2020 ANNUAL REPORT AND ACCOUNTS

The Nottingham

Contents

KEY HIGHLIGHTS

In a year of extraordinary challenge, the Society has continued its progress in the delivery of its unique member proposition and its journey into the digital world of financial services; whilst demonstrating its mutual ethos to members, colleagues and its communities.

Below are some of the key achievements and financial highlights of 2020:

We strive to help and support our members to save, plan for and protect their financial futures

- Capital strength improved with CET 1 ratio at 15.0% and leverage ratio of 5.3%
- Total assets of £3.8 billion and gross mortgage lending of over £490 million for 2020; up 40%
- Arrears levels remain very low at a quarter of industry average
- The benefits of mutuality shown with millions of pounds invested supporting members through the pandemic
- The Society welcomed almost 40,000 new customers in the year and now has over 35,000 Lifetime ISA customers
- Present in 48 locations across nine counties
- Net Promoter Score of 76%
- Strong retail franchise – total branch balances of £2.5 billion – up 3% in 2020

CHAIRMAN'S STATEMENT

Introduction

2020 turned out to be the year no one expected. The global pandemic challenged everything we see as "normal", resulting in some profound changes to the way we live our lives.

As the seriousness of the virus became apparent and the nation went into its first lockdown, the Board was driven in its response by three priorities; ensuring the wellbeing of our colleagues; protecting and serving our members and supporting our communities. David and I will cover each of these areas in some detail across our statements.

After resolving the immediate operational challenges to achieve the three priorities as the pandemic unfolded, the Board started to consider the broader and longer term effects of the situation, with a particular emphasis on the economic and strategic implications. We began to consider what it meant for the Society and to develop a blueprint for what we believe a relevant building society with a growing membership needs to look like in the post-Covid 21st century. The implications of the last year are significant and still unfolding, but reassuringly they ratified the general direction of the Society's more recent strategy. At the same time, the changes highlighted that several of the strategic trends and developments we had previously identified were accelerating rapidly. It was clear that we needed to respond and act definitively.

In everything we have done in 2020, we have sought to be true to our mutual ethos. In fact, the challenges of the pandemic have enabled us to demonstrate the real benefits of mutuality to our members.

Over the years, we have built up a significant capital surplus. The Board was unanimous that we should deploy some of this capital to support our members and communities in a time of crisis, and at the same time, we were determined to increase the level of investment in the Society, to deliver the required strategic initiatives and respond effectively to the rapidly changing world around us.

As you read through our 2020 Annual Report, you will see how we are achieving those objectives and positioning the Society for future success.

Economy and market

Heading into 2020, the UK economy was experiencing modest growth, low inflation and continued low interest rates at 0.75%. The biggest uncertainty bearing down on the economy surrounded our exit from the EU, following the hastily agreed transition period.

12 months on, the UK has suffered the biggest recession since the great frost of 1709 and now faces the prospect of a double-dip recession with the economy still over 12% smaller than it was at the beginning of 2020.

The Government acted speedily and has applied unprecedented support to the economy; not least through creation of the furlough scheme, which during the first period of national lockdown was paying the vast proportion of millions of employees' pay packets across the UK. As we head into 2021, this subsidy remains in place for many. The threat of the medical impact of the pandemic should reduce as the level of vaccinations rise. This will lead to significant reductions in the levels of government support and will reveal the true level of residual damage, wrought by the virus, on our economy. It will be essential that we are well placed to support our members, particularly borrowers, when this inevitability occurs.

As part of its response to the macro-economic challenges, the Bank of England reduced bank base rates to a new all time low of 0.1%. Recently, there has been speculation that rates may go into negative territory for the first time in our history. The concept of being charged to save and paid to borrow is alien to and us has clear implications for all, not least building societies. However, the fundamental principle remains that we pool savers' money and lend it to home buyers, who provide a return to our savers for providing these funds. We will do everything we can to preserve that clear principle should rates enter negative territory in 2021.

The housing market proved to be incredibly resilient in 2020 with many industry commentators taken by surprise by the increase in purchase activity and house prices in the second half of the year. This was given impetus by the Chancellor granting a stamp duty holiday for transactions below £500,000 and many people deciding they wanted somewhere different to live having spent many months locked down at home. However, we remain cautious about the prospects of the housing market in the short to medium term. Whilst we have seen the positive impact of lockdown on the housing market in 2020, the negative impact of the economy normalising, the cessation of government support and dealing with the enormous government lending deficit are yet to be seen.

At the last minute, a Brexit deal was agreed with the EU and a new economic and trading norm was born. It will take some time to fully understand the implications of our new relationship with Europe, both socially and economically. The impacts on the Society are directly linked to the macro-economic impacts. Commentators believe this could lead to some reduction in GDP growth over the medium term. However, this impact is likely to pale into insignificance when compared to the impact of the coronavirus pandemic.

Strategy and progress

Following the stabilisation of our operations after the onset of the pandemic, the Board began to assess the potential longer-term implications, with a particular emphasis on understanding likely changes in consumer behaviour and expectations. One consistent trend had been the upsurge in digital adoption by consumers in all aspects of their lives. This was something the Board had recognised a number of years ago and we have been developing our capability for some time. However, what we saw in 2020 accelerated what we had expected to take much longer.

Despite the implications of the pandemic, the core purpose of our strategy remains a constant - to help our members save, plan for and protect their financial futures. The objective for the Board is to chart a path forward to achieve this, and in so doing continue to attract a growing membership and create sufficient capital surplus to protect members, invest in and grow the Society.

David highlights the strategic actions we have undertaken and continue to take. The acceleration in long term trends presents both challenges and opportunities and the Board remains confident that we have the financial strength, capability and plan to ensure that the Society can be a relevant and vibrant contributor to the financial lives of a growing number of members as we enter a post–Covid world.

Supporting our communities

Supporting our communities was one of our three key priorities when the virus struck. Through our Doing Good Together programme we took immediate action with a strong focus on alleviating food poverty, homelessness and reducing social isolation. We also responded quickly to the challenges of home-schooling and supporting vulnerable families by helping to further develop literacy and numeracy skills.

We provided financial support to The Trussell Trust foodbank network, The SilverLine phone-befriending service, BookTrust and long-term charity partner Framework. This provided aid for thousands of people. We also launched our Scams and Security hub aimed at protecting our members getting online for the first time. We supported "Story Parks at Home" in partnership with Nottingham City Council, digitising literacy and numeracy activity for young children. More than 8,000 families logged on this year, with almost 1,200 visits to our Money Academy virtual classroom. Education has been a key focus in 2020 and our newly launched Career Academy has supported over 1,100 students remotely on their education to employment transition.

In 2020 we have helped thousands of families with the challenges they have faced and have contributed to deserving causes who have worked tirelessly to support the vunerable. We have been proud to support these organisations in their work when they needed it most. Their amazing efforts demonstrated how the pandemic brought out the best in some.

Regulation

Our regulatory agenda remains busy and we have continued to see changes in regulation throughout 2020. However, as the year progressed, regulatory focus moved to protecting stakeholders through the pandemic, avoiding consumer harm and dealing with the uncertainty of the post-Brexit environment.

Looking forward, there are several challenges the industry and sector will face, which we and the regulators are focused on, not least the post-Brexit regime, the threat posed by climate change, data privacy in our increasing digital data driven age, the review of the building society regulatory sourcebook framework and cyber security. We have continued to work closely with both the PRA and FCA supporting their objectives of ensuring that we have a sound, secure operating environment, which protects consumers from harm.

Board

2020 has also seen change for the Board of the Society.

In June we announced that John Edwards, our Chairman for the past six years planned to retire in September. In line with our succession plans, I was proud and privileged to succeed John. I have seen close up how he focused his extensive experience and passion for The Nottingham's strong mutual ethos, to steer the Board through a period of growth and success. He always encouraged the management team to take a long-term view and put the service and protection of members first. A true testament to his leadership of the Board was demonstrated by the way we have reacted to the challenges of the pandemic. We thank John enormously and wish him all the very best for a long and happy retirement.

As part of our broader succession plans, following my appointment as Chair, we have appointed Kerry Spooner as Senior Independent Director. Kerry is a long standing and very experienced Director ideally suited to this role.

Mike Brierley joined the Board in the summer and succeeded me as Chair of the Board Audit Committee. Mike joins us following a 35-year career in financial services at a range of organisations from Metro Bank to Barclaycard and Capital One. Mike is a fellow of the Institute of Chartered Accountants and he is also a non-executive Director at Admiral Group Plc where he is a member of the audit and remuneration committee. We welcome Mike to the Board and look forward to him bringing his experience to the benefit of the Society.

Finally, at the end of the year our Chief Financial Officer, Daniel Mundy, decided to resign to pursue new opportunities. Over the past three years, Dan has played a pivotal role in developing and driving our strategy as a member of the Executive team and Board and has significantly enhanced our financial forecasting, planning and control functions as well as the governance framework. We are very grateful to him for his commitment and hard work and wish him all the very best for the future. The Board has taken steps to ensure that there is appropriate cover at a senior level, while we continue to work through our longer term succession planning.

Summary

Whilst I would not have chosen to write my first Chairman's statement in such circumstances, there is no doubt that the challenges of the past 12 months have enabled the Society to demonstrate the true value of being a mutual.

All our actions in 2020 have focused on protecting and serving our members, the welfare and wellbeing of our colleagues, supporting our communities and ensuring that the Society has a strong relevant future ahead of it, whatever the trading conditions. I believe we have much to be proud of.

We have taken a number of difficult decisions throughout the year, as well as being clear that it is in circumstances such as these that it is right to deploy some of our excess capital to the benefit of members and ensure the future sustainability of the Society. This is of course reflected in our financial results. The financial statements show a loss, reflecting the millions of pounds we spent protecting saving rates for hundreds of thousands of members, investing throughout the crisis in our digital future and supporting good causes, who have been on the front line fighting the pandemic and its horrible impacts.

There is no doubt, that uncertainty remains as we head into 2021, particularly with regards to how long the path to normality will take and what the short- and long-term economic impacts of the pandemic will be once government interventions have been withdrawn.

We remain confident that your Society is well placed to continue to fulfil its purpose and help a growing membership to save, plan for and protect their financial futures. We have also been pleased to deliver and demonstrate the true benefits of mutuality to our members, against a backdrop of one of the most challenging periods in our history.

Last but by no means least, I would like to offer my enormous gratitude and respect to the wonderful team at The Nottingham, who have worked tirelessly in the extremely challenging circumstances to ensure that we protect and serve our members. They have also been equally supported by our partners and suppliers who have joined us in delivering our purpose in this unique year.

I would also like to thank you, our members, for your continued support and loyalty throughout this unprecedented year.

Andrew Neden
Chairman

8 March 2021

CHIEF EXECUTIVE'S REVIEW

As the Chairman has highlighted, 2020 was not the year we were expecting, but once we understood the significance of the threat of the virus, we acted quickly on our three key priorities; to ensure the wellbeing of our colleagues; to protect and serve our members; and to support our communities.

Response to the pandemic – supporting the wellbeing of our team members

From the beginning of the pandemic, we acted swiftly to instigate a task team focused on the health, safety and wellbeing of our team members. The cross functional team met daily initially and then at least weekly to make plans and put in place policies, processes and actions in response to government guidelines and to enable the smooth running of our essential services in the ever-changing circumstances.

Some of the key decisions and actions taken included an early policy decision to support all team members with full pay for Covid-19 related absences due to a positive test result, a requirement to self-isolate or needing time to care for dependants due to schools' closures and other restrictions. We responded quickly to requirements for Personal Protective Equipment, including providing visors, masks and hand sanitiser as well as protective screens. Following publication of the Covid-19 secure government guidelines, we conducted risk assessments across all locations and put in place all requirements to achieve the necessary standards, including safe capacity limits, ensuring social distancing and clearly visible face covering signage for members and customers.

Regular and timely communications to team members ensured we had the support of all parties in helping to keep everyone safe and well. We created, and have maintained, a private social media group for team members to ensure we could keep everyone up to date and to enable team members to ask for any further information or support. All leaders were equipped with wellbeing questionnaires to work through with their team members. We also ran a programme of support calls to provide tools and techniques to deal with our own emotions and to manage others in such challenging circumstances. We conducted a pulse survey in May to gauge how our team members felt they were being supported. This showed that the majority of the respondents (74% of all team members) thought that The Nottingham continued to care for its members and team members, that leaders supported health and wellbeing and were open and honest in their communications. Our annual employee survey, Your Voice Matters, undertaken in November 2020 reported that 91% of respondents felt that safety and security is taken seriously at The Nottingham. Our engagement score of 82% is a five percentage point increase on the 2019 survey. This is significantly above the financial services benchmark.

We have never been prouder of the dedication of our teams to deliver on our purpose in the most challenging of circumstances.

Response to the pandemic – protecting and serving our members

As we entered the first lockdown, we embraced our key worker status and undertook to keep services open and available to members.

Keeping our network of 50+ branches open and protecting our team members throughout the pandemic has been one of our greatest challenges and achievements. We had to move quickly to provide a Covid-secure environment and deal with the ever-changing advice and requirements, as well as the early shortages of key PPE and sanitising products. In a light-hearted moment, highlighting how innovative our teams were in the face of these challenges, we acquired sanitising products from a gin distillery who changed production to support the pandemic effort. Through hard work, perseverance and commitment, we did manage to keep our branches open to members, albeit with reduced opening hours to improve our operational resilience. When our doors closed our team members did not stop work as we undertook thousands of wellbeing calls to vulnerable house-bound members to check-on them and make sure they were alright. In another excellent example of how we have supported members, branch colleagues even shopped for vulnerable members who could not get out of their houses nor make alternative arrangements.

Another major challenge for us was to ensure that the entire machinery of running the Society could continue with the vast majority of team members working from home. Our IT team implemented a range of options to enable extensive home working, which over the early weeks of the lockdown meant more and more individuals could work effectively and securely at home.

As we continued to stabilse our operations and maintain access to services, we began to turn our attention to how we could directly support our members as they tackled the challenges of the pandemic.

For mortgage customers having difficulty making their monthly payments, we offered payment deferrals, effectively suspending payments for up to six months and providing some breathing space for their family finances. Over the year more than 3,000 members have used this facility. Thankfully, by the end of the year we only had 161 members utilising a payment deferral with the remainder now returned to making their payments as normal. Whilst this is encouraging, the impact of the restrictions in place during the first quarter of 2021 may result in some more deferrals being required.

One of the largest contributions of direct support to members we have made, was through our conscious decision to protect savings rates in the face of the cut to bank base rate to 0.1% in March. This commitment was to maintain branch savings rates for at least six months. We felt it right to protect members at a critical time of crisis and particularly when they were asked to stay at home. The impact of this decision is that we have paid millions of pounds of additional interest to members during 2020.

We believe that the actions we have taken, achieved without taking government subsidy, have been the right thing to do and in the best interests of our members. 2020 was a unique opportunity for us to demonstrate the benefits of being a member of a mutual organisation and we trust that this is appreciated by all our members.

Staying relevant in the New World

As the Chairman highlighted, once we had stabilised the operational situation and were clear how we best protect and serve members, as well as ensuring the welfare of our team members, we turned our attention to the strategic implications of the pandemic which were creating the need to make profound changes across the whole spectrum of our activities.

