INTERIM FINANCIAL REPORT
30 JUNE 2020

The Nottingham

Contents

IFRS results

This Interim Financial Report for the six months ended 30 June 2020 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) and with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union (EU). The Interim Financial Report should be read in conjunction with the Annual Report and Accounts for the year ended 31 December 2019, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Forward looking statements

Certain statements in this Interim Financial Report are forward looking. The Society, defined in this Interim Financial Report as Nottingham Building Society and its subsidiary undertakings, believes that the expectations reflected in these forward looking statements are reasonable based on the information available at the time of the approval of this report. However we can give no assurance that these expectations will prove to be an accurate reflection of actual results; because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward looking statements. We undertake no obligation to update any forward looking statements whether as a result of new information, future events or otherwise.

Chief Executive introduction

The first half of 2020 has been dominated by the COVID-19 pandemic which has brought significant impacts to our nation's health, how we live our daily lives and the economy; with the strong likelihood that the UK will suffer the deepest recession since the Great Frost of 1709.

It is in unprecedented periods of national challenge such as this, that organisations and firms come under intense pressure and scrutiny and it is at times like these where we as a mutual, owned by our members, can bring our financial strength to bear to support our members, stakeholders and the communities that we serve. That is what we have focussed on in recent months, ensuring that we play our full part in tackling this national crisis.

Key performance highlights for this interim period include:

- Total assets of £3.9bn;
- Gross lending of £232m;
- Strong liquidity position with liquid assets ratio of 18.6%;
- Strong retail franchise – branch savings membership continues to increase;
- Sector-leading customer advocacy with a net promoter score of 78%; and
- Strong capital ratios with Common Equity Tier 1 ratio of 15.0% and leverage ratio of 5.0%;

Supporting members

The initial phase of the crisis was focussed on providing continuity of service to members as the country went into total lockdown, providing access to their money and support for those in need at a very difficult time. We were happy to fulfil this by remaining open in over 60 branches throughout the period of lockdown. This was supported by our contact centre, which also was available throughout.

We then turned our attention to how we could best support both our savings and borrowing members. We began by making a commitment to all our savers, that despite the Bank of England's decision to reduce Bank Base Rate to a record low of 0.1%, we would not reduce any savings rates for at least three months. We believed that this was the right thing to do, when the nation was effectively locked down and facing enormous uncertainty. We have subsequently extended this for our branch savings members, who represent the vast majority of our savers, for a further three months until the end of September.

For mortgage customers, we swiftly put in arrangements to allow borrowers to take a three month payment deferral on their mortgage if required; knowing that, in the vast majority of cases, a mortgage payment is the largest monthly outgoing. Furthermore, in appropriate circumstances, we have enabled borrowers facing significant challenges, the opportunity to extend that deferral for a further three months. Although a very small number each year, we also took the decision to introduce a moratorium on possession action for those facing payment difficulties due to the pandemic, until the end of October, to keep people in their homes even if they are unable to repay their mortgage.

This strong and rapid response to support members would not have been possible without the tremendous commitment and hard work of our team members. They responded brilliantly to their designation as key workers, ensuring we remained open and operational throughout, with hundreds of team members also making the significant adjustment to working from home. This required our support teams to ensure there was a safe and secure working environment in place, whether that has been in branch, at our Head Office, or at home. In response to those fantastic efforts, we committed to pay all our team members in full throughout the period of lockdown, irrespective of their personal situation or circumstances, providing certainty for all through the initial period.

In addition to supporting our members and colleagues, we have also taken our broader community responsibilities seriously, making significant contributions to key charities at the outset of the lockdown period. Those benefitting include Framework – our charity partner tackling homelessness; the Trussell Trust – a network of foodbanks who operate across our heartland; and The Silverline, a national charity providing mental wellbeing counselling and support for the elderly and isolated.

We believe these changes and support options were the right thing to do to be there for our stakeholders and communities at this most difficult time, irrespective of the cost.

Our mutual ethos and financial strength, in the shape of our capital which has been built up over 160 years plus, means that we could deliver that. Because of this, we decided not to take available government support of furlough payments, as we are fortunate enough to be able to finance and support ourselves and members – the mutual benefit. A demonstration of how well received this has been by our members, is reflected in our Net Promoter Score. Despite all the difficulties of the first half of this year, NPS stands at an incredible 78% - a resounding vote of confidence from our members.

Building a relevant vibrant society for the future

As time passed through lockdown, we turned our attention to how we can ensure that the Society can operate in a relevant and sustainable way in the new world that is rapidly emerging. Following a review of our strategy and priorities for the next three to five years and concluded that it was very important for us to accelerate the plans we had already developed and which we highlighted in the 2019 Report and Accounts; namely that we;

- Should continue to manage our balance sheet carefully to balance the needs of our savings and borrowing members;
- Review our range of services to ensure our members receive the right blend of expert advice and service from carefully selected partners; and
- Continue to invest in the use of digital technologies.

We have therefore, been taking all appropriate decisions to accelerate our activity and plans in these areas.

Notwithstanding the fact that our interest payable to savers will be higher than it might otherwise have been due to our commitment not to lower rates, we are beginning to see some encouraging signs in our refocussed approach to mortgage lending

Chief Executive introduction

and returns on our investment decisions of the past 12 months. Our mortgage lending to June 2020 is up 24% on the same period last year, despite the disruption of the pandemic and our balance sheet is growing again, albeit by a small amount. We are also earning improved yields on this lending, hence why we are happy to increase our activity levels. We are also seeing good reductions in the number of borrowers leaving us, with redemptions down by 30% compared to the first half of 2019.

Our branch savings balances also continue to grow and are 4% up on a year ago with that growth spread evenly over the year. In addition, we have attracted to the Society almost 20,000 LISA members, saving to buy their first home, and this number is increasing every week. This demonstrates that our core savings and mortgage franchises are in good health despite the challenging macro-economic conditions.

In terms of reviewing our services, earlier this month, we announced a strategic alliance with Belvoir Property Management to provide estate agency and lettings services to our members. Having operated our own estate agency for many years, we concluded that now was the right time to transfer most of those operations to a national expert, based in the East Midlands, who are better placed to deliver these services to our members. The alliance will also bring benefits to members in the shape of nationally available discounts on estate agency and letting fees, along with a unique premises share arrangement that should enable both parties to continue to offer and extend High Street services in a more flexible and cost efficient way.

We also took this opportunity to review our branch network, which over recent years has doubled in size to over 60 locations across nine counties. The vast majority of our locations, both established and new, achieved their commercial requirements and demonstrated that they deliver significant value to members. However, a relatively small number did not and we have taken the sad decision to close these locations. A number of our branches were exclusively or predominantly estate agency based and therefore will not be required following the announcement of the strategic alliance. Furthermore, we have a number of branches that are in very close proximity to each other and therefore not able to grow in the manner in which we require. For example, in the greater Nottingham area, we currently have 13 branches within a five mile radius of our Head Office. This will be reduced to eight by the end of the year and should not significantly impact choice and access to branches for our members in our home city – with most people still less than three miles away from their nearest branch. Whilst it is always difficult to take decisions to close locations, our actions will enable us to focus our efforts on continuing to grow a vibrant branch network, which is now established across a large geographical footprint.

Finally, over the past couple of years, we have successfully invested in developing stronger digital capabilities for members and brokers. One of the key societal changes we have seen as a consequence of the pandemic is a significant increase in consumer usage of digital channels and the increased resilience of firms able to serve customers in a digital, as well face to face format. We have therefore decided to double down on our digital investment and plan to launch a new unique savings proposition for digital savers in the first quarter of 2021. This will enable the Society to serve a broader age range and demographic of members in the years ahead.

There is no doubt that 2020 will stand out as a unique and challenging year. As a mutual we are clear that when confronted with such significant challenges that we should deploy our financial strength built up over more than 160 years to benefit our members.

Our decision and actions to support members, continue to invest significantly in the Society ready for the new world emerging and the additional costs of responding to the national crisis will mean that we are expecting to report a full year loss in 2020, as reflected in our statutory loss reported in the first half of the year. However we are able to demonstrate that the underlying performance of the Society, net of the one off costs and committed investments we are making in response to the pandemic and subsequent economic stress, is robust.

