	158	**149**

These cases are covered by an individual impairment provision of £0.03 million (2014: £0.1 million). In total, £2.7 million (2014: £2.6 million) of loans that would be past due are subject to forbearance.

28. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (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	2015 £m	2015 %	2014 £m	2014 %
Owner occupied	34.7	47.9	37.7	49.7
Investment property	37.8	52.1	38.3	50.3
	72.5	**100.0**	**76.0**	**100.0**

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

Group and Society	2015 %	2014 %
Loan to Value analysis		
< 60%	29.4	28.4
60% - 80%	48.6	47.1
80% - 90%	21.4	23.5
> 90%	0.6	1.0
	100.0	**100.0**
Average loan to value of loans	62.6	62.8
Average loan to value of new business	53.0	53.8

The table below shows the fair value of collateral held for SBL loans:

Group and Society	2015 Indexed £m	2015 Unindexed £m	2014 Indexed £m	2014 Unindexed £m
Value of collateral held:				
Neither past due or impaired	125.7	137.6	126.2	133.0
Past due but not impaired	2.6	3.1	2.9	2.5
Impaired	4.7	7.1	5.5	5.6
	133.0	**147.8**	**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 (71% of the SBL book has had a desktop valuation (2014: 47%)).

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 £1.4 million (2014: £1.5 million) against outstanding debt of £1.5million (2014: £1.5 million). In addition, the value of collateral held against 'Impaired' assets at 31 December is £4.0 million (2014: £4.9 million) against outstanding debt of £4.5 million (2014: £5.8 million).

28. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (continued)

Secured Business Loans (continued)

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

Group and Society	2015 £m	2015 %	2014 £m	2014 %
Arrears analysis				
Not impaired:				
Neither past due or impaired	66.0	91.03	68.3	89.77
Past due up to 3 months but not impaired	1.3	1.79	1.1	1.41
Past due over 3 months but not impaired	0.2	0.27	0.4	0.56
Possessions	0.5	0.70	0.4	0.58
Impaired:				
Not past due	3.5	4.83	3.3	4.37
Past due up to 3 months	0.5	0.69	0.9	1.16
Past due 3 to 6 months	0.5	0.69	0.3	0.45
Possessions	-	-	1.3	1.70
	72.5	**100.0**	**76.0**	**100.0**

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% (2014: 1.7%) of the SBL mortgage book. SBL assets totalling £4.5 million (2014: £5.8 million) 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	2015 Number	2014 Number
Type of forbearance		
Re-negotiation of contractual payment	4	4
	4	**4**

These loans are covered by the £1.5 million (2014: £1.1 million) collective provision.

£1.0 million (2014: £0.7 million) of loans that would be past due or impaired are subject to forbearance.

28. FINANCIAL INSTRUMENTS (CONTINUED)

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 Treasury 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 16.0% compared to 16.8% at the end of 2014. When the FLS Treasury Bills are taken into account, the ratio of liquid resources to shares and deposits was 24.9% (2014: 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.

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 3.5 years (2014: 3.3 years). Conversely, retail deposits repayable on demand generally remain on the balance sheet much longer.

Group Residual maturity as at 31 December 2015	On demand **£m**	Not more than three months **£m**	More than three months but not more than one year **£m**	More than one year but not more than five years **£m**	More than five years **£m**	Total **£m**
Financial assets						
Cash in hand	1.3	-	-	-	-	1.3
Loans and advances to credit institutions	385.1	-	2.9	-	-	388.0
Debt securities	-	18.6	31.7	52.0	-	102.3
Total liquid assets	386.4	18.6	34.6	52.0	-	491.6
Derivative financial instruments	-	-	0.6	0.7	2.5	3.8
Loans and advances to customers	1.0	21.1	67.3	401.3	2,305.8	2,796.5
Other assets	-	1.5	3.5	0.2	21.3	26.5
	387.4	**41.2**	**106.0**	**454.2**	**2,329.6**	**3,318.4**
Financial liabilities and reserves						
Shares	552.7	967.0	333.6	579.9	-	2,433.2
Amounts owed to credit institutions	-	160.0	135.9	114.5	-	410.4
Amounts owed to other customers	17.5	98.8	87.0	20.3	-	223.6
Debt securities in issue	-	2.0	7.0	-	-	9.0
Derivative financial instruments	-	-	1.1	8.2	-	9.3
Subscribed capital	-	0.1	-	-	26.1	26.2
Reserves	-	-	-	-	192.5	192.5
Other liabilities	0.9	2.6	4.2	1.0	5.5	14.2
	571.1	**1,230.5**	**568.8**	**723.9**	**224.1**	**3,318.4**
NET LIQUIDITY GAP	**(183.7)**	**(1,189.3)**	**(462.8)**	**(269.7)**	**2,105.5**	**-**

28. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

Group **Residual maturity** **as at 31 December 2014**	On demand **£m**	Not more than three months **£m**	More than three months but not more than one year **£m**	More than one year but not more than five years **£m**	More than five years **£m**	Total **£m**
Financial 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
Subscribed capital	-	0.1	-	-	26.5	26.6
Reserves	-	-	-	-	177.1	177.1
Other liabilities	1.1	2.5	2.5	3.5	6.6	16.2
	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**	**-**

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

At 31 December 2015, £45.0 million (2014: £nil) of the Group's liquid assets were encumbered.

28. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

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

Group 31 December 2015	Repayable on demand £m	Not more than three months £m	More than three months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Total £m
Shares	574.9	979.0	333.6	579.9	-	2,467.4
Amounts owed to credit institutions	1.3	161.0	134.2	117.7	-	414.2
Amounts owed to other customers	17.5	98.9	87.7	20.8	-	224.9
Debt securities in issue	-	2.0	7.1	-	-	9.1
Derivative financial instruments	-	0.8	6.4	51.1	1.4	59.7
Subscribed capital	-	0.5	1.5	7.9	23.9	33.8
TOTAL LIABILITIES	**593.7**	**1,242.2**	**570.5**	**777.4**	**25.3**	**3,209.1**
Group 31 December 2014						
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**

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.

28. 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 4.0% 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 2015	Not more than three months **£m**	More than three months but not more than one year **£m**	More than one year but not more than five years **£m**	More than five years **£m**	Non interest bearing **£m**	Total **£m**
Financial assets						
Cash in hand	-	-	-	-	1.3	1.3
Loans and advances to credit institutions	384.7	-	-	-	3.3	388.0
Debt securities	50.6	15.9	35.8	-	-	102.3
Derivative financial instruments	-	-	-	-	3.8	3.8
Loans and advances to customers	801.0	521.0	1,426.4	35.3	12.8	2,796.5
Other assets	-	-	-	-	26.5	26.5
	1,236.3	**536.9**	**1,462.2**	**35.3**	**47.7**	**3,318.4**
Financial liabilities and reserves						
Shares	1,452.7	385.5	577.5	-	17.5	2,433.2
Amounts owed to credit institutions	160.9	133.9	114.5	-	1.1	410.4
Amounts owed to other customers	119.4	83.0	20.4	-	0.8	223.6
Debt securities in issue	2.0	7.0	-	-	-	9.0
Derivative financial instruments	-	-	-	-	9.3	9.3
Subscribed capital	-	-	-	23.9	2.3	26.2
Reserves	-	-	-	-	192.5	192.5
Other liabilities	-	-	-	-	14.2	14.2
	1,735.0	**609.4**	**712.4**	**23.9**	**237.7**	**3,318.4**
Impact of derivative instruments	1,066.0	(171.5)	(839.5)	(55.0)	-	-
Interest rate sensitivity gap	**567.3**	**(244.0)**	**(89.7)**	**(43.6)**	**(190.0)**	**-**
Sensitivity to profit and reserves						
Parallel shift of +1%	(0.1)	0.9	(0.4)	(0.6)	-	(0.2)
Parallel shift of +2%	(0.2)	1.8	(0.8)	(1.2)	-	(0.4

28. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (continued)

Group Interest rate risk as at 31 December 2014	Not more than three months **£m**	More than three months but not more than one year **£m**	More than one year but not more than five years **£m**	More than five years **£m**	Non interest bearing **£m**	Total **£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
Subscribed capital	-	-	-	23.9	2.7	26.6
Reserves	-	-	-	-	177.1	177.1
Other liabilities	-	-	-	-	16.2	16.2
	1,780.9	**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

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.