Following our review, we agreed a range of actions to ensure that the Society is well-placed to continue to grow membership and deliver a sustainable performance in the years ahead. The key areas of our focus were:- our role as an estate agent; the future role of branches; and accelerating our digital route map.

Our role as an estate agent

We have operated as an independent estate agent for over 25 years and during that period have offered both members and non-members a high-quality home buying and selling service. Importantly from a strategic perspective, it has often been an introductory route for new members, whose first experience of The Nottingham was as an estate agent, but then have moved on to become mortgage and savings members. However long-term shifts in the level of annual house purchases, how people now choose a mortgage provider and the increasing digitisation of estate agency services have all been medium term considerations for us.

When taking all these factors into account, we determined that to remain a strong force in estate agency would require a level of investment that was difficult to justify. We therefore began to look at how we might adopt a different approach to maintain access for members to estate agency services, continue to utilise branch space effectively, but not to incur the full costs of running an estate agency.

Following a thorough review of our options, we announced our strategic alliance with the Belvoir Group, one of the country's leading lettings and estate agency networks.

The establishment of the strategic alliance achieved our objectives of maintaining access to discounted home selling and lettings services for members – now available nationally and utilising our branch space – whilst no longer carrying the cost of running an estate agency. We are very optimistic about the prospects of our strengthening alliance with the Belvoir Group, which provides both organisations with a number of unique opportunities to work together in the future.

The future role of branches

Branches have been the cornerstone of serving our members and we have long been supporters of a strong branch network. This is best demonstrated by the fact that we have doubled the number of branches in the past seven years. This has proven very successful with branch savings balances increasing from £1bn in 2013 to over £2.5bn at the end of 2020. The important role of branches therefore is clear and we believe will remain so for many years to come.

However, as part of our decision regarding estate agency, and its knock-on implications for some locations and the need to ensure all of our locations had a good chance of a successful future, we conducted a review of our network. There were two clear emerging themes resulting from this review. Firstly, with the removal of estate agency, a small number of locations were no longer viable; and secondly it was difficult, in the current market conditions, to justify such a strong concentration of branches in our home city of Nottingham, where we had 13 branches within a five mile radius of our head office. Our review showed that in reducing this to eight branches, Nottingham based members would still have access to a branch within 1.5 miles of their home. We therefore regrettably took the decision to close these branches at the end of 2020 and the cost associated with this is included within our strategic costs.

Following this review we still have a large vibrant branch network of 48 branches and, in a strong demonstration of our confidence and commitment to our network, we have completed five refurbishments, rolling out a completely new and fresh branch concept, which is proving popular with members. We plan further refurbishments in key locations in 2021.

Changing digital expectations

A universal impact of the pandemic has been a greater adoption of the use of digital channels. Whilst in itself not surprising, the rate of shift of expectations and level of usage has been significant, in our view accelerating adoption levels by about five years.

Whilst we recognised this trend some time ago and began to digitise the Society's operations, it was clear in the summer that we would need to accelerate our plans significantly if we were to be relevant to younger members in the post-Covid world.

We have therefore approved further investment in digital and have been working hard over recent months with our plans to relaunch Beehive Money in the summer of 2021. Through the launch of an innovative savings app, we will look to position ourselves as a digital leader in tax-free savings. We believe this area gives a significant opportunity to grow our membership particularly those under 40 years of age – something which is underpinned by our recent success as a Lifetime ISA (LISA) provider, where we already have over 35,000 members saving with us in a LISA to buy their first home or save for their pension.

This will mark an exciting new chapter for the Society. Our aim is to become a tax-free savings provider of choice for a new generation of savers.

Financial strength and quality

Throughout the crisis, the Society has continued to maintain its financial strength. Our robust levels of capital resources, significantly in excess of our regulatory requirements, afforded us the opportunity to deploy some of our capital to protect members, when interest rates fell to historic lows, and invest further in the Society's future.

Our liquidity remained strong demonstrated by our liquidity coverage ratio which stood at 215% at the year-end; this has been supported by our continued popularity as a savings provider, our branch savings balance continued to grow throughout the year and have now passed £2.5bn for the first time in the Society's history.

The Society's lending portfolio was low risk and of high credit quality before the pandemic and our book continues to perform very well, with less than 50 accounts three months or more in arrears at the end of the year. However, we believe it is appropriate to remain cautious in this area and expect to see some increases in arrears activity over the next year or so, as economic uncertainty created by the third national lockdown and the planned cessation of government intervention start to bite. As a result we have recorded an impairment charge of £2.9m to reflect the potential future impacts.

Despite the unprecedented economic impact due to coronavirus, the Society maintains its excellent financial strength.

Our Performance

In trading terms, despite the turmoil in the economy and markets, we delivered broadly in line with our trading plan.

Following a planned contraction of the balance sheet in 2019, we broadly maintained our asset size in 2020 supported by a 40% increase in new advances to £493m.

There were a number of factors that had a strong influence on our 2020 financial outturn. Net interest income reduced as a consequence of our conscious decision not to reduce savings rates for branch customers for at least six months in the ultra-low interest rate environment. Fee income also fell driven by very low levels of activity in the first half of the year and our decision to exit estate agency in the summer. Significant investment in the Society reflected in rising depreciation and strategic costs (up a combined £5.0m on 2019). A cautious view of credit losses that may be incurred as a consequence of the pandemic induced economic shock saw loan impairments increase by £2.9m. In addition, there was also a hedge accounting charge of £2.7m during the year, reflecting the consequences of rate changes and market expectations that rates are likely to remain low or even negative for a considerable period. This will however, unwind over time.

Overall, these factors led to a significant reduction in underlying profit before tax of £0.4m and a statutory loss after tax of £7.2m.

A second year of losses is not ideal, however the Board believes that the deployment of capital to support members through higher savings rates and continued investment in the Society's future was the right thing to do and a positive reflection on our status as a mutual; particularly as our levels of capital still remain significantly in excess of our regulatory requirements.

Outlook

As we enter 2021, great uncertainties remain, not least the continuation of the pandemic with the nation in its third period of lockdown and the new trade agreement with the EU just being introduced. A double-dip recession remains a possibility.

Government support and subsidy will continue for some time. But, when it is eventually removed and the economy has to sustain itself, there are likely to be some harsh economic impacts including potentially higher levels of unemployment and potential payment defaults. The economy is likely to remain smaller than it was at the beginning of 2020, for some time.

Against this backdrop, we expect to steer a steady course and also continue to reinvent the Society for the post-Covid era.

Our investments and decisions taken in 2020 should enable us to grow membership and our balance sheet, supported by the relaunch of Beehive Money in the summer and the ongoing success of our branch network. We also plan to invest in our mortgage capability to ensure we are a more relevant and efficient lender. With interest rates set to remain low and potentially even go negative, we expect margins to remain compressed, but we nonetheless expect to stabilise our margin in 2021, striking the right balance between historically low lending rates and offering our savers a fair return.

In my review last year, I highlighted that we were taking steps to prepare the Society for a new world of financial services. Despite the significant challenges of the past year, we remain on track to do this. We expect to end 2021 as a very different Society to the one that ended 2019 – one that is growing its membership base and delivering a sustainable financial performance despite the challenging economic conditions.

None of the achievements I have set out above would have been possible without the amazing team we have here at The Nottingham. They strive every day to help our members save, plan for and protect their financial futures.

In a year of extraordinary challenge, they have consistently gone over and above normal expectations to find a way to support our members, whatever the circumstances. Their commitment, endeavour and determination to find a way and do the right thing in the most challenging of circumstances has been both highly impressive and humbling. It has been my honour and privilege to lead the team over this period.

My gratitude also goes to our partners and colleagues on the Board who have provided constant support and good counsel throughout.

Finally, to our members; thank you for continuing to put your trust in us to help you save, plan and protect your financial future.

David Marlow
Chief Executive

8 March 2021

Business model and Group strategy

The Nottingham Building Society

The Nottingham is a top ten UK building society with £3.8bn of assets and a regional presence extending to 48 branches across nine counties.

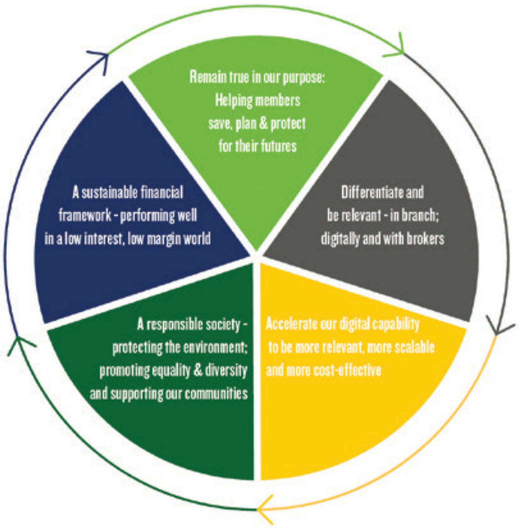
The essence of a building society is to provide a safe and secure home for members' savings and to use these funds to provide mortgages to members to purchase their homes.

To be successful, we believe a building society should offer more than this and, at the heart of The Nottingham, we have a clear purpose, which is to build enduring membership in savers and borrowers who are looking to receive a proposition based on a combination of advice, price, service and convenience that helps them save, plan and protect for a secure financial future.

The Nottingham aims to support its members in doing the right thing and take steps to plan for their financial futures in addition to just simply saving or borrowing with the Society. This is achieved through the provision of a suitably targeted range of advice services, which provides a choice of product and provider suited to their needs, which may not otherwise be available to them at the price we choose/ are able to offer. In delivering this we expect to build trust, loyalty and advocacy in the membership for the long term.

In response to the ongoing market themes of low interest rates and net interest margins, overlayed by the Covid-19 pandemic, driving an unprecedented recession and a significant shift in consumer/member behaviour and expectations, the Society took the decision in 2020 to accelerate its reinvention for the new world that will emerge.

This reinvention is following five key principles as shown in the diagram below:



To maintain our relevance to both existing and future members, our aim is to provide members with a choice of propositions which is keenly targeted and relevant to their needs, which we see as a combination of the traditional face to face branch offering and adopting emerging digital/mobile trends.

The Nottingham remains fully committed to its strong branch network and our reinvention includes investment to ensure we can continue to maintain the higher quality service provided to members and provide them with an appropriate range of services focussed on later life.

The Nottingham recognises that to remain successful in the long term as a modern mutual, it needs to attract a broader membership and be relevant and attractive to younger members as well as to the existing branch based members. This will be achieved by delivering our core member proposition in a digital and mobile format, with a suitably targeted range of advice services, building on the strong foundations we have already made on our technology journey.

We successfully launched both our award winning Lifetime ISA, as well as our new mortgage broker portal on our new technology platform last year. Having both the mortgage and savings sides of the balance sheet using the new technology puts us in a strong position to meet successfully the expectation of current and future members, at a lower cost to run whilst retaining our industry leading customer service levels. We have already attracted in excess of 35,000 new members via our LISA accounts and have exciting plans in place to further enhance our digital savings capability in 2021.

During 2020 we widened our partnership model, with the creation of a new strategic alliance with Belvoir – an established and successful national network of estate agency franchisees that share the same company ethos of putting the customer at the centre of what they do. As part of this arrangement our own estate agency operations have ceased trading. Our members can continue to obtain these services at a discount with the Belvoir group. This new partnership has seen Belvoir franchises share some of our branch premises in Nottingham and Leicester and during 2021 we have exciting plans to expand on this roll-out and develop our alliance further.

The Nottingham continues to offer whole-of-market mortgage advice through its subsidiary Nottingham Mortgage Services.

Group structure and brands

The Nottingham's unique proposition places us in a strong position to meet our customers' needs and deliver advice, choice, service and value. During 2020, this has been delivered through Nottingham Building Society, our estate agencies (Nottingham Property Services and Harrison Murray) and whole-of-market mortgage advice via Nottingham Mortgage Services. Investment and personal financial planning are offered through our partnership with independent third parties and estate agency services have now moved to this partnership arrangement too.

Basis of presentation

KEY PERFORMANCE INDICATORS CONTINUING BASIS	Group 2020	Group 2019
Group management expenses ratio	1.21%	0.99%
Profit after tax ratio	(0.18)%	(0.17)%
Underlying cost income ratio	92.4%	78.3%

Whilst the income statements on page 52 have been presented on a continuing basis following the exit of the estate agency market during the year, as a mutual, the Board manages the overall performance on a total Group basis. The differences when considered on a total basis as opposed to the continuing basis are not material in the context of the overall understanding of the financial performance covered in this report.

Therefore the following financial performance review is considered in totality, and not separated between continuing and discontinued performance, as referenced in the segmental analysis presented in note 2 of the financial statements.

Business performance

The Chief Executive's review includes a summary of factors affecting our performance in 2020 and should be read in conjunction with this report.

The Society continues to move forward from its firm foundations, focusing on four key strategic pillars and, in 2020, against the backdrop of a global pandemic, we have delivered an acceptable performance in each. The Board is satisfied with the overall performance of the Group in the context of its strategic objectives and the external market challenges we are facing.

The following section focuses on the financial performance indicators that underpin our strategic pillars of financial adequacy and growing and rewarding membership.

KEY PERFORMANCE INDICATORS TOTAL GROUP BASIS	Group 2020	Group 2019
CET1 %	15.0%	15.1%
Net interest margin	1.07%	1.17%
Group management expenses ratio	1.25%	1.07%
Profit after tax ratio	(0.19)%	(0.18)%
Liquidity Coverage ratio	215%	229%
Arrears ratio	0.21%	0.15%
Net Promoter Score	76%	77%

The Society as a mutual has no shareholders and does not need to maximise profits. The objective is to optimise our net interest margin and profit after tax ratio so that we balance the requirements to offer attractive rates for savers and competitive rates for borrowers, whilst ensuring sufficient profits are generated to maintain a strong capital position and enable continued investment in the Society in line with plans

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 fair value gains or losses from derivatives and hedge accounting as well as strategic investment costs supporting the reinvention of the Society, including branch optimisation programme and investment in digital, which are not ongoing in nature. During 2020, the Society also recognised a change in accounting estimate in respect of its savings digital system assets. This reflects the acceleration of its planned enhancements in these systems, is one-off in nature and therefore excluded from underlying performance.

INCOME STATEMENTS TOTAL GROUP BASIS	Group 2020 £m	Group 2019 £m
Net interest income	40.6	46.1
Net fees & commissions receivable	3.7	5.1
Net underlying income	**44.3**	**51.2**
Management expenses	(41.1)	(40.8)
Impairment charge – loans & advances	(2.9)	(0.4)
Profit of disposal of property, plant & equipment	0.1	-
Underlying profit before tax	**0.4**	**10.0**
Losses from derivative financial instruments	(2.7)	(0.6)
Net strategic investment costs	(4.5)	(1.1)
Change in accounting estimate	(1.6)	(12.3)
Impairment – goodwill	-	(4.0)
Reported loss before tax	**(8.4)**	**(8.0)**
Tax credit	1.2	0.8
Reported loss after tax	**(7.2)**	**(7.2)**
Represents:		
Loss after tax – continuing operations	**(6.8)**	**(6.5)**
Loss after tax – discontinued operations	**(0.4)**	**(0.7)**

As a result of the above, the Group's profit after tax ratio has remained negative at -0.19% in 2020 and -0.18% in 2019. The Group's profit after tax ratio on an underlying basis, was 0.01%.

The Financial Review 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. A summary of these indicators are presented opposite.