We are able to do this not only because we have the financial firepower and capital strength to do so, but also because we are already seeing the returns on decisions we have previously taken to effectively manage our balance sheet. Lending is increasing with good demand for our products at improving yields and our branch savings franchise continues to grow. We have taken some difficult decisions, which are set to improve our offering in estate agency and lettings and reduce the costs of running the Society moving forward. Investing in our digital future is something which we believe will enable us to grow membership in the years ahead with a compelling savings proposition but at a lower cost to serve.

Board changes

We are also announcing today that our Chairman, John Edwards, will be stepping down from the Board in September after almost 9 years, the vast majority of it as Chair. In line with our succession plans, John will be succeeded, subject to regulatory approval, by Andrew Neden who is currently the Senior Independent Director and Vice-Chair. Andrew has been a member of The Nottingham's Board since 2014 and has the ideal blend of experience, background and knowledge of the Society to pick up its stewardship from John and steer it into a post-pandemic world ensuring that the Society remains relevant and vibrant. Andrew's appointment was approved by the Board following a selection process with external search support.

John has done a magnificent job steering the Society over the past 9 years, a period in which it has significantly grown its asset base, branch footprint and positioned the Society strongly for the digital world.

Kerry Spooner, who has been on the Board since 2016 and chairs the Remuneration Committee will, subject to regulatory approval, become the Senior Independent Director (and whistleblowing champion).

The Society also announced the appointment of Mike Brierley as a Non- Executive Director and subject to regulatory approval, will succeed Andrew as Chair of the Board Audit Committee. Mike has

Chief Executive introduction

over 35 years' experience in Chief Financial Officer (CFO) roles within the financial services industry. Most recently Mike was CFO of Metro Bank PLC between 2009 and 2018, where he played a key role in helping lead the challenger bank from start-up to listing. He has been a director of Barclaycard responsible for business risk and, between 1999 and 2006, held a variety of roles with Capital One Bank (Europe) PLC including CFO Europe, CFO UK and Managing Vice President and Chief Enterprise Risk Officer Europe. Mike is a Fellow of The Institute of Chartered Accountants in England and Wales (FCA).

Since retiring as an executive, Mike has joined the board of Admiral Group plc, the FTSE 100 general insurance company where he is a member of both the audit committee and the remuneration committee. He also serves as Chair of their financial services subsidiary. Mike brings a breadth of experience and deep knowledge of financial management to the Board.

Market and outlook

The next 12 months will continue to bring challenges as the full economic impact of the pandemic takes its toll. We are however well placed to absorb these factors while investing in developing a modern building society that can fulfil its purpose of serving a growing membership – to save, plan for and protect their financial futures, whatever the economic conditions.

David Marlow
Chief Executive
29 July 2020

Interim business and financial review

Income statement

	June 2020 £m	June 2019 £m	December 2019 £m
Underlying profit before impairment charge on loans & advances	**1.4**	**4.9**	**10.0**
Impairment charge – loans & advances	(2.7)	-	-
Underlying (loss)/profit before tax	**(1.3)**	**4.9**	**10.0**
Losses from derivative financial instruments	(3.3)	(1.7)	(0.6)
Other income	-	-	0.2
Strategic investment costs	-	(0.5)	(1.3)
Change in EIR accounting estimate	-	-	(12.3)
Impairment of goodwill	-	-	(4.0)
Reported (loss)/profit before tax	**(4.6)**	**2.7**	**(8.0)**

Overall, in the context of a period of significant economic and market instability following the COVID-19 disruption, the Group reports an underlying pre-tax profit of £1.4m for the first six months of 2020.

The Society has not yet seen any significant credit losses, nor been required to make any specific provisions in relation to the pandemic impact. It has updated its impairment models for all of its mortgage portfolios, with a more cautious set of economic assumptions and refined its management overlays to reflect expectations in respect of the behaviour of customers with payment deferrals.

The Society uses a probability-weighted combination of three economic scenarios, driven by GDP, house price and unemployment assumptions. The IFRS 9 probability-weighted model outputs, supplemented by the payment deferral assumption overlays, required a net additional impairment provision of £2.7m in the period, leaving the Society with £4.3m of total balance sheet credit provisions. As outlined in detail in note 11, the Society has a high quality mortgage book, with a very low probability of default at origination and the provision is highly sensitive to changes in macroeconomic factors. This ensures the Society remains prudently provisioned for the economic environment and underlying performance in the period has been considered both excluding and including this impairment charge.

The Government announced a number of measures to support the economy as part of their response to the pandemic, including the offering of payment deferrals. The Society is supporting its mortgage customers with payment deferrals and at 30 June 2020, 12% of all mortgage customers have been granted a deferral.

On a statutory basis, the Group reports a loss before tax of £4.6m. The Board monitors both reported and underlying profit/(loss) before tax. Reported profit/(loss) 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. The Group has excluded losses from derivative financial instruments from its underlying performance. The losses arising from derivatives has increased in the period to June 2020 against prior periods as a result of market movements and changes in interest rates.

The Group's net interest margin has fallen from 1.17% at December 2019 to 1.07% for the six months to June 2020. As outlined in the Chief Executive introduction, the Society has made a conscious decision to protect its saving members during the pandemic period by not passing on the reductions in Bank Base Rate, at a cost of £1.3m of interest payable in the period to June 2020. Overall interest payable costs of £15.7m have reduced by £3.0m against the first six months of 2019. This is driven predominately by the lower wholesale balances in 2020 and resulting interest charges as part of the Society's ongoing liquidity management. A smaller mortgage asset balance and resulting lower contractual interest income, when comparing to the position at June 2019 has also contributed to an overall reduced level of interest income at £36.2m. Interest receivable has also been impacted by higher offsetting derivative interest costs in the current period.

Group net fee income, including mortgage related product fees, estate agency and lettings fees and whole-of-market mortgage advice fees, totalled £2.5m for the first six months of 2020, which has fallen against the £3.1m reported in the period to June 2019. Net fee income has been heavily impacted by the external COVID-19 events of recent months, particularly in relation to the Government's closure of the estate agency market.

The Group's underlying cost income ratio is defined as total administrative expenses as a percentage of total income (excluding the impact of fair value gains or losses on derivatives and one-off income). The underlying cost income ratio increased to 93.8% for the period to the 30 June 2020 compared to 79.7% for the 2019 full year as a result of the fall in net interest income already outlined.

The Group's management expense ratio at 1.11% for the period to the 30 June 2020 has increased slightly against the 2019 full year at 1.07%. Whilst total administrative expenses for the Group, including depreciation and amortisation, have remained flat against the 30 June 2019 performance, this has been offset by a small reduction in the mean assets position. The Society continues to operate with a higher cost base to deliver investment in our systems, in particular in relation to digital capability. The ongoing investment in this digitalisation has demonstrated its value over the recent months throughout the pandemic. Subsequent to the period end, the Society has announced a number of strategic initiatives to be delivered in the second half of this financial year. These are outlined in the Chief Executive introduction and note 16 to this report and will result in a number of one-off costs arising to deliver future cost benefits to the Group.

Balance sheet

The Group's total assets have increased marginally by 1.0% from the position at the end of 2019. This has been driven by an overall increase in liquid asset balances. Gross lending in the period totalled £232m (30 June 2019: £182m). Mortgage lending remains concentrated in prime high quality mortgage assets with residential mortgages accounting for 71% of the total mortgage book. The current average LTV of the book is 55% (31 December 2019: 55%).

Retail savings continue to be the cornerstone of the Society's funding strategy. As outlined in the income statement section, throughout the first half of 2020, the Society has continued to support its members by maintaining savings rates, despite the fall in Bank Base Rate as the Bank of England responded to the pandemic. Total savings balances increased marginally in the first six months of 2020, standing at £2.8 billion and the Society's strong branch franchise continues to attract and retain customers and support the Society's funding strategy. Branch balances increased to £2.5 billion at 30 June 2020.

The remainder of the Society's funding requirements is obtained from the wholesale secured and unsecured funding markets. Overall the wholesale funding ratio at 21.4% has decreased slightly against the December 2019 position of 21.7%. The Bank of England's Term Funding Scheme (TFS) has continued to provide access to secured funding, with £588m drawn down at 30 June 2020 (31 December 2019: £588m). The original TFS scheme is closed for further drawdowns and repayment will commence in the second half of 2020. The Society has robust plans in place to replace the funds. During the period, the Society has been approved to participate in the new TFSME scheme, launched as a response to the COVID-19 pandemic. No drawings have been made as at 30 June 2020. The Society also has £51.8m outstanding borrowed through a secured bilateral facility (31 December 2019: £62.6m). This bilateral facility was successfully renegotiated in April 2020.