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 centrally clears its derivative instruments in which it is required to enter into Credit Support Annexes (CSA's) and which typically provide for the exchange of collateral on a daily basis to mitigate net mark to market credit exposure.

28. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (continued)

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

Group and Society	2015 Gross* Amounts £m	2015 Financial collateral** £m	2015 Net amounts £m	2014 Gross* Amounts £m	2014 Financial collateral** £m	2014 Net amounts £m
Financial assets						
Derivative financial instruments	3.8	(3.8)	-	9.9	(9.9)	-
TOTAL FINANCIAL ASSETS	**3.8**	**(3.8)**	**-**	**9.9**	**(9.9)**	**-**
Financial liabilities						
Derivative financial instruments	9.3	(9.3)	-	13.6	(13.6)	-
Repurchase agreements	379.1	(379.1)	-	246.5	(246.5)	-
TOTAL FINANCIAL LIABILITIES	**388.4**	**(388.4)**	**-**	**260.1**	**(260.1)**	**-**

*As reported in the statement of financial position.

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

Financial guarantees

The Society guarantees its subsidiaries' bank overdrafts; at the year end this was £nil (2014: £nil). The maximum exposure in relation to this was £1.0 million.

29. 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 Internal Capital Adequacy Assessment Process ('ICAAP') 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 Individual 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 monitored by the Prudential Regulation Authority ('PRA'). During 2015, the Society has complied with the 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 15.

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**.

30. FINANCIAL COMMITMENTS

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Capital commitments				
Capital expenditure contracted for but not provided for in the accounts	0.4	0.2	0.4	02

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
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
Between one year and five years	1.0	1.3	0.5	0.6
In more than five years	3.7	3.3	3.1	2.4
	4.7	**4.7**	**3.6**	**3.1**
Other:				
Commitments expiring:				
Less than one year	-	0.4	-	0.4
Between one year and five years	0.5	0.3	0.4	0.1
	5.2	**5.4**	**4.0**	**3.6**

31. RELATED PARTY TRANSACTIONS

Transaction with Group companies

Details of the Society's shares in group undertakings are given in note 15.

During the normal course of business the following transactions were undertaken during the year:

Society	2015 Nottingham Mortgage Services £m	2015 Nottingham Property Services £m	2015 Harrison Murray £m	2014 Nottingham Mortgage Services £m	2014 Nottingham Property Services £m	2014 £m Harrison Murray £m
Management charges paid	0.1	0.1	0.1	-	0.1	-

Movement on the intercompany loan are disclosed in note 15.

At the end of the year the following balances were outstanding between the Society and its subsidiaries:

	2015 Loans owed by subsidiaries £m	2014 Loans owed by subsidiaries £m
Harrison Murray Ltd	0.4	(0.6)
HM Lettings Ltd	0.2	0.1
Nottingham Mortgage Services Ltd	-	0.2
Nottingham Property Services Ltd	7.1	8.3
TMAC Ltd	-	0.2
	7.7	**8.2**

No interest is charged on balances between Group companies.

31. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with key management personnel

Transactions with key management personnel are on the same terms and conditions applicable to members and other employees within the Group. The directors are considered to be the only key management personnel as defined by IAS 24, which includes non-executive directors.

Compensation for key management personnel for the year totalled £1.4 million (2014: £1.2 million) and a breakdown is disclosed on page 37 in the Directors' remuneration report.

In addition, the following transactions were undertaken through the normal course of business:

Group and Society	2015 Number of key management personnel and their close family members Number	2015 Amounts in respect of key management personnel and their close family members £000	2014 Number of key management personnel and their close family members Number	2014 Amounts in respect of key management personnel and their close family members £000
Loans and advances				
Net movements in the year	-	(13)	-	(13)
Balances outstanding 31 December	2	195	2	208
Share accounts				
Net movement in the year	2	75	-	(115)
Balances outstanding 31 December	12	244	10	169
Interest receivable on loans & advances		6		6
Interest payable on share accounts		3		5

Directors' loans and transactions

At 31 December 2015 there was one (2014: one) outstanding secured mortgage loan 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 2015, will be available for inspection at the head office for a period of 15 days up to and including the annual general meeting.

32. REGISTERED OFFICE

Nottingham Building Society is a building society, incorporated and domiciled in the United Kingdom. The address of its registered office is: Nottingham House, 3 Fulforth Street, Nottingham, NG1 3DL.