OUR PLAN IS BUILT ON FOUR KEY & CONNECTED PILLARS

1 GROWING & REWARDING MEMBERSHIP	2 PEOPLE, CULTURE & COMMUNITY	3 SAFE & SECURE	4 FINANCIAL ADEQUACY
Within each pillar there are a number of high level strategic objectives which will create focus.			
• Grow sustainable membership based on service and advice not solely on price	• Have enthusiatic and expert team members	• What we must protect, on behalf of members and employees, to remain a secure, relevant and sustainable building society	• Protect and build capital on behalf of members (growth; margin; profit)
• Reward membership to make it meaningful	• Promote and embed our ARROWS culture	• Deliver a great service by protecting those things which matter most to our members	• Deliver optimal financial performance
• Be highly rated for delivering great advice and service	• Support home ownership and financial independence in our heartland (Doing Good Together)	• To take responsibility as we can all make a difference	

2020 Financial review and key performance indicators

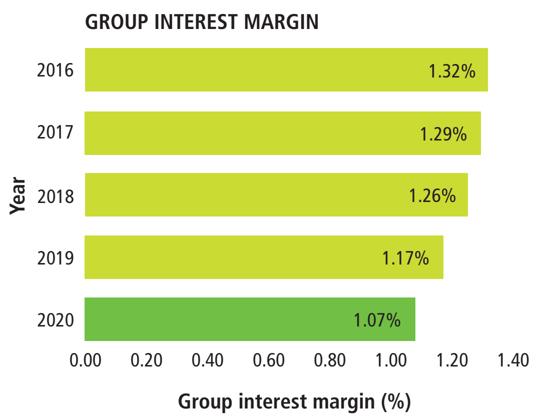
INCOME STATEMENT REVIEW

The Group's underlying profit before tax reduced to £0.4m in 2020. Whilst the Group managed its cost base in the context of a significant investment programme and reinvention strategy, the reduction in net interest income is the primary driver of the fall in underlying profit. The reduction of interest rates to historic lows and the decision to protect savings rates was the primary contributor of this.

Another year of good performance from the Group's whole-of-market mortgage advice business has contributed £0.3m of profit to the Group, and a £0.5m dividend paid to the Society. This, however, has been offset by continued difficult trading conditions in the estate agency division, which has reported an underlying loss for the year of £0.6m. The estate agency division closed to new business in July 2020, following the announcement of the Society's new strategic alliance with the Belvoir group.

	2020	2019
Net interest income	**£40.6m**	£46.1m

Net interest income fell by £5.5m in the year to £40.6m as we delivered a net interest margin of 1.07%, a reduction of 10 basis points against 2019.



Asset yields continue to remain suppressed, in the face of the further fall in Bank base rate, as the Bank of England sought to support the economy through the pandemic.

We continued to try and protect our savings members from the very low interest rate environment as much as possible, which meant our interest payable to savers did not fall inline with the interest we earned on our assets, reducting the overall net interest income.

An extension to low cost central bank funding facilities was launched as part of measures to respond to the economic shock from Covid-19. The Society has participated in this scheme and was able to partially mitigate the net interest income reduction.

	2020	2019
Net fees & commissions receivable	**£3.7m**	£5.1m

Net fees and commissions receivable represents £4.7m (2019: £6.2m) of fee income offset by £1.0m (2019: £1.1m) fees and commissions payable.

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.

	2020 £m	2019 £m
Building Society	2.1	2.2
Mortgage broking	1.7	2.0
Total continuing fees receivable	**3.8**	**4.2**
Building Society fees & commissions payable	(1.0)	(1.1)
Net continuing fees receivable	**2.8**	**3.1**
Estate Agency - discontinued	0.9	2.0
Net total fees & commissions receivable	**3.7**	**5.1**

The total Group fee income has fallen by 23% in 2020 to £4.7m, driven predominately by the closure of the estate agency division in summer 2020.

Levels of fee income continue to be impacted by intense competition in the mortgage market which has seen mortgage arrangement fees fall or disappear altogether on new mortgage lending as well as being impacted by reduced lending. Third party estate planning income, through provision of financial planning and protection products, has continued to perform well and is in line with our expectations and the Society has also contributed £0.3m towards rewarding members through the year.

Income from the estate agency business reduced by 55% to £0.9m as a consequence of fully exiting the estate agency and lettings market in July 2020.

The Group's whole-of-market mortgage advice proposition delivered £1.7m of fee income in the year.

The Society's fees and commissions payable, has remained stable at £1.0m. This cost relates to various banking charges and mortgage related charges, which are spread over the life of the initial product term.

	2020	2019
Management expenses	**£47.4m**	£42.1m

The Group's management expenses, including depreciation, amortisation, strategic investment spend for reinvention and changes in accounting estimates, have increased by 13% to £47.4m in 2020.

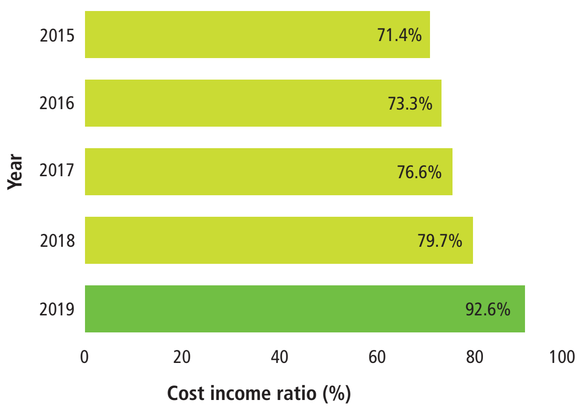
	2020 £m	2019 £m
People related costs	21.4	21.5
Other administrative expenses	12.6	13.8
Underlying administrative expenses	34.0	35.3
Depreciation and amortisation – underlying	7.1	5.5
Management expenses – underlying	**41.1**	**40.8**
Strategic investment costs – admin	4.3	1.3
Strategic investment cost & change in estimation	2.0	-
Management expenses –strategic	**6.3**	**1.3**
Total administrative expenses	**47.4**	**42.1**
Represents		
Administrative expenses	38.3	36.6
Depreciation & amortisation	9.1	5.5
	47.4	**42.1**
Management expenses – continuing operations	45.9	39.2
Management expenses – discontinued operations	1.5	2.9

The strategic actions taken in respect of the estate agency and lettings business have resulted in 3% reduction in underlying administrative expenditure.

Underlying depreciation and amortisation increased to £7.1m, resulting in an underlying management expense ratio of 0.97% (2019: 1.00%).

The Group's underlying cost income ratio increased to 92.6% from 79.7% as the reduction in income outweighed the marginally lower cost base.

UNDERLYING GROUP COST INCOME RATIO



Total Group management expenses also include £6.3m of strategic investment costs, which are supporting the Society's reinvention. This additional spend has resulted in the Group management expense ratio increasing to 1.25% for the year (2019: 1.07%).

The Society has continued to invest significantly during 2020, particularly in the area of technology and its network optimisation. The investment in digitalisation strengthens access to our services for members and the mortgage broker network. It is an indication of how we continue to evolve and improve our IT capability and resilience. The benefits of digital services to support our branch network have become even more apparent throughout the last year.

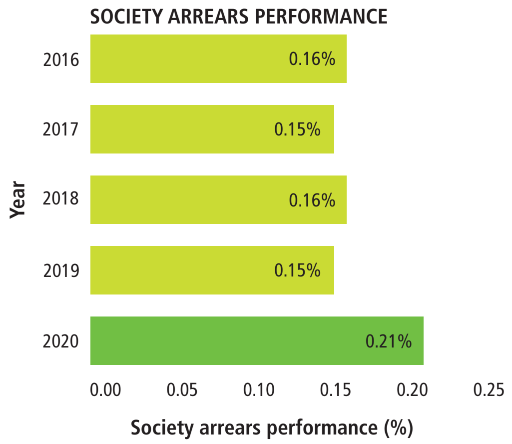
During the year, the Society has accelerated its branch optimisation programme, which has resulted in a number of closure costs relating to the 15 exited locations across the Group in the period. Further investment has also been made across a number of remaining locations.

As a result of planned development and enhancement work to its digital savings technology platforms, the Society has reviewed and reassessed the asset lives relating to these intangible assets in the year. This has resulted in an accelerated amortisation charge in the year of £1.6m being recognised.

	2020	2019
Impairment	**£2.9m**	£0.4m

In light of the continued economic uncertainty, an impairment charge of £2.9m has been recognised in the year under the forward-looking requirements of the IFRS 9 accounting standard.

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



Despite the stressed external environment, the Society's arrears ratio has continued to stay at low levels, with the ratio at the end of 2020 standing at 0.21% (2019: 0.15%). There are 49 cases (2019: 36) out of 23,500 accounts across the mortgage book three months or more in arrears at 31 December 2020. The Society had no properties in possession at the year-end point.

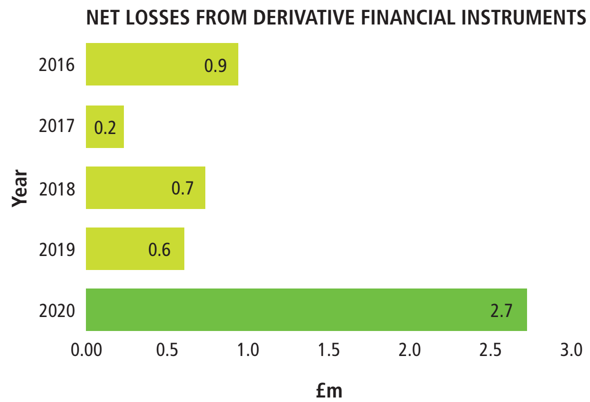
The low level of arrears ratio is reflective of our low risk business model and prudent underwriting approach. We always seek to ensure that customers can afford to meet their mortgage repayments from the outset and it is this approach that has ensured arrears levels have remained below industry average. However, the current uncertainty in the macroeconomic environment and what may happen to arrears levels and resulting credit losses once the various government intervention schemes come to an end, remain a key risk to the Society and are reflective of the increased impairment charge recognised in the year.

Throughout the year, the Society has supported its customers through the pandemic with offering the government-led payment deferral scheme. Over 3,000 customers have benefited through the year, with the vast majority returning to full repayment plans by 31 December 2020 and only 0.7% of mortgage customers with remaining payment deferrals in place.

In line with regulatory requirements, the Society does not include payment deferrals arising from the government's Covid-19 response in its reported arrears and forbearance position.

The Society's total overall impairment provisions as at 31 December 2020 is £4.5m (2019: £1.6m), which equates to 0.14% of the total book.

	2020	2019
Derivative financial instruments	**£2.7m**	£0.6m



The Nottingham predominately uses derivative instruments to manage exposure to changes in interest rates that arise from fixed rate mortgage lending and fixed rate retail savings products, as well as in its secured bilateral funding arrangement. This leads to volatility in income statement results; such volatility would only be realised if we chose to sell the derivatives before they reach maturity. The Nottingham has no need, or intention, to sell these derivatives and so expects the overall £2.7m negative fair value adjustment to reverse out over the derivatives' remaining lives. As this volatility arises primarily due to timing differences, the Board excludes its impact from underlying performance.

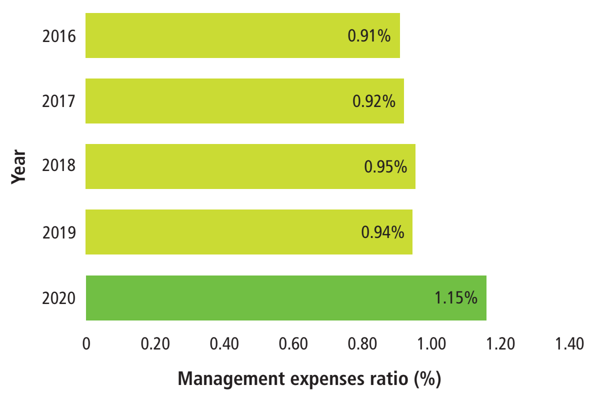
STRATEGIC REPORT (continued)

SOCIETY ONLY PERFORMANCE

INCOME STATEMENT	Society 2020 £m	Society 2019 £m
Net interest income	40.4	46.1
Net fees & commissions receivable	1.1	1.1
Net underlying income	**41.5**	**47.2**
Management expenses	(37.7)	(36.4)
Impairment charge – loans & advances	(2.9)	(0.4)
Profit of disposal of property, plant & equipment	0.1	-
Underlying profit before tax	**1.0**	**10.4**
Losses from derivative financial instruments	(2.6)	-
Net strategic investment costs	(4.1)	(0.7)
Change in accounting estimate	(1.6)	(12.3)
Fair value of intercompany	(0.4)	(2.0)
Reported loss before tax	**(7.7)**	**(4.6)**

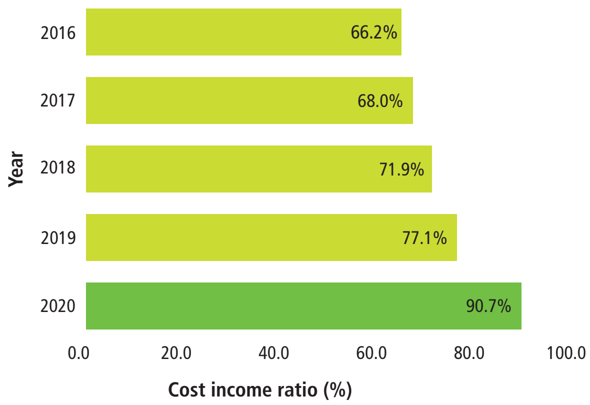
Overall, the Society has delivered an underlying profit before tax of £1.0m for 2020 (2019: £10.4m). When reported on a statutory basis, taking into account one-off items, the Society has reported a loss before tax of £7.7m (2019: loss of £4.6m). A slightly smaller asset base and a reduced net interest margin of 1.07% (2019: 1.17%) has resulted in lower net income overall. This lower income and a higher depreciation charge, as previously outlined, has resulted in an overall increase of the Society management expense ratio to 1.15% (2019: 0.94%).

SOCIETY MANAGEMENT EXPENSES RATIO



The Society's underlying cost income ratio (excluding fair value movement on derivatives and intercompany, change in accounting estimate and one-off strategic investment costs) has increased to 90.7%, in the main reflecting the fall in net interest margin as outlined above.

UNDERLYING SOCIETY COST INCOME RATIO



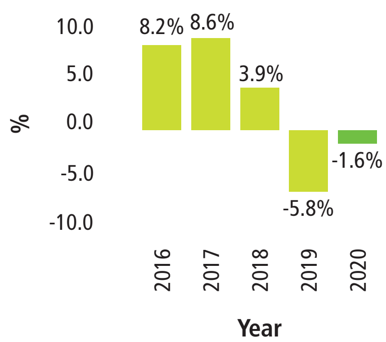
STATEMENT OF FINANCIAL POSITION REVIEW

STATEMENT OF FINANCIAL POSITION	Group 2020 £m	Group 2019 £m
Mortgages	3,128.0	3,161.4
Liquid assets	592.2	615.1
Other assets	38.2	42.5
TOTAL ASSETS	**3,758.4**	**3,819.0**
Retail & wholesale funding	3,479.4	3,552.4
Other liabilities	72.7	50.4
Reserves	206.3	216.2
TOTAL LIABILITIES & RESERVES	**3,758.4**	**3,819.0**

There is no material difference between the Group and Society balance sheet, and thefore this section is presented on a Group basis only.