The Group has continued to manage its liquidity position effectively with a liquid assets ratio of 18.6% (31 December 2019: 17.3%) and liquidity coverage ratio (LCR) at 231% (31 December 2019: 229%). The Society is well in excess of the current minimum level requirements of LCR. This is enhanced further by access to the Bank of England's contingent liquidity facilities secured against pre-approved mortgage portfolios, which can be exchanged for cash as required.

Despite the external economic factors at play during the period, the Society's arrears performance remains at sector leading levels with an arrears ratio of 0.26% compared to 0.15% at 31 December 2019. Excluding the COVID-19 measures for payment deferrals, only 104 accounts have some sort of contractual forbearance arrangement in place. The Society always seeks to support our customers who encounter financial difficulties, taking individual circumstances into account and agreeing tailored actions. This includes supporting the nearly 3,000 customers to navigate their exit from the COVID-19 payment deferral arrangements.

Regulatory capital

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

Capital is held to ensure the business can achieve its current and future plans, to provide a buffer against unexpected losses and to ensure that the minimum regulatory requirement is always met. One measure of capital strength is the Society's Common Equity Tier 1 (CET1) ratio. This is the strongest form of capital and comprises the Society's general reserves.

The Society has a CET1 capital ratio[1] as at 30 June 2020 of 15.0% (31 December 2019: 15.1%). A reduction in capital resources through losses recognised has been offset by a regulatory transitional relief benefit to capital in relation to the impact of mortgage impairment provisions under IFRS 9. The level of risk weighted assets has remained stable.

The leverage ratio[1] is 5.0% at 30 June 2020 (31 December 2019: 5.1%).

[1]In accordance with the definitions of CRD IV.

Principal risks and uncertainties

The Disclosure and Transparency Rules (DTR 4.2.7R) require that a description of the principal risks and uncertainties are given in the Interim Financial Report for the remaining six months of the financial year.

The principal risks and uncertainties affecting the Group were reported on pages 16 and 17 of the Annual Report and Accounts for the year ended 31 December 2019. The top risks faced by the Society are grouped into the following categories: strategy, capital, credit, market & interest rate, liquidity, legal, regulatory & conduct, operational, model governance and transformation & change, which are common to most financial services firms in the UK. These risk categories remain applicable to the Group as at 30 June 2020 and continue to be managed in line with the Group's risk management framework.

2020 has been dominated by the COVID-19 pandemic. The Society's key risks and uncertainties have inevitably been impacted by the Government's response to containing the virus. The impacts have been felt across the majority of risk categories and continue to impact the key risks that were discussed in the 2019 Annual Report and Accounts.

The current key risks, and how the Group is planning to mitigate them, are summarised below. There are two new key risks which are discussed at the end of this section.

The mortgage trading environment

The impacts of the COVID-19 pandemic are being felt across the mortgage industry. The likelihood of a recession and the resultant uncertainty over future house prices, combined with difficulties in undertaking physical valuations, has seen the withdrawal of most high-LTV products across the market. The Nottingham has also responded in line with the market by also withdrawing its higher-LTV products.

Meanwhile, the Bank of England's decision to lower interest rates to 0.10% has further constrained mortgage rates, contributing to the pressure on earnings discussed below.

The overall picture is one of uncertainty. It is currently difficult to predict how customers, competitors and regulators will react as the country emerges from lockdown. To manage this uncertainty, The Nottingham is actively exploring new mortgage markets, new products, and new delivery methods to ensure that it is able to meet customer demand with appropriately priced lending products that are within the Society's risk appetite.

Compressed earnings

The Bank of England's decision to lower interest rates to 0.10% has exacerbated the ongoing challenge for all building societies in balancing the needs of savers and of borrowers, while earning sufficient margin to remain viable.

As an organisation built on the principle of rewarding its members for saving, The Nottingham has maintained its savings rates at the highest possible levels. On the lending side, competitive pressures in the mortgage market constrain the rates that can be charged for mainstream mortgage lending products. Despite the impacts of the pandemic, mortgage rates have not yet risen to fully incorporate the likely impacts of a future recession.

In this environment, The Nottingham's earnings are likely to remain constrained for some time. In response, we are considering a number of initiatives that will enable the Society to expand its lending, within its current risk appetite, to market segments where available margins are higher. At the same time the digital reinvention discussed below will enable costs to be managed in a way that is appropriate for the size of the Society's balance sheet.

The housing market and economic uncertainty

As discussed previously, an early impact of the pandemic was the withdrawal of physical valuations from prospective mortgage applications. This situation is starting to ease, but significant difficulties remain in predicting the future path of house prices, which are liable to remain volatile until the wider economic position post-pandemic becomes clearer.

Additionally, the payment deferral scheme introduced in response to the pandemic has resulted in a significant number of borrowers suspending their mortgage payments for up to six months. Due to the current economic uncertainty is it difficult to predict how many of these customers will be able to resume their usual payments at the end of the deferral period. It is likely that the number of customers in arrears will increase from the historically very low levels experienced by The Nottingham over recent years.

The Nottingham will continue to take a prudent approach both in its assessment of house prices and in its forecast of arrears levels. In response to the crisis, the level of provisions held against future mortgage defaults has approximately trebled to ensure that the Society effectively manages the risk of future defaults.

The Nottingham will continue to closely monitor all relevant economic forecasts to ensure that it incorporates future risks into its planning processes.

Cyber risk

The COVID-19 pandemic has provided an opportunity for cyber-criminals to exploit weaknesses in cyber-defences. Reported incidents of phishing and similar activities have increased across the UK as a result. The Nottingham's cyber security and financial crime teams have responded by launching an initiative to further raise awareness to both staff and customers in the methods used by cyber-criminals to gain access to information or money.

Principal risks and uncertainties

In all areas, managing cyber risk remains a key focus of Society management to safeguard the business and protect its members' data and savings. The Society continues to invest in technology to prevent and detect cyber-attacks, whilst specialists maintain an awareness of prevailing threats and are able to respond proactively to events. Technical expertise is complemented with education and awareness activities to ensure that our employees are equipped to recognise and manage the risks associated with cyber security. The capability to respond to and recover from cyber events is kept under continuous review including contingency planning, crisis management and disaster recovery plans.

Delivery of change agenda

In response to the pandemic, and to enable the Society to continue to grow, remain innovative and improve existing ways of working, we continue to pursue and implement a digital change agenda.

Certain elements of this change agenda have been accelerated in response to the pandemic (e.g. support for flexible working). Other elements are under high-level review and it is likely that there will be major developments in the Society's digital strategy over the coming months. This is linked to the management of the two new key risks discussed below.

In addition to the digital change, the Society has also undertaken a review of its Estate Agency business. As a result of this review it has been decided to embark on a strategic alliance with a trusted partner to deliver the estate agency and lettings services to the Society's customers. Work to transfer existing business and to set up the future relationship with the new partner, Belvoir Property Management Ltd., will be undertaken over the remainder of 2020. In connection with this change of approach a small number of branches will be closed, or merged into larger branches, over the same time period.

Management of wide-ranging change initiatives has proven difficult for a number of building societies who have suffered from technology-based change being delivered late, significantly over budget, or lacking in key features.

In order to manage this risk, the change investment activity is underpinned by a clear attribution of responsibilities, regular and transparent status reporting and a high level of oversight and scrutiny by members of the Executive team and the Board.

Third party delivery of key services

The Nottingham works closely with key suppliers who provide services to members on our behalf. These suppliers have also been affected by the COVID-19 pandemic, both financially and operationally.

The Society continues to closely manage such relationships by rigorous contractual requirements and strict service delivery standards. All suppliers are monitored to ensure that their services meet the Society's high standards at all times and, where applicable, ensuring that they meet defined financial adequacy requirements. Metrics on service delivery are regularly reviewed at management committees. The Nottingham is committed to ensuring that its trusted suppliers provide the highest level of service to our members and, on the rare occasions where this doesn't happen, the Society acts in the best interests of our customers to ensure good, regulatory compliant customer outcomes are achieved.