Annual business statement

for the year ended 31 December 2015

1. Statutory percentages	2015 %	Statutory limit %
Lending limit		
Proportion of business assets not in the form of loans fully secured on residential property	3.21	25
Funding limit		
Proportion of shares and borrowings not in the form of shares held by individuals	20.90	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 14), 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 19.

2. Other percentages	2015 %	2014 %
As a percentage of shares and borrowings		
Gross capital	7.11	6.72
Free capital	6.49	6.06
Liquid assets	15.98	16.84
As a percentage of mean total assets		
Profit after taxation	0.47	0.44
Management expenses (Group)	1.12	1.17
Management expenses (Society)	0.90	0.93
As a percentage of year end assets		
Return on assets	0.46	0.43

The above percentages have been calculated from the Group accounts.

'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 14) 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 2015:

Director's name	Date of appointment	Date of birth	Business occupation	Other directorships (and offices)
J. S. Edwards Chairman	10.01.12	10.06.55	Director	
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	Ashmill Worcester Ltd Grace Church Dulwich Ltd Momo Money Ltd Northgate (Warwick) Developments Ltd The Great St Helen's Trust Ltd 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 Investment Ltd Elite Star Investments Trust Fund 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, FIoD	01.12.14	05.11.55	Director	Tai Tirion Ltd Penhurst Properties Ltd

Correspondence to directors jointly or individually should be addressed 'Private and Confidential' and c/o Ernst & Young LLP, 1 Bridgewater Place, Water Lane, Leeds, LS11 5QR.

3. Information about the directors at 31 December 2015 (continued)

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 six months' notice. Unless notice to terminate is given by either party, the contracts continue automatically.

Auditor: Ernst & Young LLP, 1 Bridgewater Place, Water Lane, Leeds LS11 5QR

Bankers: National Westminster Bank Plc, Unit 27 Victoria Centre, Nottingham NG1 3QD

Solicitors: Nelsons Solicitors, 8 Stanford Street, Nottingham NG1 7BQ

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	Basel III became effective in the UK on 1 January 2014 through CRD IV and sets out the details of strengthened global regulatory standards on bank capital adequacy and liquidity.
Buy to let loans	Buy to let loans are those loans which are offered to customers buying residential property specifically to let out and generate a rental income.
Common Equity Tier 1 capital (CET1)	CET1 capital consists of internally generated capital generated from retained profits, other reserves less intangible assets and other regulatory deductions. CET1 capital is fully loss absorbing.
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.
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 is made up of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), outlining 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.
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 or 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.
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.

Funding for Lending Scheme (FLS)	A scheme launched by the Bank of England and HM Treasury, which provides funding to participating banks and building societies with the aim of stimulating lending within the economy.
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 expects 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 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	The ratio of Tier 1 capital divided by the total exposures which includes on and off balance sheet items.
Liquid assets	Total of cash in hand, loans and advances to credit institutions, and debt securities.
Liquidity resources	Assets held in order to manage liquidity risk. Liquidity resources comprises cash and balances with the Bank of England, UK Government securities and multilateral development banks, other securities and bank deposits and Bank of England approved mortgage portfolios.
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 on which a payment 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) / Subscribed capital	Unsecured, deferred shares of the Society that are a form 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.
Prudential Regulation Authority (PRA)	The statutory body responsible for the prudential supervision of banks, building societies, insurers and a small number of significant investment firms in the UK. The PRA is a subsidiary of the Bank of England.

Glossary

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.
Residential loans	Loans that are loaned to individuals rather than institutions. Residential mortgage lending is secured against residential property.
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 III capital rules to reflect the degree of risk they represent.
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. In this approach the risk weightings used in the capital calculation are determined by specified percentages.
Subscribed capital	See permanent interest bearing shares (PIBS)
Tier 1 capital	A component of regulatory capital, it comprises CET1 and AT1.
Tier 2 capital	Comprises the collective impairment allowance (for exposures treated on a 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.

Nottingham Building Society
Nottingham House
3 Fulforth Street
Nottingham
NG1 3DL
0344 481 4444
thenottingham.com
customer-services@thenottingham.com

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

INVESTOR IN PEOPLE

LIT2467/0216