The Group balance sheet reduced by 1.6% in the year and stands at £3.8bn. and was driven by the managed reduction of our mortgage book and liquidity balances.

MOVEMENT IN ASSETS



MORTGAGE LENDING

	2020 £m	2019 £m
Residential	2,942.1	3,058.4
SBL	164.1	95.2
Total	**3,106.2**	**3,153.6**

Gross new lending totalled £493m for the year, of which £336m related to prime residential lending and £76m to buy-to-let. Mortgage lending remaining concentrated in prime high quality mortgage assets. Residential mortgages, excluding buy-to-let, account for 69% of the total lending book.

The Secured Business Lending (SBL) book increased to £164.1m, with £81m of gross lending for the year, driven by the new Limited Company BTL product launch.

Overall, total mortgage balances fell marginally by 1.5% during the year and stands at £3.1bn. The Society saw continued success on customer retention where we retained over 70% of customers who reached the end of their fixed or discounted product term in the year.

Residential mortgage lending is focused primarily equally less than 60% and 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), which remain uncertain in light of the ongoing pandemic. The Society's average LTV decreased marginally from 55% to 53% during the year.

	2020 %	2019 %
<60%	42	42
60% - 80%	42	43
80% - 90%	14	12
>90%	2	3

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

	2020 %	2019 %
East Midlands/Yorkshire	30	31
London & South East	22	22
North	16	16
Eastern	10	10
West Midlands	10	10
South West	9	8
Other	3	3

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

RETAIL AND WHOLESALE FUNDING

	2020 £m	2019 £m
Branch savings	2,506.0	2,429.7
Non-branch savings	288.2	351.4
Retail savings	**2,794.2**	**2,781.1**
Secured wholesale	644.5	661.8
Unsecured wholesale	40.7	109.5
Retail & Wholsale funding	**3,479.4**	**3,552.4**

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

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

Retail savings have remained stable at £2.8bn. We have continued to see inflows into our branch based retail accounts with branch balances having increased by 3% to £2.5bn by the end of the year. Branch balances represent 90% of total retail balances and this provides further support of the Group's combined operating model.

The Bank of England's Term Funding Schemes (TFS & TFSME) have continued to provide the Group with access to secured funding at low rates of interest, with £453m (2019: £588m) drawn down under the schemes as at 31 December 2020. The scheme was extended in March 2020 with TFSME, as the Bank of England responded to the Covid-19 situation. The Society drew £90m of funding down through TFSME during the year, and repaid £225m of TFS in the same period. Repayment of TFS will continue during 2021 and the Society has robust plans in place to replace the funds as required.

The Society also has £191m (2019: £62.6m) outstanding as at 31 December 2020 borrowed through a secured bilateral funding agreement. During the year, this bilateral facility was extended and a further £150m drawdown completed. Overall this has resulted in a higher proportion of secured wholesale funding than in previous years, however the repayment of FLS balances in the year has resulted in the wholesale funding ratio reducing from 21.7% to 19.7% in 2020.

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 comprise a combination of 'on-balance sheet' liquid assets and 'off-balance sheet' liquidity held with the Bank of England secured against approved mortgage portfolios. The Group is able to exchange these assets for cash as required.

The Group's liquidity is made up as follows:

	2020 £m	2019 £m
Bank of England	373.3	270.5
Multilateral Development Banks	78.6	67.0
UK Gilts & T'Bills	10.1	149.3
Mortgage backed securities	46.7	76.2
Covered Bonds	17.4	14.1
Other	66.1	38.0
Liquid assets	**592.2**	**615.1**

By holding liquid resources of the highest quality which can be turned readily into cash, termed 'buffer' assets, the Group is able to manage the on-balance sheet liquidity it holds at a lower level. During the year, the Group continued to maintain a level well in excess of the regulatory minimum.

The Society supplements on-balance sheet liquidity with access to the Bank of England's Sterling Monetary Framework facilities supported by prepositioned collateral. When taking into account both on- and off-balance sheet liquidity, total liquid resources was 32.5% (2019: 27.4%), with prepositioned assets in addition.

The two key measures of liquidity introduced under CRD IV are the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The final requirements for the NSFR have now been released, but are not yet in force. The Society is currently in excess of the minimum levels required for both measures, with the LCR at the end of year being 215% (2019: 229%).

CAPITAL

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

Common Equity Tier 1 (CET1) capital is the strongest form of capital and comprises the Society's general reserves. Overall CET1 resources have decreased by £3.2m in the year. This is driven by the retained loss and other comprehensive income movements of the Society somewhat offset by favourable changes in fair value reserves and a significant decrease in regulatory adjustments, driven by the amortisation of intangible assets held at 31 December 2020. The Society has also benefitted from a positive IFRS 9 regulatory adjustment at 31 December 2020, as part of the government responses to the Covid-19 pandemic. However, alongside the fall in resources, there has been a 1.3% reduction in risk weighted assets, reflecting the fall in mortgage assets. This resulted in a marginally reduced CET1 ratio of 15.0% compared against the 2019 position of 15.1%, emphasising our capital strength, despite the deployment of capital in the year.

The following tables show the composition of The Nottingham's regulatory capital as at 31 December 2020 under CRD IV final and transitional rules, and details of key ratios:

CAPITAL RESOURCES	2020 Final CRD IV £m	2019 Final CRD IV £m	2020 Transitional CRD IV £m	2019 Transitional CRD IV £m
COMMON EQUITY TIER 1 CAPITAL				
General reserves	205.5	215.0	205.5	215.0
Fair value reserves	-	(0.4)	-	(0.4)
Regulatory adjustments and deductions	(13.7)	(17.3)	(11.4)	(17.3)
TOTAL COMMON EQUITY TIER 1 CAPITAL	**191.8**	**197.3**	**194.1**	**197.3**
ADDITIONAL TIER 1 CAPITAL				
Permanent Interest Bearing Shares	-	-	4.7	7.1
TOTAL ADDITIONAL TIER 1 CAPITAL	**-**	**-**	**4.7**	**7.1**
TIER 2 CAPITAL				
Permanent Interest Bearing Shares	23.8	23.8	19.1	16.7
TOTAL TIER 2 CAPITAL	**23.8**	**23.8**	**19.1**	**16.7**
TOTAL REGULATORY CAPITAL	**215.6**	**221.1**	**217.9**	**221.1**
RISK WEIGHTED ASSETS	**1,291.7**	**1,309.2**	**1,291.7**	**1,309.2**

CAPITAL RATIOS	2020 Final CRD IV %	2019 Final CRD IV %	2020 Transitional CRD IV %	2019 Transitional CRD IV %
Common Equity Tier 1 (CET1) ratio	14.8	15.1	15.0	15.1
Total Tier 1 ratio	14.8	15.1	15.4	15.6
Total Capital ratio	16.7	16.9	16.9	16.9
Leverage ratio	5.1	5.1	5.3	5.3

Regulatory adjustments include deductions for intangible assets and valuation adjustments on fair value financial instruments, offset by an addback for the IFRS 9 transitional arrangements.

At 15.4%, the Society's Tier 1 ratio – which compromises both CET1 and Additional Tier 1 capital – has fallen in the year as the transitional provisions applied to the Society's Permanent Interest Bearing Shares (PIBS) reduce down.

The leverage ratio, which is calculated as Tier 1 capital divided by total balance sheet exposure, has remained stable against 2019 at 5.3% under the transitional rules basis. This is driven by the reduction in asset exposures as well as the impact of lower regulatory adjustments.

The leverage ratio, excluding central bank deposits, would be 5.7% under the final rules basis.

The Regulator requires that the Society holds a certain amount of capital against the assets it holds. This is referred to as its Total Capital Requirement. As at 31 December 2020, the Society's Total Capital Requirement was set at 8.77% of risk weighted assets or £113.3m.

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

Further information regarding the Society's capital management can be found in the Pillar 3 report available at www.thenottingham.com.

CUSTOMER SATISFACTION

	2020	2019
Net promoter score	**76%**	77%

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 Nottingham. In 2020 we have maintained our industry leading levels of satisfaction, with 84% of our customers rating us as excellent, and in line with the prior year position.

The Net Promoter Score measures the percentage of customers strongly prepared to recommend The Nottingham to others, less those who are not prepared to recommend The Nottingham, which results in a net percentage of our customers who would recommend our products and services. The Nottingham's Net Promoter Score also remained strong at 76%, and in line with 2019.

Our customer base continues to grow, with almost 40,000 new customers welcomed to the Society during 2020 and our LISA product offering contributing significantly to our new membership. With strong customer satisfaction scores, a strong branch network alongside the product and service offering, we expect this growth to continue.

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 manages them, are considered in the risk management report on pages 29 to 33.

Within our risk management framework, we categorise our principal risks and uncertainties affecting The Nottingham as capital, credit, legal, regulatory & conduct, liquidity, market & interest rate, model governance, operational, strategy and transformation & change, all of which are common to most financial services firms in the UK. A key element of the framework for The Nottingham, particularly through the unprecedented circumstances of 2020, is people risk. This is included within the operational risk category and has been subject to close management oversight throughout the year.

Whilst we are a low-risk, UK-based organisation, the business model of a UK building society inevitably poses certain risks to the delivery of our strategic objectives. We continue to operate in an uncertain global environment, which creates risks and challenges for mutual building societies. Uncertainties around the long-term impacts of the Covid-19 pandemic continue to permeate through all of the key risks faced by the Society.

In response to the pandemic, the Society was swift to invoke its incident management plan, our highest level of risk management response, and close management of the impact of the pandemic will continue through 2021. In addition, Brexit and the UK's future trading relationship with the EU have the potential to create further economic uncertainty that will inevitably impact risks relating to the UK housing market (affecting the value of the security held against our mortgage lending) and the future path of interest rates (thus impacting our net interest margin).

In order to mitigate the business model risks, and in response to the pandemic, the Society has accelerated its plans for strategic reinvention, and is seeking to offer a much-enhanced digital offering, alongside its traditional branch-based services.

The risks described below are therefore broken down into three inter-related sections:

- Impacts of the Covid-19 pandemic;
- Risks relating to the Society's business model; and
- Risks relating to the Society's strategic reinvention.

IMPACTS OF THE COVID-19 PANDEMIC

The impacts of the Covid-19 pandemic are wide-ranging and necessitated the highest level of management oversight in 2020. As an initial response to the pandemic, the Society invoked its incident management plan and formed a Covid working group, under the direct supervision of the Executive Committee, to plan and manage the Society's pandemic response.

The impacts of Covid-19 can be broadly summarised into three main categories:

- The welfare impacts caused by the need to protect team members' physical and mental health and wellbeing;

- Operational resilience impacts caused by remote working requirements and changes to processes within our branches to allow us to continue to serve our members safely; and
- Macro-economic impacts on unemployment and house prices and the resulting implications for the Society of potential increases to credit losses.

Welfare of our team members

The protection of colleagues' welfare was a key objective of the Covid working group which focussed on both physical and mental wellbeing. The most obvious impacts were felt in the branch network, where rapid changes were made to the physical layout of branches to protect both colleagues and members. All individuals were trained in how to manage social distancing requirements while still providing the level of customer service expected by our members. All branches remained open, but opening hours were reduced in line with lower levels of customer demand.

At the same time, the Society launched a number of mental health and wellbeing initiatives. All managers were encouraged to regularly check-in with their direct reports and specialist support was provided by the People & Development team. Sickness and absence levels were closely monitored to ensure that any issues could be identified promptly.

The welfare of all of our colleagues remains a key priority for the Society and, as such, welfare related risks will continue to be managed by the Covid working group and reported to appropriate committees.

Operational resilience

The Covid working group oversaw the rapid implementation of homeworking for head office individuals, including an unprecedented roll-out of remote-working technology in a very short space of time. This meant that, by the time the full UK lockdown was announced on 23 March, the majority of key head office based individuals were already equipped to transition fully to homeworking. Alongside this initiative, the Society instigated rapid changes to the working practises in our branches, to protect the health and welfare of our members and of our key frontline team members. Many processes were also reengineered. A number of services were transitioned to enable our members to access services remotely, such as interviews with mortgage and service advisors. Extra physical partitions were installed in the branches, and protective equipment provided and installed.

The necessary changes presented new risks to the Society in terms of the management and oversight of a remote workforce, ensuring that redesigned internal processes were effectively managed and controlled, particularly in the area of IT security, and ensuring that rapidly changing government guidelines were always followed.

These risks will continue to evolve during 2021 as lockdown measures change and as the vaccine roll-out process gathers momentum. Senior management will maintain oversight of developments to ensure that services can be delivered to our members safely and resiliently. These risks will continue to be closely managed by the Covid working group and separately reported to both Executive and Board Risk Committees.

Macro-economic impacts

The pandemic brought wide-ranging impacts to the UK economy with direct implications for the Society's key lines of business and inevitably some of our mortgage customers were impacted by loss of employment or reduced earnings caused by the lockdown policies. The responses put in place by the government and financial regulators such as mortgage payment deferrals, interest rates cuts and stamp duty changes all had immediate impacts on the Society's processes and systems.

The long-term economic impacts have yet to materialise fully but can realistically be expected to negatively affect unemployment levels, house prices and, consequently, the levels of arrears and credit losses generated by the Society's mortgage lending.

Additional long-term impacts on UK homeworking levels and increased demand for digital delivery of services are also expected to materialise.

It is against this background that the Board and senior management of the Society decided to accelerate plans for strategic reinvention. This strategic reinvention process increases a number of the risks that already exist, which are discussed in a separate section below.

RISKS RELATING TO THE SOCIETY'S BUSINESS MODEL

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 saw 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 the pandemic. 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 maintained its savings rates at the highest possible levels for a sustained period. On the lending side, competitive pressures in the mortgage market constrained the rates that could be charged for mainstream mortgage lending products. Despite the impacts of the pandemic, mortgage rates have not yet risen to incorporate fully the likely impacts of a future recession.

The Bank of England has given serious consideration to setting a negative base rate. As well as the financial implications, this would also impact The Nottingham's computer systems and processes. Initial analysis, working with our key systems providers, indicates that this would not pose insurmountable problems. However the risk remains that the Society could incur additional development costs, particularly if insufficient notice is given of the move to negative rates. Furthermore, it is likely that resultant development work would slow down our reinvention strategy as internal resource is diverted to oversee and test the necessary changes. The executive team will continue to engage with the UK regulatory bodies, as well as our peer-group building societies, to ensure that any changes can be effectively accommodated.

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

The stimulus provided to the housing market by the government in the early days of the pandemic, along with the opening-up of the economy in the summer, provided a noticeable boost to UK house prices. However, as the length and ultimate severity of the pandemic remains unclear, 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. The Society has strived to support members through unprecedented times, especially in the mortgage deferral process, where customer outcomes and conduct considerations are at the forefront of decision making. A significant majority of customers who have taken payment deferrals have returned to full paying status. This is in line with much of the industry, however it is unclear how future macroeconomic developments will impact the ability of these customers to pay in the future. 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, and we will continue to support members as best we can.

A significant shock to house prices, combined with increased unemployment and an increase in arrears and defaults, raises the possibility of The Nottingham suffering increased credit losses in 2021. The impact on the Society has been planned for, whilst the stresses may adversely impact on capital adequacy, they do not threaten the ability of the Society to continue to provide its services to customers and meet its regulatory requirements. The resilience of The Nottingham's lending book, with relatively low loan-to-value ratios combined with the rigorous affordability assessments undertaken on all borrowers at loan drawdown, provides significant protection against an economic stress.