New risks identified for 2020

The current economic environment has resulted in the identification of two additional key risks for the Society, that are linked to the risks identified above, but are worthy of separate consideration.

Failure to achieve an appropriate cost-to-serve ratio

As discussed above, the Society is likely to suffer a considerable squeeze on earnings caused by lower interest rates and, potentially, higher arrears as a result of the pandemic. Against this background, it is crucial that the Society pursues a sustainable growth strategy at the same time as developing new working practices that will enable costs to be closely managed. This strategy will lower the cost to serve each member and will enable the Society to operate profitably irrespective of the economic uncertainty that lies ahead.

Considerable Executive team and senior management resource is being directed towards this significant programme of change to ensure a successful delivery.

Failure to remain relevant and support membership

The Nottingham has a successful history of serving its members, supported by industry-leading customer satisfaction levels. However UK society is changing and the pandemic has quickened the pace of change, with traditional face-to-face services increasingly being replaced by online options.

The Society remains committed to offering face-to-face service as an option to its members but recognises that, in order to grow membership for the future, additional options need to be developed to allow online engagement with our members.

Providing this digital capacity will help deliver sustainable growth in membership, lower costs and result in additional options for our members. As discussed earlier, Executive and Board engagement with this wide-ranging change activity has been established and clear governance structures are in place to drive successful delivery.

Condensed consolidated income statement

for the period ended 30 June 2020

	Notes	Period to 30 June 2020 Unaudited £m	Period to 30 June 2019 Unaudited £m	Year ended 31 December 2019 Audited £m
Interest receivable and similar income	4	36.2	41.9	84.0
Interest payable and similar charges	5	(15.7)	(18.7)	(37.9)
Net interest income		**20.5**	**23.2**	**46.1**
Fees and commissions receivable		2.5	3.1	6.2
Fees and commissions payable		(0.3)	(0.5)	(1.1)
Other income		-	-	0.2
Net losses from derivative financial instruments		(3.3)	(1.7)	(0.6)
Total net income		**19.4**	**24.1**	**50.8**
Administrative expenses	6	(18.2)	(18.8)	(36.5)
Depreciation and amortisation		(3.1)	(2.6)	(5.5)
Finance cost		-	-	(0.1)
Operating (loss)/profit before impairment and change in EIR accounting estimate		(1.9)	2.7	8.7
Impairment charge - loans and advances	11	(2.7)	-	(0.4)
Impairment charge - goodwill		-	-	(4.0)
Change in EIR accounting estimate		-	-	(12.3)
(Loss)/profit before tax		**(4.6)**	**2.7**	**(8.0)**
Tax credit/(expense)		0.8	(0.6)	0.8
(Loss)/profit after tax for financial period		**(3.8)**	**2.1**	**(7.2)**

The loss for the financial period arises from continuing operations.

A reconciliation from (loss)/profit before tax for the financial period to underlying profit used by management can be found on page 6.

Condensed consolidated statement of comprehensive income

for the period ended 30 June 2020

	Period to 30 June 2020 Unaudited £m	Period to 30 June 2019 Unaudited £m	Year ended 31 December 2019 Audited £m
(Loss)/profit for the financial period	(3.8)	2.1	(7.2)
Items that will not be re-classified to the income statement			
Remeasurement of defined benefit obligation	-	-	-
Tax on items that will not be re-classified	(0.1)	(0.1)	-
Items that may subsequently be re-classified to the income statement			
FVOCI reserve			
Valuation gains taken to reserves	0.4	0.9	0.7
Tax on items that may subsequently be re-classified	-	-	(0.1)
Other comprehensive income for the period net of income tax	**0.3**	**0.8**	**0.6**
Total comprehensive (expense)/income for the period	**(3.5)**	**2.9**	**(6.6)**

Both the (loss)/profit for the financial period and total comprehensive (expense)/income for the period are attributable to the members of the Society.

Condensed consolidated statement of financial position

as at 30 June 2020

	Notes	30 June 2020 Unaudited £m	30 June 2019 Unaudited £m	31 December 2019 Audited £m
Assets				
Cash in hand and balances with the Bank of England		425.6	330.5	272.4
Loans and advances to credit institutions	7	58.4	45.0	36.1
Debt securities	9	182.2	205.4	306.6
Derivative financial instruments		1.5	1.5	2.0
Loans and advances to customers	10	3,152.1	3,339.3	3,161.4
Other assets		4.2	10.9	3.5
Property, plant and equipment		11.2	13.0	12.1
Right-of-use assets		4.9	5.5	5.3
Intangible assets		15.8	13.2	17.0
Current tax asset		1.2	-	1.5
Deferred tax assets		1.8	1.3	1.1
Total assets		**3,858.9**	**3,965.6**	**3,819.0**
Liabilities				
Shares		2,809.1	2,834.4	2,781.1
Amounts owed to credit institutions		650.1	636.2	611.3
Amounts owed to other customers		59.4	132.8	91.9
Debt securities in issue		55.3	80.7	68.1
Derivative financial instruments		35.8	14.4	12.8
Other liabilities and accruals		4.2	5.9	4.0
Lease liabilities		4.9	5.5	5.3
Current tax liabilities		-	0.7	-
Provisions for liabilities		0.2	0.4	0.2
Retirement benefit obligations		2.7	4.0	3.4
Subscribed capital	12	24.5	24.9	24.7
Total liabilities		**3,646.2**	**3,739.9**	**3,602.8**
Reserves				
General reserves		212.7	225.8	216.6
Fair value reserves	13	-	(0.1)	(0.4)
Total reserves attributable to members of the Society		**212.7**	**225.7**	**216.2**
Total reserves and liabilities		**3,858.9**	**3,965.6**	**3,819.0**

Condensed consolidated statement of changes in members' interests

for the period ended 30 June 2020

	General reserve £m	FVOCI reserve £m	Total £m
Balance as at 1 January 2020 (Audited)	216.6	(0.4)	216.2
Loss for the period	(3.8)	-	(3.8)
Other comprehensive (expense)/income for the period (net of tax)			
Net gains from changes in fair value	-	0.4	0.4
Remeasurement of defined benefit obligation	(0.1)	-	(0.1)
Total other comprehensive (expense)/income	(0.1)	0.4	0.3
Total comprehensive (expense)/income for the period	(3.9)	0.4	(3.5)
Balance as at 30 June 2020 (Unaudited)	**212.7**	**-**	**212.7**
Balance as at 1 January 2019 (Audited)	223.8	(1.0)	222.8
Profit for the period	2.1	-	2.1
Other comprehensive (expense)/income for the period (net of tax)			
Net gains from changes in fair value	-	0.9	0.9
Remeasurement of defined benefit obligation	(0.1)	-	(0.1)
Total other comprehensive (expense)/income	(0.1)	0.9	0.8
Total comprehensive income for the period	2.0	0.9	2.9
Balance as at 30 June 2019 (Unaudited)	**225.8**	**(0.1)**	**225.7**
Balance as at 1 January 2019 (Audited)	223.8	(1.0)	222.8
Loss for the year	(7.2)	-	(7.2)
Other comprehensive income for the period (net of tax)			
Net gains from changes in fair value	-	0.6	0.6
Total other comprehensive income	-	0.6	0.6
Total comprehensive (expense)/income for the period	(7.2)	0.6	(6.6)
Balance as at 31 December 2019 (Audited)	**216.6**	**(0.4)**	**216.2**

Condensed consolidated cash flow statement

for the period ended 30 June 2020

	Notes	Period to 30 June 2020 Unaudited £m	Period to 30 June 2019 Unaudited £m	Year ended 31 December 2019 Audited £m
Cash flows from operating activities				
(Loss)/profit before tax		(4.6)	2.7	(8.0)
Depreciation and amortisation		3.1	2.6	5.5
Interest on subscribed capital		1.0	1.0	2.0
Interest on lease payments		-	-	0.1
Net gains on disposal and amortisation of debt securities		-	0.2	0.5
Increase in impairment		2.7	-	4.4
Total		2.2	6.5	4.5
Changes in operating assets and liabilities				
(Increase)/decrease in prepayments, accrued income and other assets		(0.2)	6.0	12.9
Increase in accruals, deferred income and other liabilities		23.0	7.7	3.9
Decrease in loans and advances to customers		6.6	163.6	341.1
Increase/(decrease) in shares		28.0	(34.8)	(88.1)
Increase/(decrease) in amounts owed to other credit institutions and other customers		6.3	(42.2)	(108.0)
Increase in loans and advances to credit institutions		(23.6)	(12.7)	(11.2)
Decrease in debt securities in issue		(12.8)	(26.1)	(38.7)
Decrease in retirement benefit obligation		(0.7)	(0.8)	(1.5)
Taxation received/(paid)		0.3	(0.9)	(1.4)
Net cash generated by operating activities		**29.1**	**66.3**	**113.5**
Cash flows from investing activities				
Purchase of debt securities		(64.3)	(61.3)	(334.8)
Disposal of debt securities		189.1	72.7	244.5
Purchase of property, plant and equipment		(0.1)	(0.3)	(0.4)
Purchase of intangible assets		(0.5)	(4.0)	(13.3)
Net cash generated by/(used in) investing activities		**124.2**	**7.1**	**(104.0)**
Cash flows from financing activities				
Interest paid on subscribed capital		(1.0)	(1.0)	(1.9)
Principal element of lease payments		(0.4)	(0.4)	(1.1)
Net increase in cash and cash equivalents		**151.9**	**72.0**	**6.5**
Cash and cash equivalents at start of period		272.6	266.1	266.1
Cash and cash equivalents at end of period	8	**424.5**	**338.1**	**272.6**

Notes to the interim financial report

1 Reporting period

These results have been prepared as at 30 June 2020 and show the financial performance for the period from, and including, 1 January 2020 to this date.

2 Basis of preparation and changes to the Group's accounting policies

Basis of preparation

This condensed consolidated financial report for the six months ended 30 June 2020 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) and with IAS 34 Interim Financial Reporting as adopted by the EU. The interim financial report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Annual Reports and Accounts for the year ended 31 December 2019, which have been prepared in accordance with IFRS as adopted by the EU.

The Group accounts consolidate the assets, liabilities and results of the Society and all its subsidiary companies.

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted by the Group in the preparation of its 2020 Interim Financial Report are consistent with those disclosed in the Annual Report and Accounts for the year ended 31 December 2019. A number of amendments and improvements to accounting standards have been issued by the International Accounting Standards Board (IASB) with an effective date of 1 January 2020, the adoption of which has had no significant impact on the Group. The Society has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Going concern

Details of the Group's objectives, policies and processes for managing its exposure to liquidity, credit, market, operational and business risks are contained in the Risk Management Report of the 2019 Annual Report and Accounts.

The Directors are required to make an assessment of the Society's ability to adopt the going concern basis of accounting in the future and the information should cover a period of at least 12 months from the date of signing the financial statement but not be limited to that period.

Following the global pandemic, that has resulted in a significant UK recession in the first half of 2020 and the unprecedented economic uncertainty in the short and medium term, the Society continues to review and update its objectives, policies, processes and risks to ensure they remain relevant and include more pessimistic scenarios. The key risks associated with the delivery of the Society's strategic plans are outlined on pages 8 and 9 of this Interim Financial Report.

The Society is forecast to remain compliant with all binding regulatory, liquidity and capital requirements during the going concern assessment period. Taking this, along with the updated objectives, policies and processes into account, alongside the current economic and regulatory environment, the Directors confirm they are satisfied the Society has adequate resources to continue in business for the foreseeable future and that, therefore, it is appropriate to adopt the going concern basis in preparing this Interim Financial Report.

Significant accounting judgement and estimates

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event, or actions, actual results ultimately may differ from these estimates. Those items where management are required to make critical accounting estimates remain unchanged from the year ended 31 December 2019. Details as at 31 December 2019 are provided on page 58 of the 2019 Annual Report and Accounts.

Notes to the interim financial report

3 Segmental reporting

Nottingham Building Society and its subsidiaries are all UK registered entities. The Group operates throughout the UK and reports through three operating segments, consistent with the internal reporting provided to the Board:

- **Retail financial services** – provides mortgages, savings, third party insurance and investments. Includes all income and costs associated with Nottingham Building Society and Arrow Mortgage Finance No.1 Ltd.
- **Estate Agency** – provides estate agency and letting 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.

Six months to 30 June 2020 Unaudited	**Retail financial services £m**	**Estate Agency £m**	**Mortgage Broking £m**	**Consolidation adjustments £m**	**Total £m**
Net interest income	20.5	-	-	-	20.5
Total net income	18.0	0.6	0.8	-	19.4
(Loss)/profit before tax	(4.3)	(0.4)	0.1	-	(4.6)

Six months to 30 June 2019 Unaudited	**Retail financial services £m**	**Estate Agency £m**	**Mortgage Broking £m**	**Consolidation adjustments £m**	**Total £m**
Net interest income	23.2	-	-	-	23.2
Total net income	22.1	1.0	1.0	-	24.1
Profit/(loss) before tax	3.5	(0.9)	0.1	-	2.7

Year ended 31 December 2019 Audited	**Retail financial services £m**	**Estate Agency £m**	**Mortgage Broking £m**	**Consolidation adjustments £m**	**Total £m**
Net interest income	46.1	-	-	-	46.1
Total net income	47.2	2.0	2.0	-	51.2
(Loss)/profit before tax	(5.3)	1.0	0.3	(4.0)	(8.0)

4 Interest receivable and similar income

	Period to 30 June 2020 Unaudited £m	**Period to 30 June 2019 Unaudited £m**	**Year ended 31 December 2019 Audited £m**
On loans fully secured on residential property	36.1	40.0	80.4
On other loans	2.1	1.7	3.6
On liquid assets	0.7	1.0	2.3
On instruments held at amortised cost	38.9	42.7	86.3
On debt securities	1.0	1.1	2.3
On derivatives hedging of financial assets	(3.5)	(1.9)	(4.4)
On instruments calculated on an EIR basis	36.4	41.9	84.2
On derivatives not in a hedge accounting relationship	(0.2)	-	(0.2)
	36.2	**41.9**	**84.0**

Notes to the interim financial report

5 Interest payable and similar charges

	Period to 30 June 2020 Unaudited £m	Period to 30 June 2019 Unaudited £m	Year ended 31 December 2019 Audited £m
On shares held by individuals	13.3	14.3	29.1
On deposits and other borrowings	1.8	3.7	7.3
On subscribed capital	1.0	1.0	2.0
On leases		-	0.1
On derivatives hedging of financial liabilities	(0.4)	(0.3)	(0.6)
	15.7	**18.7**	**37.9**

6 Administrative expenses

	Period to 30 June 2020 Unaudited £m	Period to 30 June 2019 Unaudited £m	Year ended 31 December 2019 Audited £m
Wages and salaries	9.9	9.7	19.2
Social security costs	0.9	1.0	1.9
Other pension costs	0.7	0.5	1.1
Total staff costs	**11.5**	**11.2**	**22.2**
Premises and facilities	1.4	1.6	3.1
IT	2.1	2.0	4.0
Marketing and advertising	0.7	0.7	1.4
Lease costs	0.2	0.2	0.4
Other administrative costs	2.3	3.1	5.4
	18.2	**18.8**	**36.5**

Included in wages and salaries is £0.2 million of restructuring costs (30 June 2019: £0.3 million; 31 December 2019: £0.7 million). There are no further strategic investment costs included in other administrative costs (30 June 2019: £0.2 million; 31 December 2019: £0.6 million).

7 Loans and advances to credit institutions

	30 June 2020 Unaudited £m	30 June 2019 Unaudited £m	31 December 2019 Audited £m
Repayable on call and short notice	4.6	13.5	6.3
Other loans and advances to credit institutions	53.8	31.5	29.8
	58.4	**45.0**	**36.1**

At 30 June 2020, £53.8 million (30 June 2019: £31.5 million; 31 December 2019: £29.8 million) of cash has been deposited by the Group as collateral against derivative contracts.