Lending decision making is supported by models, and we constantly review our models and assess model outputs to ensure they remain relevant and accurate in the unprecedented macro-economic environment, which was not an environment contemplated when the models were created, and therefore presents a heightened level of model risk. Model risk is primarily overseen by our Model Governance Committee, supported by other governance committees, and key models are subject to external development and review by specialist third parties.

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 significantly increased 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, including any presented by climate change, 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 a variety of initiatives to further raise awareness to both colleagues and customers in the methods used by cyber-criminals to gain access to information or money.

In all areas, managing cyber risk remains a key focus of Society management to safeguard the business and protect its members' data and savings. This includes remote working solutions. 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.

'People' risk

'People' risk takes many forms and in the Society's risk management framework it is primarily overseen as part of Operational Risk. 'People' risk has been subject to close management oversight throughout the year as Covid-19, remote working, new operational processes such as mortgage deferrals and an ambitious change agenda placed increased demands on colleagues throughout 2020. The Society had a focus on supporting employees through the challenges of 2020, supporting physical and mental wellbeing and adopting a flexible approach where possible to suit employee needs, and this focus will continue in 2021.

In the new remote working environment, the Society has maintained its standards of training and competency assessments, and oversight and compliance, to ensure employees maintain the high standards required to serve our members. As thoughts naturally turn to consider the optimal working environment in the 'new norm' post coronavirus, the Society will ensure the new working arrangements continue to deliver the high standards and are subject to the appropriate training, competency, assessment, oversight and compliance frameworks, ensuring that we are an employer of choice and able to attract, develop and retain the best talent to serve our members.

RISKS RELATING TO THE SOCIETY'S STRATEGIC REINVENTION

As discussed above, the long-term implications of the pandemic caused the Board and Executive Team of the Society to accelerate planned changes to the Society's strategy. Risks relating to the strategic reinvention are discussed below.

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 further support the existing membership and 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 below, Executive and Board engagement with this wide-ranging change activity has been established and clear governance structures are in place to drive successful delivery.

Delivery of change agenda

In response to the pandemic, 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). In addition, preparations are underway to significantly improve the Society's digital savings offering in 2021. Alongside this digital reinvention, the Society also plans to make major technology and process improvements to key back office services.

In addition to the digital change, the Society has entered into a new strategic alliance with a trusted partner to deliver the estate agency and lettings services to the Society's customers. Work to establish the future relationship with the new partner, Belvoir Property Management Ltd., was completed during the second half of 2020. In connection with this change of approach a small number of branches were closed, or merged into larger branches, over the same time period.

Management of wide-ranging change initiatives has proven difficult for a number of financial service providers, who have suffered from technology-based change being delivered late, significantly over budget, or lacking in key features. Successful execution of the strategic reinvention is very important to ensure long term sustainability, and execution risk is a key risk being closely managed by the Society.

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.

Failure to achieve an appropriate cost-to-serve ratio

Against a backdrop of income pressures and alongside the pursuit of a sustainable growth strategy, developing new working practices will be required to ensure operations are scalable and that cost efficiencies are achieved. This strategy aims to lower the cost to serve each member and should 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.

Third party delivery of key services

The Nottingham works closely with key suppliers and partners 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 and partners 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 and partners 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.

David Marlow
Chief Executive

8 March 2021

DOING THE RIGHT THING for our communities

The Nottingham Building Society

Doing the right thing for our communities

Our commitment to doing the right thing for the communities we serve has remained an integral part of our ethos in 2020 especially in light of this year's events.

Our areas of focus were updated to reflect the need in our communities resulting from the Covid pandemic: tacking food poverty, reducing socialisation and continuing our commitment to education and employability as well as our existing charity partnerships.

Since 2011, we have contributed almost £1.2m to local communities through fundraising, volunteering and financial donations. In 2020, we were proud to have donated and given volunteer time to a number of worthy causes.

As a direct response to the crisis in April, we funded The SilverLine to enable 6,000 calls to lonely and isolated people and the Trussell Trust to provide 3,000 emergency food packages. Our branch teams also made hundreds of calls to reach out to our most vulnerable members most at risk of isolation.

We have continued our partnership with local homelessness charity Framework, and this year we responded to their emergency appeal to directly support more than 600 service users with essentials to keep them safe, well and connected to their loved ones. Our match-fund initiative for Black Friday saw the charity raise £10,000 in just six days as part of their winter Homeless to Home campaign.

In 2020, we were proud to continue our partnership with Nottingham City Council in support of their StoryParks at Home project, a reinvention of our 2019 collaboration supporting the hundreds of households across the country home-educating. 8,000 families logged on to our 'virtual park' taking part in daily activities aimed at developing key literacy and numeracy skills including stories read by Nottingham MP Nadia Whittome. We were hugely proud to be part of this initiative which aligns so closely to the work of our founder Samuel Fox and his commitment to improve the education and employability prospects of the people of Nottingham.

As part of our commitment to employability, this year we also launched our online Career Academy working directly with more than a thousand students to improve key skills and offer an insight into life at The Nottingham through our virtual volunteers. Almost 4,500 visits have been made to our online hub featuring a range of blog, video and audio content. A further 600 students were supported at our charity partner Young Enterprise through programme sponsorship and volunteers. Forty students have also been sponsored to undertake their BTEC qualification with Notts County Foundation in the 2020/21 academic year with our contribution paying for kit, equipment and digital access to maximise inclusion from students from all backgrounds.

As part of our seasonal campaign we partnered with national charity BookTrust to fund 1,000 gift packs for young children living in poverty across our nine counties. Our branch network also nominated local causes to support members of our community impacted most by the pandemic, providing Christmas gifts, food parcels, hot meal services and other essentials directly benefitting more than 400 people.

Sports sponsorship

We have continued to work closely with our sporting partners throughout the pandemic despite the limitations on physical games.

Our partnership with Nottingham Panther Ice Hockey Club has enabled us to engage directly with a fan base of over 63,000 people through their popular digital and social channels.

Our longstanding partnership with Leicester Tigers has also continued and we are now in our fifth year as the Official Building Society of Leicester Tigers rugby club. Our partnership with Tigers has allowed us to engage directly with a fan base of over 140,000. Through our partnership with the club, we're pleased to support the Nottingham Building Society tag rugby programme in over 50 Leicestershire schools this year.

Both partners have supported us with our own virtual community activity through Story Parks at Home collaborating on education and game-related content.

Our people strategy

The Nottingham's success continues to be fundamentally linked to our people and their ability to thrive and lead in an ever-evolving Society.

Under our People, Culture & Community strategic pillar, our strategy is to attract, grow and engage expert team members and to foster a culture that encourages our team members to do the right thing.

The focus this year has been to provide flexible support for all of our people, dealing with the challenges imposed by the Covid-19 pandemic. Top of our people agenda was to prioritise the safety and wellbeing, ensuring that they had a clear understanding of how their roles would be performed and how to operate in a safe manner in line with government guidance. To keep people connected, our senior team prioritised clear and regular communications, using different and interactive media channels and invited and acted on employee feedback.

Whether working in a customer-facing role or at home, it was of paramount importance to look after our employee wellbeing, giving individuals access to tools and techniques to support them during this time. Wellbeing initiatives such as check in calls, questionnaires, regular Your Health Matters bulletins and even virtual yoga sessions were introduced to support our employee wellbeing.

The dedication of our employees to both serve our members and provide support to one another has kept morale high, in a year where many aspects of life were restricted. We are very proud of our people in how they have handled this and maintained their commitment to our members and the communities we serve.

CORPORATE RESPONSIBILITY REPORT (continued)

Organisational alignment

In July, we agreed a strategic alliance with a reputable partner to deliver our estate agency and lettings proposition and thus closed our own estate agency and lettings operations We also announced that we were merging eight of our branches and closing one to ensure we had the right sized, value-adding branch network going forward. We successfully found alternative opportunities for over a third of employees who were affected by these changes. Regrettably a number of individuals did leave the business, however appropriate outplacement support was provided to assist those individuals in seeking alternative opportunities.

Engagement

During 2020, there were unique challenges arising from the pandemic in keeping our team members engaged and maintaining our "Doing the Right Thing" culture. The Society brought in numerous interventions and actions to ensure the health, safety and security of all team members during the pandemic. We provided support for all, including those with caring responsibilities. We enabled all our team members to work safely during the pandemic, including those working remotely and ran a programme of wellbeing calls to team members. Managers also held wellbeing interviews with their teams and we provided regular health and wellbeing communications, with a particular focus on mental wellbeing.

In a virtual world, it was important for us to ensure that we were inclusive and communicated widely. We provided our communications in a number of channels including our new social media page and dial-in channel.

We sought feedback from team members through a mid-year pulse survey and our annual Your Voice Matters employee survey in November. The pulse survey provided positive feedback on how team members were feeling supported over this time and feedback from the annual Your Voice Matters employee survey has shown a significant upswing in our engagement level, raising this to above the norm for the financial services.

Talent Development

In 2020, we invested in enhancing the coaching skills of our leadership population. The pandemic gave rise to the challenge of managing teams and delivering training virtually. We designed a bespoke course, endorsed by the institute of Leadership & Management focusing on effective coaching conversations in the workplace. This has resulted in a number of the Leadership Team being accredited for coaching over the last 12 months, with positive feedback received from both delegates and the teams they manage.

Our "Elevate" leadership development programme which was launched in 2019, has continued to go from strength to strength. Sponsored through talent and succession forums, a number of high potential employees, from those at the early stages of their leadership development, right through to functional heads are progressing through these channels.

Our junior leaders programme "Aspire" has enabled a number of delegates to embark on a 12-month programme, leveraging our Leaders as Teachers. 60% of those who were nominated are now in roles with more complexity and supervisory accountability. We have another cohort of delegates working towards their Level 3 and 5 accreditations endorsed by the Chartered Institute of Leadership and Management.

We have also exported all modular learning onto a virtual platform recognising the accessibility challenges of 2020.

Talent Acquisition

Our processes to attract talent have been adapted to ensure effective engagement with potential and current employees throughout the pandemic. We recognised that joining a new employer during 2020 presented unique considerations, not least the need to build rapport remotely rather than face-to-face. A fully on-line recruitment process was implemented from application through to the on-boarding stage. This included video interviews, an entirely paperless recruitment process, remote new starter training and additional wellbeing calls to all new employees.

At The Nottingham, we believe that the onboarding process is critical to our new team members. We have continued to deliver our induction programme virtually via phone or video calls to all new starters. The induction provides insight into The Nottingham, its mission, vision and values, along with how our social responsibility in the communities that we serve stems from our founder Samuel Fox.

Equality, Diversity & Inclusion

Our vision is to create a happy, healthy and inclusive working environment where our team members feel they belong, are valued and have the support they need to thrive. During 2020, the pandemic caused a shift to, and openness, to the possibility of more agile ways of working, opening up opportunities to a more diverse range of candidates. We have also supported team members extensively with caring responsibilities through this time.

We continue to be signatory to the Women in Finance Charter which was established in 2016 and reported 37% gender diversity in senior management for our 2020 annual update. We also continue to exceed our gender diversity floor of 35%.

Environment

Protection of the environment in which we live and operate is a core part of The Nottingham's values and principles and we consider it sound business practice.

One of the biggest risks to our wider environment is that of climate change. The Nottingham is committed to doing all it can to reduce its impact on climate change, both by considering our environmental impact, as outlined below, and looking at ways to become greener, more sustainable and less carbon reliant across our footprint.

We are committed to reducing the environmental impact of The Nottingham by:

- Maximising the reuse, recycling and sustainable disposal of waste. Waste paper, cardboard and plastics are recycled, including all sensitive documentation, after being shredded.
- Minimising unnecessary paper and ink usage.
- Minimising unnecessary water and energy usage, waste, and the impacts of travel, wherever possible.
- Sourcing and buying locally to save fuel costs wherever possible and working with like-minded suppliers who take steps to minimise their environmental impact.
- Installing sustainable materials and environmentally friendly solutions, such as LED lighting, as part of our branch refurbishment and maintenance processes.
- Regularly reviewing our energy consumption in branches in partnership with independent evalulation via our facilities management partner.
- Upcycling any surplus furniture following premises activity.

The Nottingham is also committed to procuring its goods and services in an ethically and environmentally sensitive way, alongside proper regard to its commercial obligations.

The Coronavirus pandemic has forced many of our colleagues to work from home for most of 2020 and this has meant rethinking a number of our processes. We have had to become less paper based, reducing our consumption even further in a way that will continue as this new flexible way of working becomes normal.

The Society acknowledges the broader impact of climate change on its business operations, with the increased risk of serious weather events such as flooding potentially impacting mortgage securities. Consideration of the impacts of the way the Society operates, for example the most efficient use of its premises, also remains key. The Society has an established working group to consider the various requirements of the Taskforce on Climate-Related Financial Disclosures working towards compliance with all guidance when it comes into force for the Society during 2021.

The Society has included climate change within its risk management framework and Senior Manager accountability allocated. Climate related risks are being considered as part of all planning scenarios, including the impact of our business and members of how any intended government action plans to become net zero by 2050.

YOUR BOARD OF DIRECTORS

Non-Executive Directors

Andrew Neden

Chairman

Andrew joined the Board in 2014. He is a Chartered Accountant with over 35 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 ABC International Bank plc; he chairs the Audit committee for both organisations. He also chairs Aetna Insurance Company Ltd, and a couple of small charities.

Kerry Spooner

Senior Independent Director

Kerry joined the Board in September 2016. Kerry had 10 years of financial services experience in the building society sector before joining the Board. She acted as a Non-Executive Director at two other building societies and has experience as Vice Chair, Senior Independent Director, Chair of Remuneration Committee and Chair of Nomination Committee. Prior to that Kerry worked as a solicitor for 20 years, the last nine years as a corporate finance partner of the international law firm Allen & Overy LLP. Kerry is also a Non-Executive Director of Scotiabank Europe plc and a non-executive member of the Remuneration Committee of ANZ Banking Group UK Branch.

Simon Baum

Simon joined the Board in June 2018. Simon has spent over 30 years specialising in risk management within the financial services arena, holding several senior positions at Experian, Alliance & Leicester and Santander, both within the UK and overseas. His previous roles include Director of Mortgage Risk at Santander.

Michael Brierley

Mike joined the Board in July 2020 and has over 40 years' experience in roles within the financial services industry. He was CFO of Metro Bank PLC between 2009 and 2018; from start-up to listing on the FTSE. He spent seven years at Capital One in various roles including CFO Europe, CFO UK and CRO Europe. He has also served as CFO for Royal Trust Bank, Financial Controller at Industrial Bank of Japan, London Branch, Director Business Risk at Barclaycard and was co-founder and Deputy Managing Director/CFO of Gentra Limited. He is currently a Non-Executive Director at Admiral Group and chairs Admiral Financial Services Limited. Mike is a Fellow of the Institute of Chartered Accountants in England and Wales.