Notes to the interim financial report

8 Cash and cash equivalents

	30 June 2020 Unaudited £m	30 June 2019 Unaudited £m	31 December 2019 Audited £m
Cash in hand and balances with the Bank of England	419.9	324.6	266.3
Loans and advances to credit institutions	4.6	13.5	6.3
	424.5	**338.1**	**272.6**

9 Debt securities

	Note	30 June 2020 Unaudited £m	30 June 2019 Unaudited £m	31 December 2019 Audited £m
Movement on debt securities during the period may be analysed as follows:				
At 1 January		306.6	216.1	216.1
Additions		64.3	61.0	334.3
Disposals and maturities		(189.1)	(72.6)	(244.4)
Net gains from changes in fair value recognised in other comprehensive income	13	0.4	0.9	0.6
		182.2	**205.4**	**306.6**

10 Loans and advances to customers

	Note	30 June 2020 Unaudited £m	30 June 2019 Unaudited £m	31 December 2019 Audited £m
Loans fully secured on residential property (FSRP)		3,018.6	3,247.3	3,058.4
Other loans fully secured on land (FSOL)		106.8	82.1	95.2
		3,125.4	3,329.4	3,153.6
Provision for impairment losses on loans and advances	11	(4.3)	(1.2)	(1.6)
		3,121.1	3,328.2	3,152.0
Fair value adjustment for hedged risk		31.0	11.1	9.4
		3,152.1	**3,339.3**	**3,161.4**

11 Provision for impairment losses on loans and advances

Impairment provisions have been deducted from the appropriate asset values on the condensed consolidated statement of financial position. The gross carrying amounts and Expected Credit Loss allowances are presented in detail below.

			30 June 2020 Unaudited			30 June 2019 Unaudited			31 December 2019 Audited
	FSRP £m	FSOL £m	Total £m	FSRP £m	FSOL £m	Total £m	FSRP £m	FSOL £m	Total £m
Gross carrying amount									
Stage 1	1,321.4	50.2	1,371.6	2,891.2	40.7	2,931.9	2,419.3	51.7	2,471.0
Stage 2	1,691.0	54.6	1,745.6	351.8	40.4	392.2	634.6	42.2	676.8
Stage 3	6.2	2.0	8.2	4.3	1.0	5.3	4.5	1.3	5.8
	3,018.6	**106.8**	**3,125.4**	**3,247.3**	**82.1**	**3,329.4**	**3,058.4**	**95.2**	**3,153.6**

11 Provision for impairment losses on loans and advances (continued)

	30 June 2020 Unaudited			30 June 2019 Unaudited			31 December 2019 Audited		
	FSRP £m	FSOL £m	Total £m	FSRP £m	FSOL £m	Total £m	FSRP £m	FSOL £m	Total £m
Expected Credit Loss allowance									
Stage 1	0.5	0.2	0.7	0.1	0.1	0.2	0.1	-	0.1
Stage 2	2.2	0.6	2.8	0.2	0.4	0.6	0.3	0.4	0.7
Stage 3	0.2	0.6	0.8	-	0.4	0.4	0.1	0.7	0.8
	2.9	**1.4**	**4.3**	**0.3**	**0.9**	**1.2**	**0.5**	**1.1**	**1.6**

At 30 June 2020, 56% (31 December 2019: 21%) of the gross carrying amounts are included within the stage 2 category of the ECL models. The Society includes a doubling of lifetime probability of default since origination with a 1% floor within its definition of a Significant Increase in Credit Risk (SICR), which is consistent with the criteria applied in prior reporting periods, when applying IFRS 9.

The Society's ECL coverage ratio, as a percentage of gross loans is 0.14% at 30 June 2020 for the total book and 0.16% for those balances in stage 2. The equivalent ECL coverage ratios at 31 December 2019 were 0.05% across the total portfolio and 0.10% for stage 2 assets.

The Society has a high quality mortgage book, with a very low probability of default at origination and is therefore highly sensitive to changes in macroeconomic factors and their impact on the Significant Increase in Credit Risk criteria and movements of balances from stage 1 to stage 2. At 30 June 2020, £5.8m of balances were over 3 months in arrears, representing 0.2% of the total mortgage book. As at 30 June 2020, 0.4% of mortgage customers have some sort of contractual forbearance arrangement in place. This excludes any payment deferrals arising as a result of the Government's response to the COVID-19 disruption. Further details of the Society's arrears and forbearance cases are disclosed in note 14 to this Interim Financial Report on page 28.

During the first six months of 2020, The Nottingham has granted almost 3,000 requests from customers to enter into a period of deferred mortgage payments as a direct result of the impacts of COVID-19, representing 12% of customers. In line with regulatory guidance, these accounts are not treated as forborne for the purpose of IFRS 9 staging, however there may be migration between stage 1 and stage 2 owing to a SICR prompted by the worsening macroeconomic environment. The ECL for payment deferral customers in stage 1 is £0.1m and a management overlay provision has been recognised to reflect the likelihood of a proportion of these customers rolling into arrears on completion of their payment deferral.

The charge/(credit) to the income statement is comprised of the below.

	30 June 2020 Unaudited £m	30 June 2019 Unaudited £m	31 December 2019 Audited £m
Charge/(release) of provision for impairment			
Loans fully secured on residential property	2.4	0.1	0.3
Other loans fully secured on land	0.3	(0.1)	0.1
	2.7	**-**	**0.4**

11 Provision for impairment losses on loans and advances (continued)

The tables below reconcile the movement in both gross balances and expected credit losses in the period.

Gross balances	Non-credit impaired Subject to 12 month ECL Stage 1 £m	Non-credit impaired Subject to lifetime ECL Stage 2 £m	Credit impaired Subject to lifetime ECL Stage 3 £m	Total £m
At 1 January 2020	2,471.0	676.8	5.8	3,153.6
Stage transfers:				
Transfers from stage 1 to stage 2	(1,198.0)	1,198.0	-	-
Transfers to stage 3	(1.0)	(3.4)	4.4	-
Transfers from stage 2 to stage 1	49.1	(49.1)	-	-
Transfers from stage 3	-	1.2	(1.2)	-
Net movement arising from transfer of stage	(1,149.9)	1,146.7	3.2	-
New assets originated[1]	222.5	1.0	0.3	223.8
Further lending/repayments and redemptions	(172.0)	(78.9)	(1.1)	(252.0)
At 30 June 2020	**1,371.6**	**1,745.6**	**8.2**	**3,125.4**

Expected Credit Loss allowance	Non-credit impaired Subject to 12 month ECL Stage 1 £m	Non-credit impaired Subject to lifetime ECL Stage 2 £m	Credit impaired Subject to lifetime ECL Stage 3 £m	Total £m
At 1 January 2020	0.1	0.7	0.8	1.6
Stage transfers:	-	-	-	-
Transfers from stage 1 to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Transfers from stage 2 to stage 1	-	-	-	-
Transfers from stage 3	-	0.1	(0.1)	-
Net remeasurement of ECL arising from transfer of stage	-	0.9	0.2	1.1
Net movement arising from transfer of stage	-	1.0	0.1	1.1
New assets originated[1]	0.3	-	-	0.3
Further lending/repayments and redemptions	-	-	(0.2)	(0.2)
Changes in risk parameters in relation to credit quality	0.3	1.1	0.1	1.5
At 30 June 2020	**0.7**	**2.8**	**0.8**	**4.3**

[1] New assets originated enter at stage 1. The balances presented are the final position as at 30 June 2020.

There are no movement tables presented for previous periods due to the immaterial nature of the change in ECL allowance.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. Key economic variables have been determined by management, but expert judgement is also applied. Forecasts of these economic variables are provided by a reputable third party, providing a best estimate view of the economy over the next five years. After five years a mean reversion approach is used, i.e. long-run averages. In addition to the base economic scenario forecast, other possible scenarios along with scenario weightings are obtained, of which management have applied three scenarios in the model calculations, weighted 30% upside, 43% base and 27% downside.

Notes to the interim financial report

11 Provision for impairment losses on loans and advances (continued)

The summary below outlines the most significant forward-looking assumptions over the five year planning period and their low and high points across the optimistic, base and pessimistic scenarios.

		30 June 2020 Unaudited	30 June 2019 Unaudited	31 December 2019 Audited
Inflation	Base	1.25%	2.0%	1.6%
	Low to high	(3.4)% - 3.4%	(1.0)% - 3.1%	(0.8)% – 3.2%
Unemployment rate	Base	8.0%	3.9%	4.0%
	Low to high	5.5% - 11.0	3.1% - 8.4%	3.0% - 8.2%
House price index	Base	(7.1)%	1.7%	1.3%
	Low to high	(26.4)% - 10.2%	(12.9)% - 7.4%	(11.8)% - 7.3%
Gross Domestic Product	Base	(15.7)%	1.5%	0.9%
	Low to high	(20.5)% - 16.8%	(3.5)% - 3.8%	(5.8)% - 4.5%

The base economic scenario assumes that COVID-19 virus is contained by the summer, which results in activity rebounding in the second half of 2020, however the recovery does not take a full V-shape. Normal pre COVID-19 activity levels are not resumed until mid-2022. The UK and EU manage to negotiate a trade deal and avoid a no-deal Brexit.

The upside scenario assumes that the COVD-19 pandemic is resolved much faster than expected, leading to an early end to restrictions on economic activity. Fiscal and monetary policies support a solid recovery, while consumer confidence rebounds strongly.

The downside scenario assumes that the pandemic is worse than expected, resulting in longer-term and more severe restrictions on economic activity. This is coupled with a collapse in the Brexit negotiations between the UK and EU. Long-term shut down of the economy causes significant bankruptcy and unemployment rates, leading to an extended demand-side shock in the remainder of 2020 and 2021.

Applying a 100% weighting to the pessimistic economic scenario would result in further impairment losses of £3.6 million as at 30 June 2020 (30 June 2019: £0.7 million; 31 December 2019: £1.1 million).

12 Subscribed capital

	30 June 2020 Unaudited £m	30 June 2019 Unaudited £m	31 December 2019 Audited £m
7.875% sterling Permanent Interest Bearing Shares	23.9	23.9	23.9
Fair value adjustment for hedged risk	0.6	1.0	0.8
	24.5	**24.9**	**24.7**

The subscribed capital was issued for an indeterminate period and is only repayable in the event of the winding up of the Society. The holders of the subscribed capital do not have any right to a residual interest in the Society.

Notes to the interim financial report

13 Fair value reserves

	30 June 2020 Unaudited £m	30 June 2019 Unaudited £m	31 December 2019 Audited £m
FVOCI reserve			
At 1 January	(0.4)	(1.0)	(1.0)
Net gain from changes in fair value	0.4	0.9	0.6
	-	**(0.1)**	**(0.4)**

Amounts within the FVOCI reserve are transferred to the income statement upon the disposal of debt securities.

14 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.

Financial assets and liabilities are measured on an ongoing basis either at fair value or at amortised cost. 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**			
As at 30 June 2020 Unaudited	**Financial assets and liabilities at amortised cost £m**	**Fair value through other comprehensive income £m**	**Derivatives designated as fair value hedges £m**	**Unmatched derivatives £m**	**Total £m**
Financial assets					
Cash in hand and balances with the Bank of England	425.6	-	-	-	425.6
Loans and advances to credit institutions	58.4	-	-	-	58.4
Debt securities	-	182.2	-	-	182.2
Derivative financial instruments	-	-	1.3	0.2	1.5
Loans and advances to customers	3,152.1	-	-	-	3,152.1
Other assets	39.1	-	-	-	39.1
	3,675.2	**182.2**	**1.3**	**0.2**	**3,858.9**
Financial liabilities					
Shares	2,809.1	-	-	-	2,809.1
Amounts owed to credit institutions	650.1	-	-	-	650.1
Amounts owed to other customers	59.4	-	-	-	59.4
Debt securities in issue	55.3	-	-	-	55.3
Derivative financial instruments	-	-	35.2	0.6	35.8
Subscribed capital	24.5	-	-	-	24.5
Other liabilities	12.0	-	-	-	12.0
	3,610.4	**-**	**35.2**	**0.6**	**3,646.2**

Notes to the interim financial report

14 Financial instruments (continued)

Classification & Measurement (continued)

Carrying values by category	Held at amortised cost	Held at fair value			
As at 30 June 2019 Unaudited	Financial assets and liabilities at amortised cost £m	Fair value through other comprehensive income £m	Derivatives designated as fair value hedges £m	Unmatched derivatives £m	Total £m
Financial assets					
Cash in hand and balances with the Bank of England	330.5	-	-	-	330.5
Loans and advances to credit institutions	45.0	-	-	-	45.0
Debt securities	-	205.4	-	-	205.4
Derivative financial instruments	-	-	1.5	-	1.5
Loans and advances to customers	3,339.3	-	-	-	3,339.3
Other assets	43.9	-	-	-	43.9
	3,758.7	**205.4**	**1.5**	**-**	**3,965.6**
Financial liabilities					
Shares	2,834.4	-	-	-	2,834.4
Amounts owed to credit institutions	636.2	-	-	-	636.2
Amounts owed to other customers	132.8	-	-	-	132.8
Debt securities in issue	80.7	-	-	-	80.7
Derivative financial instruments	-	-	13.3	1.1	14.4
Subscribed capital	24.9	-	-	-	24.9
Other liabilities	16.5	-	-	-	16.5
	3,725.5	**-**	**13.3**	**1.1**	**3,739.9**

Carrying values by category	Held at amortised cost	Held at fair value			
As at 31 December 2019 Audited	Financial assets and liabilities at amortised cost £m	Fair value through other comprehensive income £m	Derivatives designated as fair value hedges £m	Unmatched derivatives £m	Total £m
Financial assets					
Cash in hand and balances with the Bank of England	272.4	-	-	-	272.4
Loans and advances to credit institutions	36.1	-	-	-	36.1
Debt securities	-	306.6	-	-	306.6
Derivative financial instruments	-	-	1.3	0.7	2.0
Loans and advances to customers	3,161.4	-	-	-	3,161.4
Other assets	40.5	-	-	-	40.5
	3,510.4	**306.6**	**1.3**	**0.7**	**3,819.0**
Financial liabilities					
Shares	2,781.1	-	-	-	2,781.1
Amounts owed to credit institutions	611.3	-	-	-	611.3
Amounts owed to other customers	91.9	-	-	-	91.9
Debt securities in issue	68.1	-	-	-	68.1
Derivative financial instruments	-	-	12.6	0.2	12.8
Subscribed capital	24.7	-	-	-	24.7
Other liabilities	12.9	-	-	-	12.9
	3,590.0	**-**	**12.6**	**0.2**	**3,602.8**

Notes to the interim financial report

14 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:

		30 June 2020 Unaudited Book value £m	30 June 2020 Unaudited Fair value £m	30 June 2019 Unaudited Book value £m	30 June 2019 Unaudited Fair value £m	31 December 2019 Audited Book value £m	31 December 2019 Audited Fair value £m
Financial assets							
Cash in hand & balances with the Bank of England	a	425.6	425.6	330.5	330.5	272.4	272.4
Loans & advances to credit institutions	b	58.4	58.4	45.0	45.0	36.1	36.1
Loans & advances to customers	c	3,152.1	3,154.0	3,339.3	3,346.0	3,161.4	3,175.4
Financial liabilities							
Shares	d	2,809.1	2,807.7	2,834.4	2,840.7	2,781.1	2,784.5
Amounts owed to credit institutions	d	650.1	650.1	636.2	636.2	611.3	611.3
Amounts owed to other customers	d	59.4	59.5	132.8	132.9	91.9	92.0
Debt securities in issue	e	55.3	55.3	80.7	80.7	68.1	68.2
Subscribed capital	f	23.9	28.1	23.9	31.0	23.9	31.9

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 collateral loans and advances to credit institutions is calculated based on its 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. 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.

Notes to the interim financial report

14 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:

30 June 2020 Unaudited	Level 1 £m	Level 2 £m	Total Fair Value £m
Financial assets			
Debt securities	182.2	-	182.2
Derivative financial instruments - Interest rate swaps	-	1.5	1.5
	182.2	**1.5**	**183.7**
Financial liabilities			
Derivative financial instruments - Interest rate swaps	-	(35.8)	(35.8)
	-	**(35.8)**	**(35.8)**

30 June 2019 Unaudited	Level 1 £m	Level 2 £m	Total Fair Value £m
Financial assets			
Debt securities	205.4	-	205.4
Derivative financial instruments - Interest rate swaps	-	1.5	1.5
	205.4	**1.5**	**206.9**
Financial liabilities			
Derivative financial instruments - Interest rate swaps	-	(14.4)	(14.4)
	-	**(14.4)**	**(14.4)**

31 December 2019 Audited	Level 1 £m	Level 2 £m	Total Fair Value £m
Financial assets			
Debt securities	306.6	-	306.6
Derivative financial instruments - Interest rate swaps	-	2.0	2.0
	306.6	**2.0**	**308.6**
Financial liabilities			
Derivative financial instruments - Interest rate swaps	-	(12.8)	(12.8)
	-	**(12.8)**	**(12.8)**

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

14 Financial instruments (continued)

Fair values of financial assets and liabilities carried at fair value (continued)

Valuation techniques (continued)

The main valuation techniques employed by the Group to establish the fair value of the financial instruments disclosed 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 relevant yield curves. The 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 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.