Simon Linares

Simon joined the Board in 2019. Simon is also an Executive Mentor and Coach, and Chairman of the charity Dreams Come True. He brings a wealth of commercial and people and development experience spanning a range of sectors, including FMCG, telecommunications and financial services. His most recent position was Group HR Director at Direct Line plc, where he led the HR, communications, public affairs and corporate social responsibility strategies. Prior to Direct Line, Simon headed up human resources for O2 Europe, Telefonica's digital businesses and Diageo, covering different geographies and cultures. Simon is a fellow of the CIPD and was ranked amongst the top five most influential HR Practitioners in the UK.

Kavita Patel

Kavita joined the Board at the beginning of 2017. She is a partner and Head of Investment Funds at the law firm, Shakespeare Martineau. Kavita has over 20 years of experience advising clients in the financial services arena both in the retail and institutional space on corporate, regulatory and governance matters.

Executive Directors

David Marlow

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. He has over 30 years' experience drawn from a number of senior 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. David represents building societies on the FCA's Small Business Practitioners Panel and has previously held the posts of Deputy Chair of the Building Societies Association (BSA) and Chair of The Midlands and West Regional Association of the BSA.

Daniel Mundy

Chief Financial Officer

Daniel joined the Board in April 2017 as Finance Director and became Chief Financial Officer in January 2020. He has over 20 years' experience in the financial services industry and prior to joining The Nottingham held a number of senior roles in retail banking organisations, which include Co-operative Bank, Nationwide, Santander, Yorkshire Building Society and the Financial Services Authority. Daniel is responsible for Finance, Treasury, Credit Risk and IT & Change, along with delivery of the Group strategy and business planning activities.

Changes to the Board in the year to 31 December 2020

Charles Roe resigned from the Board as an Executive Director on 31 March 2020.

Michael Brierley was appointed to the Board as a Non-Executive Director on 13 July 2020.

John Edwards retired from the Board on 23 September 2020 and was replaced as Chairman by Andrew Neden.

Daniel Mundy resigned from the Board as an Executive Director on 31 December 2020.

Changes to the Board post 31 December 2020 and up to the date of signing the accounts

Peter O'Donnell was appointed to the Board as a Non-Executive Director on 1 January 2021.

Board Committees

Risk

Simon Baum (Chair)
Michael Brierley
Simon Linares
Andrew Neden
Kavita Patel
Kerry Spooner

Audit

Michael Brierley (Chair)
Kavita Patel
Kerry Spooner

Nominations

Andrew Neden (Chair)
David Marlow
Kerry Spooner

Remuneration

Kerry Spooner (Chair)
Simon Linares
Andrew Neden
Kavita Patel

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 20.

Business objectives and activities

The Nottingham is a strong and successful mutual building society, which builds upon its strong regional foundations, and has a track record of serving members for over 170 years. At The Nottingham we aim to serve the needs of our members, offering a safe and secure place for their savings, helping them own their own home and supporting them through the complex challenges they face in planning for the future.

Information on the Group's business objectives and activities are provided in the Strategic report on pages 9 to 20.

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 20. 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 pages 17 to 20 and our approach to managing these risks can be found in the Risk management report on pages 29 to 33.

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 risk. 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 29 to 33 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 31 to the Annual Report and Accounts.

Results

Group reported loss before tax for the year was £8.4 million (2019: loss of £8.0 million). The Group loss after tax for the year transferred from general reserves was £7.2 million (2019: loss of £7.2 million). As at 31 December 2020, total Group reserves and equity were £206.3 million (2019: £216.2 million).

Capital

Group gross capital at 31 December 2020 was £230.5 million, (2019: £240.9 million) being 6.62% (2019: 6.78%) of total shares and borrowings. Free capital, as at the same date, amounted to £203.6 million (2019: £206.5 million) and 5.85% (2019: 5.81%) of total shares and borrowings.

The annual business statement on page 112 gives the explanation of these ratios. The Board of directors remains committed to maintaining a strong capital position.

Loans and advances

During 2020, total lending was £493 million (2019: £353 million) and the average advance being £159,250 (2019: £149,489), with the average debt at the end of the year being £157,565 (2019: £132,406). As at 31 December 2020, there were seven cases (2019: five cases) of properties being 12 or more months in arrears or in possession. The total amount of balances outstanding in those cases was £965,510, with arrears of £76,739.

No mortgage losses were realised during the year from existing provisions. Provisions for potential mortgage losses total £4.5 million (0.14% 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. During 2020, the Society has also offered customers payment deferrals as part of the Government-led scheme to respond to the Covid-19 situation. As at 31 December 2020, the Group had 125 loans (2019: 94) subject to some form of forbearance and a further 161 loans (2019: nil) with a payment deferral in place. Note 31 to the Annual Report and Accounts on pages 99 and 101 provides further details.

Property, plant and equipment

Freehold premises owned by the Group are shown in the Annual Report and Accounts at cost less depreciation. An estimate of the value of those properties, prepared in late 2020 by the Group's professional services team, indicates that market value is £2.4 million (2019: £2.1 million) higher than book value.

Supplier payment policy

The Group is committed to deal responsibly with suppliers. The 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.

As at 31 December 2020, the total amount owed to suppliers was equivalent to 20 days' credit (2019: 5 days).

Charitable and political donations

During the year, the Group made charitable donations of £125,000 (2019: £30,000). No contributions were made for political purposes.

Country-by-country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 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 16 to the Annual Report and 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 pages 22 and 23.

Our people

Our doing the right thing culture has become part of our common language at the Society. It frames how we engage with our members, team members and the communities we serve. At The Nottingham, we are committed to our team members reflecting the diversity of our members and being a place where every colleague can thrive and be themselves at work.

Engaging with and growing our people continues to be a priority for us. We actively seek out the views of our people through our annual engagement survey, Your Voice Matters. This year, our engagement rate increased to 82% and is in excess of the financial services sector benchmark. We also benchmarked this against the 2019 feedback and were very pleased with the results in light of the challenges of operating against the pandemic. We also continue to work in partnership with our Your Voice Matters employee forum, which is held on a quarterly basis and attended by a member of the Board, Executive team or senior management.

We continue to support our employees with a number of tools available, covering, for example, the wellbeing and engagement of our teams as well as the attraction of talent: Your Career Matters e-booklet to highlight all the opportunities available at The Nottingham to grow; Your Rewards Matters to highlight all the benefits of working for The Nottingham and our Health & Wellbeing Strategy, which includes the introduction of Mental Health first aiders and a monthly e-booklet to raise awareness.

As outlined in the corporate responsibility report on pages 21 and 22, we are proud to continue with our community support, a tradition that started with the work of our founder, Samuel Fox.

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 1986 ('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 with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union 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 International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union to present fairly the financial position and the performance of the Group and the Society; the Act 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 adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union and those parts of the Building Societies Act 1986 and Building Societies (Accounts and Related Provisions) Regulations 1998 applicable to societies reporting under IFRS; 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.

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as each of them is aware, there is no relevant audit information of which the Group's auditor is unaware, and each director has taken all the steps that they ought to have taken as directors to make themselves aware of any relevant information and to establish that the Group's auditor is aware of that information.

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 pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union, 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 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 Board Audit Committee report on pages 38 and 39.

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 17 to 20 and 29 to 33, and the extent to which they might affect the preparation of the Annual Report and Accounts on a going concern basis. Key to this consideration were the risks associated to regulatory capital, liquidity and financial performance, and the impact on these risks arising from the uncertainties created by Covid-19.

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 31 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. The Society has a surplus to regulatory capital requirements and is forecasting this to remain across the going concern assessment period.

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, and specifically for the going concern assessment period to March 2022 – twelve months from the date of the approval of the Annual Report & Accounts.

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 2018 revision of the UK Corporate Governance Code, the Board has 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. This is shorter than the planning horizon used for corporate planning but considered appropriate given the level of uncertainty and variability increases towards the outer years.

The 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, outlined on pages 17 to 20 of the Strategic report and the Risk management report on page 29, actually occurring. This includes the associated risks as a result of the ongoing Covid-19 pandemic situation. 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 24 to 25. 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, as at 31 December 2020.

In accordance with the agreement made by the Board and in line with the rules for re-election outlined on page 36, all Directors will stand for re-election at the 2020 Annual General Meeting. Michael Brierley and Peter O'Donnell, who joined the Board in July 2020 and January 2021 respectively, will seek election at the 2021 Annual General Meeting.

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,

Andrew Neden
Chairman

8 March 2021

RISK MANAGEMENT REPORT

For the year ended 31 December 2020

The Nottingham 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 a 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 reviews and approves a risk appetite statement annually, as part of its overarching Board Risk Policy.

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 both remain at an acceptable level.

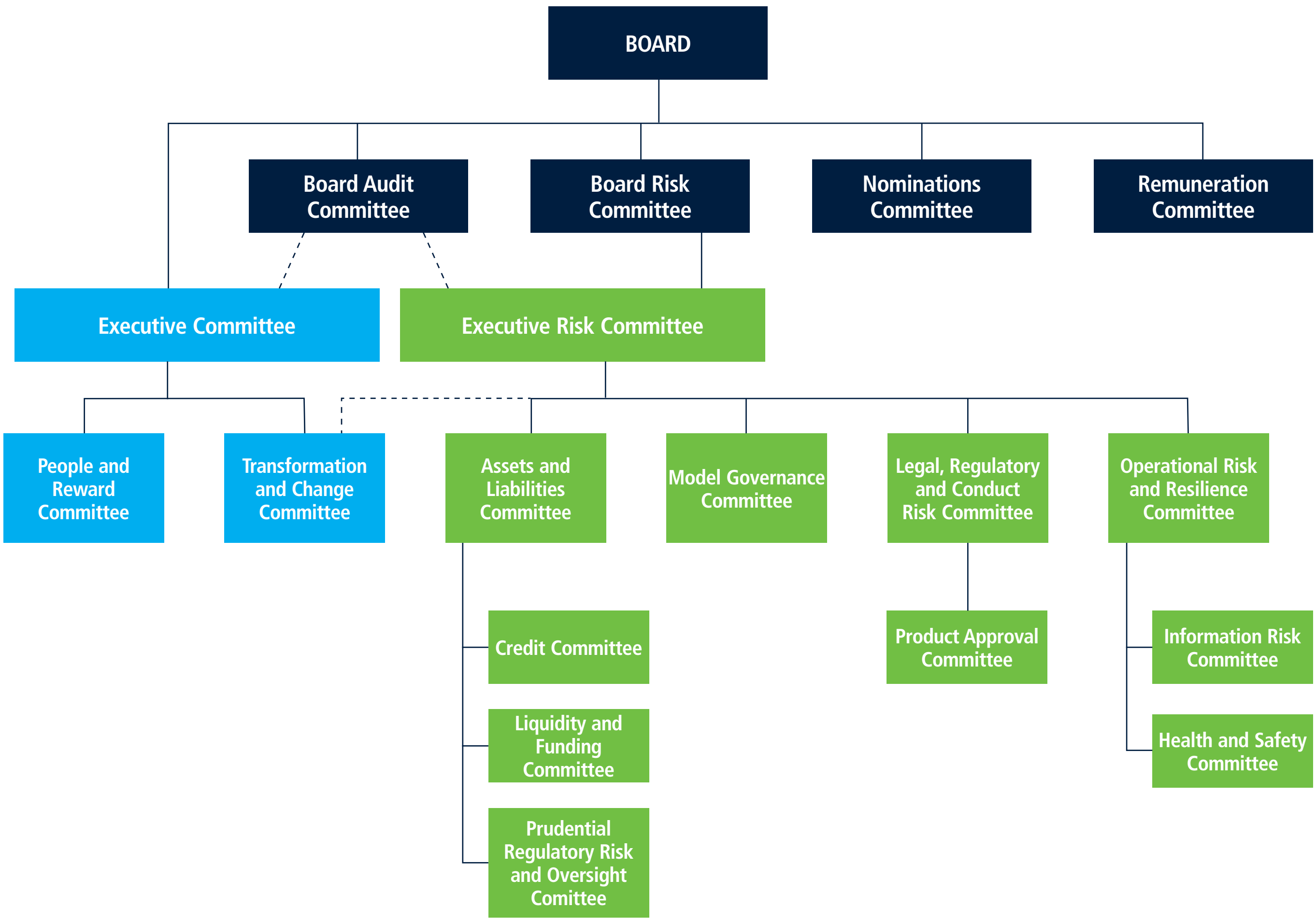
The Board Risk Framework

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 regularly reviews and approves policy statements, risk appetite statements, and management committee terms of reference. It receives summary management information and minutes from the individual management committees.

The risk management framework is based on the three lines of defence model (described on page 36) 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.

Day-to-day risk management is the responsibility of the Executive Risk Committee (see below), which oversees the Society's risk committees, as detailed in the diagram below.



GOVERNANCE

Board Risk Committee

As detailed on page 25, the membership of the Board Risk Committee comprises all non-executive directors. It is responsible for:

- ensuring key risks are identified and appropriate steps taken by management to mitigate them;
- ensuring due consideration is given to all significant matters relating to governance, control, regulatory and compliance issues;
- monitoring the Group's key risks and controls;
- ensuring adequate capital and liquidity are maintained to address the Group's key risk exposures, both to ensure regulatory compliance and the achievement of strategic goals; and
- ensuring all conduct risks together with the operational resilience of the Group are properly considered, again to ensure regulatory compliance and the achievement of fair and proper outcomes for all members.

The Board Risk Committee meets at least four times per year to review risk management activities and consolidated management information regarding existing and emerging areas of risk.

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 Executive Risk Committee, Executive Committee and relevant management committees. The responsibilities of these committees are described below.

Executive Committee

The Executive Committee is responsible for acting on behalf of the Board in formulating strategy, the business plan and for organising the Society's assets and resources to deliver value to members in a fair and appropriate manner.

The Committee is chaired by the Chief Executive and comprises all Executive Directors and certain senior Leadership Team members.

Strategic risk

When discussing future strategy, the Committee and ultimately the Board takes care to ensure that risks such as system enhancements, long term funding approaches, acquisitions and changes in the external economy are evaluated and that plans are in place to effect any required risk mitigation. The Executive Committee oversees the detailed evaluation and monitoring of these risks.

The Committee also oversees the management of risks relating to changes in the external environment, which have the potential to affect the Group's business model either through the level of demand for products and services and/or its ability to meet that demand.

The Committee looks to mitigate this exposure through regular review of its Group Corporate Plan, ensuring activities remain within risk appetites. It also maintains a diverse range of products and services to avoid over-reliance on one income source or one product or one area of its business.

Executive Risk Committee

The Executive Risk Committee is responsible for acting on behalf of the Board and the Board Risk Committee in the management and oversight of The Nottingham's principal risks. It reviews relevant policies to ensure that the Society acts in such a way as to organise, manage and protect the Society's assets to deliver value to members through the provision of savings and mortgages, whilst remaining within law, regulation and clear, agreed Board risk appetites.

The Committee enables the Board Risk Committee to fulfil its role by ensuring that:

- there is executive level oversight of the risk management framework;
- the accountability and responsibility for managing risk is clearly defined;
- the risk culture of the Society is defined and embedded;
- the nature and extent of the top risks of The Nottingham are determined and understood;
- appropriate risk appetites are defined and documented;
- The Nottingham, at all times, operates within stated risk appetites;
- processes are in place to consistently identify, measure, assess, monitor and control risks;
- The Nottingham is compliant with regulatory requirements, including the ICAAP and ILAAP process; and
- The Nottingham maintains an up to date and adequate Recovery & Resolution Plan which fully reflects the requirements of the Board and Financial Regulators.