Credit risk

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

	30 June 2020 Unaudited £m	30 June 2019 Unaudited £m	31 December 2019 Audited £m
Credit risk exposure			
Cash in hand and balances with the Bank of England	425.6	330.5	272.4
Loans and advances to credit institutions	58.4	45.0	36.1
Debt securities	182.2	205.1	307.1
Derivative financial instruments	1.5	1.5	2.0
Loans and advances to customers	3,152.1	3,339.3	3,161.4
Total statement of financial position exposure	**3,819.8**	**3,921.4**	**3,779.0**
Off balance sheet exposure – mortgage commitments	113.5	79.7	93.8
	3,933.3	**4,001.1**	**3,872.8**

Notes to the interim financial report

14 Financial instruments (continued)

Fair values of financial assets and liabilities carried at fair value (continued)

Credit risk (continued)

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

The percentage of these exposures (including cash in hand and balances with the Bank of England) that are rated A or better at 30 June 2020 is 100% (30 June 2019: 100%; 31 December 2019: 100%).

The Group has no exposure to foreign exchange risk as all instruments are denominated in sterling.

All of the Group's treasury assets are classified as Stage 1 for ECL calculation purposes under IFRS 9 and there are no impairment charges against any of the Group's treasury assets at 30 June 2020 (30 June 2019: £nil; 31 December 2019: £nil).

b) Loans and advances to customers

Loans and advances to customers are predominately made up of retail loans fully secured against UK residential property of £3,018.6 million, split between residential and buy-to-let loans with the remaining £106.8 million being secured on commercial property. The Group operates throughout England & Wales with the portfolio spread throughout the geographic regions.

Retail loans

Loans fully secured on residential property are split between residential and buy-to-let. At 30 June 2020, the average LTV of retail mortgages is 56% (30 June 2019: 57%; 31 December 2019: 54%). The table below provides information on retail gross loans and Expected Credit Loss stages split by the number of days past due ('DPD'):

		30 June 2020 Unaudited		30 June 2019 Unaudited		30 December 2019 Audited
	Gross loans £m	Expected Credit Loss £m	Gross loans £m	Expected Credit Loss £m	Gross loans £m	Expected Credit Loss £m
Stage 1: *12 month expected credit losses*						
< 30 days past due	1,321.4	0.5	2,891.2	0.1	2,419.3	0.1
Stage 2: *Lifetime expected credit losses*						
< 30 days past due	1,675.4	2.1	340.9	0.2	625.0	0.3
> 30 days past due	15.6	0.1	10.9	-	9.6	-
Stage 3: *Lifetime expected credit losses*						
< 90 days past due	1.6	-	2.2	-	2.4	0.1
> 90 days past due	4.6	0.2	2.1	-	2.1	-
	3,018.6	**2.9**	**3,247.3**	**0.3**	**3,058.4**	**0.5**

14 Financial instruments (continued)

Credit risk (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 average LTV of secured business loans is 50.5% (30 June 2019: 50.0%; 31 December 2019: 58.4%).

The table below provides information on SBL gross loans and Expected Credit Loss stages split by the number of days past due ('DPD'):

	Gross loans £m	30 June 2020 Unaudited Expected Credit Loss £m	Gross loans £m	30 June 2019 Unaudited Expected Credit Loss £m	Gross loans £m	30 December 2019 Audited Expected Credit Loss £m
Stage 1: *12 month expected credit losses*						
< 30 days past due	50.2	0.2	40.8	0.1	51.7	-
Stage 2: *Lifetime expected credit losses*						
< 30 days past due	51.9	0.6	38.8	0.4	41.2	0.4
> 30 days past due	2.7	-	1.5	-	1.0	-
Stage 3: *Lifetime expected credit losses*						
< 90 days past due	0.8	0.2	0.2	0.1	0.4	0.3
> 90 days past due	1.2	0.4	0.8	0.3	0.9	0.4
	106.8	**1.4**	**82.1**	**0.9**	**95.2**	**1.1**

Forbearance

Where appropriate for customers' needs, the Group applies a policy of forbearance and may grant a concession to borrowers. This may be applied where actual or apparent financial stress of the customer is considered to be short-term with a potential to be recovered. A concession may involve reduced payments, capitalisation of arrears or mortgage term extension.

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 reviewed by management and reported to the board.

At 30 June 2020, there were 95 forbearance cases within the retail loans category (30 June 2019: 97; 31 December 2019: 86) and 9 cases within the SBL loans category (30 June 2019: 8; 31 December 2019: 8).

The impact of payment deferrals for the Society and its ECL allowance, as a direct result of the COVID-19 government interventions, is considered in note 11 on page 19 of this Interim Financial Report.

Notes to the interim financial report

15 Notes to the cash flow statements

	Period to 30 June 2020 Unaudited £m	Period to 30 June 2019 Unaudited £m	Year ended 31 December 2019 Audited £m
Changes in liabilities arising from financing activities			
Subscribed capital at 1 January	23.9	23.9	23.9
Accrued interest	1.0	1.0	1.9
Cash flows	(1.0)	(1.0)	(1.9)
Subscribed capital at end of period	**23.9**	**23.9**	**23.9**

16 Post balance sheet events

Subsequent to the period end, the Society announced a number of strategic initiatives in order to reinvent the Society for the future. This includes the closure of 6 branch locations; the merger and closure of 9 further branch locations and the introduction of a new alliance agreement to deliver estate agency and lettings services with a new third party provider. As a consequence, the Group's estate agency subsidiary entities will cease trading during 2020.

These changes are expected to be completed throughout the remainder of 2020 and it is expected that one-off costs in the range of £3.5m - £4.0m will be incurred to complete delivery of this activity.

Responsibility statement

The directors confirm that this Interim Financial Report has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The interim management report includes a fair review of the important events that have occurred during the first six months of the financial year and their impact on the Interim Financial Report, as required by the Disclosure and Transparency Rules (DTR 4.2.7). The principal risks and uncertainties continue to be those reported within the Strategic Report on page 16 and 17, and within the Risk Management Report starting on page 25 of the 2019 Annual Report and Accounts and those detailed on pages 8 and 9 of this Interim Financial Report.

A full list of the Board of directors can be found in the 2019 Annual Reports and Accounts. Charles Roe resigned from the Board as an Executive Director in January 2020, effective from 31 March 2020. Mike Brierley was appointed to the Board as a Non-Executive Director with effect from 13 July 2020.

Signed on behalf of the Board by

David Marlow
Chief Executive

Daniel Mundy
Chief Financial Officer

29 July 2020

Independent review report to Nottingham Building Society

Introduction

We have been engaged by the Society to review the condensed set of consolidated financial statements in the Interim Financial Report for the six months ended 30 June 2020 which comprises the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Members' Interests, Condensed Consolidated Cash Flow Statement and the related explanatory notes 1 to 16. We have read the other information contained in the Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of consolidated financial statements.

This report is made solely to the Society in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The Interim Financial Report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Financial Report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Society are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this Interim Financial Report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Society a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the Interim Financial Report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
Manchester

29 July 2020

Other information

The Interim Financial Report information set out in this document is unaudited and does not constitute accounts within the meaning of section 73 of the Building Societies Act 1986.

The financial information for the year ended 31 December 2019 has been extracted from the Annual Report and Accounts for that year. The Annual Report and Accounts for the year ended 31 December 2019 have been filed with the Financial Conduct Authority. The Auditors' report on these Annual Report and Accounts was unqualified.

A copy of the Interim Financial Report is placed on the website of Nottingham Building Society, at www.thenottingham.com. The directors are responsible for the maintenance and integrity of the information on the Society's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

thenottingham.com
0344 481 4444

Nottingham Building Society, Nottingham House
3 Fulforth Street, Nottingham NG1 3DL