The Committee also invites the principal risk category owners to present the first line overview of risk in their respective risk categories.

To ensure the effective monitoring and reporting of risk, The Nottingham maintains a number of risk registers, including a Group risk register, functional risk registers and project risk registers. These risk registers help management assess the probability and impact of the risks identified, and the effectiveness of mitigating controls.

The Committee is chaired by the Chief Risk Officer and comprises all Executive Directors and certain members of the Executive Committee.

Assets and Liabilities Committee

The Assets and Liabilities Committee (ALCO) is responsible for overseeing The Nottingham's liquidity risk, market and interest rate risk, credit risk and its capital sustainability risk. In addition, ALCO reviews treasury activity for compliance with approved treasury policies and procedures. The ALCO is supported by three sub-committees:

- Credit Committee;
- Liquidity and Funding Committee (LAF); and
- Prudential Regulatory Risk & Oversight Committee (POC).

The Committee is chaired by the Chief Financial Officer and comprises at least one Executive Director and relevant senior managers.

Market and interest rate risk

The Society defines market and interest rate risk as the risk to net interest income and economic value arising from changes in market interest rates and mismatches in the Society's balance sheet. Economic value is the present value of the Society's future cash flows.

The economy continues to be dominated by low interest rates and an uncertain economic environment, largely driven by the Covid-19 pandemic and uncertainties over the UK's future relationship with Europe. Current market expectations indicate that this will remain the case for some months to come. The Society actively monitors its position against its interest rate risk appetite to ensure any future change to interest rates does not adversely affect the Society's interest margin.

The Society's limits for the management of market and interest rate risk are documented in the Market and Interest Rate Risk Policy, which is developed, defined and recommended by ALCO and its sub committees and considered and approved ultimately by the Board.

Basis risk, which arises from changes in the relationship between different types of interest rates, is included within this risk category as a subset of interest rate risk.

The Treasury Risk team measures the levels of basis risk inherent in the Society's 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 our approved risk appetite.

The Treasury team is responsible for day-to-day management of the Society's interest rate and basis risk exposures within the approved risk appetite. Typically interest rate risk is managed by taking advantage of natural hedging opportunities within our balance sheet or through the use of appropriate hedging instruments.

Following the direction from the FCA regarding the sustainability of LIBOR as a benchmark market rate, the Society began the transition away from LIBOR to SONIA in 2019. All LIBOR-linked exposures are related to Treasury activities with no retail products attached to the benchmark rate. The Society is working to ensure it has a robust plan to manage its remaining derivative position post the end of 2021 when the LIBOR benchmark will be discontinued.

ALCO and its sub-committee LAF, is responsible for reviewing Treasury activity, performance and compliance with the approved policy and risk appetites.

Liquidity risk

The Society defines liquidity risk as 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. This risk is managed through holding cash and other high quality liquid assets and maintaining wholesale funding facilities.

ALCO develops, defines and recommends the liquidity risk appetite, which is considered and approved by the Board and documented in the Liquidity Risk Policy. The liquidity risk appetite helps to ensure that the management of the liquidity portfolio by the Treasury team supports the corporate plan.

The liquidity policy sets the framework for the day-to-day activities of the Treasury team to ensure that all liquidity management activities are conducted within approved risk appetites. The Society maintains a diverse funding base and ensures compliance with applicable regulatory requirements. Defined control limits determine 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 and is also documented as part of its Internal Liquidity Adequacy Assessment Process (ILAAP), as required by the PRA.

The Society is required to be compliant with the Liquidity Coverage Ratio (LCR), which measures the amount of high quality liquid assets relative to modelled net stressed cash outflows within a 30 day period.

The Society also maintains a funding profile in line with a longer term funding measure, the Net Stable Funding Ratio (NSFR), which requires financial institutions to hold sufficient stable funding to cover the duration of their long term assets.

Based on our current and forecast liquidity positions, the liquidity portfolio held by the Society comfortably exceeds the minimum requirements of the LCR. Similarly the funding profile exceeds the future requirements under the NSFR.

The Society has documented a Recovery and Resolution Plan, which describes those metrics that would indicate an emerging market-wide or Society-specific stress event. The Plan includes a range of options available to the Society in the event of such a stress to ensure an adequate level of liquidity and capital is maintained.

Regular stress testing is performed to confirm that the Society's available liquidity is adequate, within risk appetite and is sufficient to support extreme levels of cash outflows.

Responsibility for the day-to-day operational management of liquidity risk lies with the Society's Treasurer, with operational oversight provided by the Treasury Risk team and reported to LAF and ALCO. A detailed analysis of the Society's liquidity profile can be found in note 31 to the annual accounts.

Credit risk

Credit Committee

As discussed in the previous section, the Credit Committee is a sub-committee of ALCO, which is comprised of relevant senior managers and chaired by the Chief Financial Officer. It is responsible for oversight of the Society's retail credit and wholesale credit risks, which includes exposures to residential and buy-to-let (BTL) mortgages, Secured Business Loans (SBL) and those wholesale assets managed by the Society's Treasury function.

Retail credit risk

The Society defines retail credit risk as 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 a mortgage. Our exposure to retail credit risk is limited to the provision of loans secured on property within England and Wales.

A Retail Credit Risk Policy (incorporating the credit risk appetite) is developed and proposed by the Credit Committee, reviewed by ERC and considered and approved by the Board Risk Committee. 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 Board ultimately receives monthly information on key risk appetite limits.

Exposure to retail credit risk is carefully monitored by the Credit Committee. Day-to-day retail credit risk is managed through the application of prudent lending policies, which are aligned to the stated risk appetite. This ongoing monitoring provides assurance 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 regularly stress tests 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 ensure adequate monitoring and analysis is in place to detect any signs of deterioration. In light of recent regulatory developments, the Society has also designed a stress testing framework for the potential effects of climate change on property prices. This will be an area of increased focus in 2021 and in future years for the Society, the wider sector and the reguators.

The Society remains committed to promoting home ownership and its risk appetite allows lending to first time buyers, but it restricts the overall level of high loan-to-value lending to ensure the risk is managed sufficiently. Similarly, the Society continues to follow our long-term policy of also offering interest-only products to a small number of borrowers, which are covered by strict policies and monitoring procedures.

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, which in turn supports our responsible lending requirements. The Society also shares account performance data with the selected bureaux.

The Society's lending has become increasingly diversified throughout England and Wales over the last few years with no one area dominating the portfolio.

The Society continues to be 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, the Society responds with appropriate forbearance and collections activities to ensure fair customer outcomes and to support customers who experience temporary financial difficulties by providing the assistance they require to enable them to regularise their financial arrangements. Only as a matter of last resort does the Society take the property into possession.

The Society is committed to providing support to those of our members who are experiencing difficulties in meeting their mortgage payments due to the impacts of the Covid-19 pandemic. The Society fully complies with all regulatory guidance and, since March 2020, has been offering affected customers payment deferrals or other tailored support. We will continue to treat all customers fairly and to offer appropriate forbearance activities throughout the pandemic and beyond.

Residential, BTL and SBL 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). An 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 that 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. The regulatory limit for SBL lending is set at 10% and the Society was comfortably within this limit at 3% as at 31 December 2020.

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

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 Society's risk of counterparty default is relatively low due to the high proportion of total liquidity held in UK Sovereign debt securities and the Bank of England reserve account. The composition of the treasury loans can be found on page 95.

The Society's liquidity policy sets out the amounts, products and counterparties under which Treasury liquid assets can be held. Credit worthiness of counterparties is assessed using a number of factors including minimum acceptable credit ratings approved by the Board Risk Committee, together with lending limits. The policy also allows for investments in multi-lateral development banks, and also in Covered Bonds and Residential Mortgage Backed Securities subject to criteria set by the Board Risk Committee. The Board does not permit any lending directly to sovereign states, other than the UK Government, and all lending is in sterling.

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

The Society's Treasury team has 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 all exposures remain within risk appetite. This information is shared with Credit Committee and ALCO.

Capital sustainability risk

The Nottingham 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 its strategic plan. This process, which is a regulatory requirement, is known as the Internal Capital Adequacy Assessment Process (ICAAP).

The ICAAP assesses The Nottingham's future capital requirements by considering changes to business volumes, the 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 PRA uses the ICAAP during its Supervisory Review and Evaluation Process (SREP) through which it determines the amount of capital it requires The Nottingham to hold against its Total Capital Requirement (TCR).

The Board monitors the current and future level of capital held by the Society in relation to its TCR 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 Nottingham's current capital position can be found in the Strategic report on page 16.

Model Governance Committee

The Model Governance Committee (MGC) assists the Executive Risk Committee in the oversight of computer-based models and End User Computing (EUC) applications that are used throughout The Nottingham's strategic and operational activities. A model is defined as "a quantitative method (including the complex manipulations of expert judgements) or system that applies theories to process input data into quantitative estimates, repeatedly used for decision making".

The Committee, which is made up of relevant senior managers and is chaired by a senior manager from within the Risk function, oversees the management of risks related to models to ensure that models are included within the Society's governance framework, and are robustly designed, developed, documented and reviewed.

The Committee provides oversight ensuring that models and EUC applications are managed in line with the Model Governance Risk Policy, both on an ongoing basis and during model development. It ensures that models and EUC applications are compliant with applicable regulation and remain fit for purpose.

Legal, Regulatory & Conduct Risk Committee

The Society, being a provider of mortgage, savings and insurance products, is regulated by both the FCA and the PRA.

The Legal, Regulatory & Conduct Risk Committee (LRC) is responsible for overseeing how The Nottingham conducts its business, ensuring that all customer-impacting activities are conducted in a clear, transparent and fair manner, delivering fair outcomes for customers.

The Committee is chaired by the Head of Compliance, supported by relevant senior managers.

Each business area is responsible for ensuring that all regulatory and statutory requirements are complied with on a day-to-day basis. Formal oversight is provided by the legal and regulatory team through a programme of compliance monitoring.

The Nottingham has a very low appetite for breaches of regulation or for any activity that may lead to an unfair outcome for our customers.

Accordingly, The Nottingham carefully chooses the products and services it is willing to offer to its customers and ensures the appropriate level of expertise exists in the organisation to ensure good customer outcomes, compliant sales processes and clear oversight of third party providers.

The Committee is supported by one sub-committee, the Product Approval Committee, which has responsibility for overseeing matters relating to the launch, administration and ongoing review of the products and services offered by The Nottingham.

Operational Risk

Operational Risk and Resilience Committee

The Operational Risk and Resilience Committee (ORRC) is responsible for actively overseeing the management of operational risk across The Nottingham. It is also responsible for ensuring that the Society maintains sufficient operational resilience to ensure the ongoing delivery of key services to customers. During 2020, the Committee has considered the pressures arising from the global pandemic and the steps the Society has taken to ensure it safely meets its members' requirements.

The Committee is chaired by the Chief Customer Officer supported by relevant senior managers.

The Committee is supported by two sub-committees:

- Information Risk Committee; and
- Health and Safety Committee.

The Nottingham defines operational risk as the risk of loss resulting from human factors, inadequate or failed internal processes and systems, or from external events. Operational risk exists in every aspect of The Nottingham's business activities. Proactive management of operational risk is essential in helping The Nottingham achieve both short term operational objectives and longer-term strategic goals.

To ensure that The Nottingham's services are operationally resilient, the Committee is also responsible for ensuring that processes are in place to prevent, adapt, respond to, recover and learn from operational disruptions. The Committee oversees the process by which the Society identifies its key business services, understands and remediates any potential weaknesses in the supporting processes, ensures that appropriate business continuity plans are in place and verifies that third party suppliers are able to meet our customers' needs at all times.

One of the key processes that support the effective identification and management of operational risk is the risk event process, which provides a mechanism for operational incidents to be reported, their impacts assessed, remediation to be performed and root cause analysis to be undertaken, to reduce the risk of recurrence.

As outlined in the credit risk section above, the Society is in the process of designing a stress testing framework for the potential effects of climate change. This will incorporate impacts on operational risk (such as flood risk for our branch network) and will be an area of increased focus in 2021 and beyond. The Committee also continues to work on developing and embedding the Society's approach to operational resilience, in response to the Regulator's increased focus in this area.

Information Risk Committee

Due to the importance of protecting the Society against the risk of loss of customer data through events such as a cyber-attack, the Operational Risk and Resilience Committee is supported by the Information Risk Committee. The Committee is chaired by the Head of IT & Change and supported by relevant senior managers.

The Nottingham mitigates cyber risk by:

- having a Board approved Cyber Security Strategy that is reviewed annually;
- having a specialist governance committee with responsibility for cyber risk;
- keeping aware of prevailing threats and acting proactively to minimise exposure;
- continued investment in technology to prevent and detect cyber-attacks;
- education and awareness initiatives to ensure that our team members are equipped to manage cyber-attacks and consider the risks associated with cyber security during the course of day-to-day activities;
- developing the capability to respond and recover from cyber events, e.g. contingency measures, crisis management and disaster recovery plans:
- collaborating with relevant authorities; and
- ensuring relevant cyber risk insurance policies are in place.

Transformation and Change Committee

The Transformation and Change Committee ultimately supports the Board in ensuring the optimum use of resources when delivering The Nottingham's 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 status is monitored. The Committee is chaired by the Head of IT & Change, supported by relevant senior managers.

The Nottingham's change activity is underpinned by an evolving project risk management framework, which champions 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. All significant projects must be approved by the Executive Committee and the Board.

The Transformation and Change Committee is primarily overseen by the Executive Committee, to ensure that its activities are in line with the Society's strategic aims. The Committee also reports to ERC, to ensure that any potential changes to the Society's risk outlook are appropriately governed.

Risk Oversight

The risk management framework is supported by a series of control documents and risk reporting and is overseen by both the second and third lines of defence working through the Committee structure detailed above.

This framework enables the Board and senior management to maintain effective oversight of the level of risk within The Nottingham and to ensure that appropriate controls and mitigating activities are in place.

On behalf of the Board,

Simon Baum
Chairman of the Board Risk Committee

8 March 2021

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 (July 2018) (the 'Code'), which is intended to apply to listed companies, to the extent that it is relevant to a building society. In the interest of transparency, each building society is encouraged to explain in its Annual Report and Accounts whether, and to what extent, it adheres to the Code. The Board is committed to complying with best practice in corporate governance.

This report sets out how the Board has operated in 2020 and complied with the provisions of the Code and specifies where the Society is not compliant with the Code, which the Board has identified as being in three different areas:

The Code requires that there should be enhanced engagement with the workforce. The Remuneration Committee has approved the attendance of a member of the Board or Executive team at each meeting of the Your Voice Matters forum, which enables members of the workforce to raise issues directly with a Board or Executive team member in an open forum.

The Code also requires that there is alignment between pension contributions for the Executive Directors with those of the workforce. This has been considered by the Remuneration Committee and it has been agreed that the pension arrangements for any future executive director would be reviewed for alignment with those of all employees.

Finally, the Code requires the Remuneration Committee to use internal and external measures, including pay ratios and pay gaps, in reviewing the appropriateness of remuneration. During 2020, the Willis Towers Watson global grading and compensation framework has been successfully implemented across the Group and the Remuneration Committee continues to consider the use of such measures across the Group in informing remuneration decisions.

Leadership

The Board

As at 31 December 2020, the Board consisted of six Non-Executive Directors (including the Chairman) and three Executive Directors, providing a complementary balance of skills and expertise.

In September 2020, John Edwards retired from his position as Chairman and Non-Executive Director, Andrew Neden, took over the role of Chairman.

The Board held eleven meetings, one strategy review meeting and one business planning meetings during 2020. 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 how it has considered and addressed the opportunities and risks to the future success of the Group and the sustainability of the Group's business model and how its governance contributes to the delivery of its strategy. 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 Executive and Non-Executive 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 both the General Counsel and the Company Secretary.

Division of responsibilities

The roles 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 that 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 24.

Effectiveness

Composition of the Board

The names of the Directors together with brief biographical details are set out on pages 24 and 25.

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 25.

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 2020.

Director	Board	Risk	Nominations	Remuneration	Audit
S. Baum	11/11	5/5	-	-	-
M Brierley	5/5	3/3	-	-	3/3
J. Edwards	8/8	4/5	2/2	2/2	-
S Linares	11/11	-	-	3/3	-
D. Marlow	11/11	-	5/5	-	-
D. Mundy	10/11	-	-	-	-
A. Neden	11/11	5/5	5/5	5/5	5/5
K. Patel	11/11	5/5	-	5/5	5/5
C Roe	2/2	-	-	-	-
K Spooner	11/11	5/5	4/4	5/5	5/5

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

In addition to the four Board committees identified above, the Board has the Executive Committee and Executive Risk Committees to support the Board in managing the day-to-day operations of the Group. The Executive and Executive Risk Committees meet at least once a month and the membership of both committees is made up of both Executive Directors and senior leaders. Together, both committees are responsible for acting on behalf of the Board in organising, managing and protecting the Society's assets to deliver value to members, whilst ensuring the Society operates within the law, regulation and clear, agreed Board risk appetites. Together they are therefore responsible, for ensuring the management and delivery of four key areas on behalf of the Board: Strategy, Risk Management, Business Planning, and Operational Oversight. The Risk Management Report on page 29 covers these committees in further detail.

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 twice a year. 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 requirements of the Senior Managers and Certification Regime prescribed by the Financial Conduct Authority and Prudential Regulation Authority including, where appropriate, receiving regulatory approval.

Commitment

Prior to appointment, non-executive directors are required 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.

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 the 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.

The Board and each of the committees formally evaluate 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 assesses 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 Code requires the Board to conduct an external evaluation every three years. The last review was performed in 2019. The Board will keep under review and consider the Code requirement to conduct an external evaluation every three years.

Re-election

In 2021, all Directors will submit themselves for election at the annual general meeting (the AGM) in accordance with the Code.

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.

The Nominations Committee makes recommendations for 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 26 to 28 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 20 and within the report and accounts taken as a whole.

Viability statement

In accordance with the requirements of the Code, the Board has 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 28 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 risks to ensure they are in line with the Group's prudent policies and 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 any reported issues of 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.

The Board has 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 pages 17 to 20 of the Strategic report and further information on risk management is given in the report commencing on page 29.

In accordance with the Code, the 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. Over recent years, the Board invested to enhance the governance and risk management and to formalise the lines of risk identification and acceptance. These governance improvements have been fully operational throughout 2020.

1st Line:
Focus: Control
Day-to-day management and control of risk by the business. Results reported to management and Board Risk Committee

2nd Line:
Focus: Oversight
Maintenance of coherent risk frameworks with regular validation and challenge of first line controls. Results reported to management and Board Risk Committee

3rd Line:
Focus: Assurance
Independent assurance of effectiveness of risk control and risk oversight. Results reported to management and Board Audit Committee.

The operation of these three lines of defence is embodied in the terms of reference of the Society's risk committees. The Board Risk Committee has 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 2020 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 monitors 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.

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 40 to 44.

Membership

The Committee consists of Non-Executive Directors only and met on five occasions during the year.

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 member events, 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. In more normal times, members of the Board visit branches and meet with members as part of their role. The Society also encourages its members to attend its AGM where they are able to ask questions and voice their opinions. During 2020, owing to government guidance amidst the Covid-19 pandemic, members were invited to attend the meeting virtually and invited to pre-submit questions.

Furthermore, each year, the Society produces a Members' Newsletter, including the summary financial statement, which provides an abridged version of information contained within the Annual Report and Accounts alongside news about the Society. The Members' Newsletter is provided to all members as part of its annual AGM documentation.

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.

During 2020, only one Non-Executive Director and two Executive Directors attended the meeting in person, with all other Non-Executive Directors being in attendance virtually. All pre-submitted questions were provided with an answer from the relevant Board member and members were invited to ask any questions outside of the meeting.

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,

Andrew Neden
Chairman

8 March 2021

BOARD AUDIT COMMITTEE REPORT

Board Audit Committee

The principal role of the Board Audit Committee is providing support to the Board in its oversight of financial reporting and the control environment across the Society. The Committee's primary functions are:

- to monitor the integrity of the financial statements of the Society and any formal announcements relating to the Society's financial performance, reviewing any significant financial reporting judgements which they contain, including that of the Society's going concern status;
- keep under review the Society's internal financial controls, internal controls and risk management systems (working with the Board Risk Committee);
- to monitor and assess the effectiveness of the Society's internal audit function, agree and review progress of the annual Internal Audit Plan;
- prior to the members vote at the Annual General Meeting, make recommendations to the Board for appointment, re-appointment and removal of the external auditors;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- to approve the remuneration and terms of engagement of the Society's external auditor;
- to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm;
- to report to the Board on how the Committee has discharged its responsibilities; and
- to investigate any other relevant matter at the request of the Board.

Membership and attendance

The Board Audit Committee consists of three Non-Executive Directors. The members of the Committee are Michael Brierley, Kavita Patel and Kerry Spooner, who as a whole have a broad range of skills, experience and knowledge relevant to the building society sector. Michael Brierley joined the Committee in September 2020. Andrew Neden continued to chair the Committee until Michael's regulatory approval to become Chair of the Committee was finalised in January 2021.The Company Secretary acts as Secretary to the Committee.

Other individuals such as the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Head of Internal Audit, may be invited to attend all or part of any meeting as and when appropriate. The external auditor was invited to attend all of the Committee's meetings held in 2020.

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 meets with the Head of Internal Audit on a regular basis.

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 five times during 2020 and the main activities during the year were:

- reviewed the results and draft annual report and accounts for the year ending 31 December 2019;
- 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 UK Corporate Governance Code;
- considered the internal audit strategy for 2020;
- reviewed and approved the Society's risk-based internal audit plan for the next year;
- received and reviewed reports from internal audit;
- reviewed the adequacy and effectiveness of the Society's internal financial controls, internal control and risk management systems; and
- carried out a review of the Committee's own effectiveness.

Significant matters in relation to the financial statements

The Committee considers a wide range of matters in relation to the financial statements, which relate mainly to judgements and estimates which management have to make during the preparation of the statements. During 2020, the significant matters considered by the Committee included:

- **Loan loss provisioning – residential & SBL mortgages**
  The Society reviews the IFRS 9 model outputs to estimate the level of impairment required in the residential and commercial book, which uses historical default and loss experience as well as applying judgement. The Committee reviewed and challenged the approach to calculating the provisions, including the impact of the Covid-19 pandemic and declining expectations in the macroeconomic environment.
- **Carrying value of intangible assets**
  The Society has an increased intangible asset balance as a result of its continued investment in new technology and digitalisation . The Committee therefore reviewed the carrying value of intangible assets.
- **Accounting for intercompany balances under IFRS 9**
  The Society considered the fair value of its intercompany balances under IFRS 9 and resulting fair value adjustments recognised in the financial statements.
- **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.
- **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 pension advisors.
- **Carrying value of tangible assets**
  In light of strategic activity across the Group's property estate as well as the Covid-19 events, the Committee reviewed the carrying value of its tangible assets.

- **Fair value of derivative financial instruments**
  In light of the significant market volatility seen in the external markets in the year and resulting impact on derivative fair values, the Committee considered the income statement position. The Committee also considered the LIBOR-SONIA transition and impacts on hedge accounting.

- **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 external environment as a result of the Covid-19 events and 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 UK Corporate Governance Code to provide the medium term viability statement in the annual report and accounts and agreed the definition of the medium term period.

- **Corporate Governance Code**
  The Committee reviewed the impacts on the financial statements of the Corporate Governance Code.

- **Changes to accounting standards and other relevant developments**
  The Committee is kept up to date with changes to Accounting Standards and relevant developments in financial reporting and applicable law. In addition, as appropriate members attend relevant seminars and conferences provided by external bodies.

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 is designed to provide 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 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 34 to 37.

Independence and effectiveness of external auditor

In 2014, the Society tendered its external audit relationship in line with best practice and Ernst & Young LLP were engaged during 2015 and have therefore been in post for six years as at 31 December 2020.

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. The Committee has a framework on the Society's use of the external auditor for non-audit work, to ensure their continued independence and objectivity. The external auditor undertook a number of other assurance services during the year, conducted in accordance with this policy, and details of any fees paid for other assurance services are outlined in note 6 to the accounts.

The Committee considered the performance of Ernst & Young LLP as external auditor for 2020, and is satisfied with their objectivity, independence and effectiveness and therefore 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 has delivered its reports in accordance with the agreed plan and to the expected standard. The Head of Internal Audit also carries out an annual review of the effectiveness of the Society's system of internal control and reports on the outcome of the review to the Committee. 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 35, the Board and each of the committees formally evaluate their own performance and effectiveness annually. The Committee discussed the results of the 2020 review in March 2021 and concluded that, overall, the Committee continued to be effective and was adequately discharging its responsibilities.

On behalf of the Board,

Michael Brierley
Chairman of the Board Audit Committee

8 March 2021

DIRECTORS' REMUNERATION REPORT

For the year ended 31 December 2020

Statement by the Chair of the Remuneration Committee

On behalf of the Committee, I am pleased to present the annual directors' remuneration report, which sets out the remuneration policy and details of the directors' remuneration in the year to 31 December 2020.

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

- The Remuneration Policy, which sets out the Society's remuneration policy for directors; and
- The Annual Remuneration Report which outlines how the policy was implemented in 2020.

In 2020, the Remuneration Committee membership was made up as follows:

Kerry Spooner	Non-Executive Director and Chair of the Committee
John Edwards	Chairman of the Board (retired September 2020)
Simon Linares	Non-Executive Director (from October 2020)
Andrew Neden	Non-Executive Director and Chairman of the Board
Kavita Patel	Non-Executive Director

2020 performance and awards

The Chairman's statement, Chief Executive's review and Strategic report on pages 4 to 20 describe 2020 as a period of continued strategic progress in the context of exceptional uncertain health, economic and political circumstances. The Nottingham is a top ten building society with total assets of £3.8 billion. The year has seen conscious subdued trading performance with regard to mortgage lending and fee income as the Society navigated its way through implementing government measures such as Base Rate reductions and mortgage payment deferral scheme, focusing on supporting its members and colleagues throughout. Strategic initiatives to review estate agency operations and invest in the network have been successfully delivered. We have ensured that our regulatory capital requirements continue to be maintained at appropriate levels, whilst continuing to invest in the Society and supporting both our savings and mortgage customers.

It is in this context that the payments to Executive Directors have been determined and are detailed in this report.

The Directors variable pay is through the Annual Bonus Plan only. Given the significant challenges posed the global pandemic, The Nottingham did not operate an Annual Bonus Plan in 2020. Furthermore, it was agreed that the deferred element of the 2017 Bonus Plan would not be paid out in March 2021, with a future payment date to be confirmed and subject to Remuneration Committee approval.

The deferred bonus for the 2016 performance year was also paid out in full in March 2020 with all conditions met.

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 Nottingham and specifically on the remuneration of Executive Directors. The Committee also has oversight of the remuneration of both the Leadership Team and Remuneration Code Staff, ensuring that remuneration is in line with The Nottingham's business drivers, values and ambitions and adheres to the Remuneration Policy. In addition, the Committee is responsible for approving the variable pay and reward principles and compliance with the Remuneration Code and policy statement.

The Committee met five times in 2020 and is made up of a minimum of three Non-Executive Directors, as detailed on page 25. The Chief Executive, Head of People & Development, Senior Legal Counsel & Company Secretary attend the meetings.

The Nottingham adheres to the requirements of the Remuneration Code applicable to a Level 3 firm as defined by the Regulator. The Non-Executive Directors do not receive variable remuneration. Information on The Nottingham'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.

During 2020, the Remuneration Committee assessed the impacts of the Covid-19 pandemic on fixed and variable pay arrangements. The timing of the annual salary review and bonus payments for the 2019 performance year meant that eligible employees received a salary increase and bonus payment in March 2020.

The annual bonus plan was not put in place in 2020, however the Remuneration Committee wanted to recognise the efforts of employees over the year and approved an end of year fixed amount thank you payment which was paid in December 2020.

The Remuneration Committee's activities in 2020 also included:

- reviewing regulatory updates and assessing the impact on The Nottingham;
- reviewing of the Remuneration Policy for 2020 and recommendation to the Board for approval;
- reviewing and approving the Remuneration Policy Statement ensuring its compliance with the Remuneration Code;
- oversight of the activities undertaken by the Executive Committee and People & Reward Committee in relation to reward;
- agreeing the appointment, salary and benefits for any new executive level roles, Leadership Team members and other Material Risk Taker roles;
- consideration of the annual pay review and 2019 bonus scheme approval and payments for all employees;

- approving the roll out of new broad bands and salary benchmarks (below Leadership Team level) across the Society in line with the Willis Towers Watson global grading and compensation framework;
- aligning the terms and conditions across each of the broad bands, including an increase in minimum holiday entitlement for employees in the lowest band; and
- agreeing the remuneration aspects required to support an operational restructure within the Society.

Following the full roll out of the Willis Towers Watson global grading and compensation framework, the Committee will consider the use of pay ratios and pay gap data across the Group in informing remuneration decisions in line with the requirements in the Corporate Governance Code.

Remuneration policy

The Nottingham's Remuneration Policy reflects its objectives for good governance, appropriate risk management and acting in the long-term best interests of members.

The policy is there to ensure that:

- Remuneration should be sufficient to attract, reward, retain and motivate high quality leaders and employees to run The Nottingham successfully, delivering value for our members whilst avoiding paying more than is necessary for this purpose in line with our mutual ethos; and
- Remuneration is structured to strike the right balance between fixed and variable pay. Variable pay schemes are designed to incentivise and reward appropriate behaviour and performance, aligned with The Nottingham's position on risk; rewards are only attributed to the delivery of success and achievement of objectives.

The Nottingham is classified as a level 3 firm and seeks to apply appropriate remuneration best practice for all Remuneration Code and other staff.

Recruitment policy for Executive Directors

The Nottingham's approach to recruitment is to pay no more than is necessary to attract appropriate candidates to roles across the business, including Executive roles. Any new Executive Director's remuneration package will be consistent with our remuneration policy as outlined in this report. Any payments made to Executive Directors on joining The Nottingham to compensate them for forfeited remuneration from their previous employer will be compliant with the provisions of the Remuneration Code and will be approved by the Remuneration Committee.

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.

Payment for loss of office of Executive Directors

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

Other directorships

None of the Executive Directors currently hold any paid external directorships. David Marlow is a member of the FCA Small Business Practitioners Panel for which he receives a fee of £10,000 per annum.

Executive Director's total remuneration

Executive Directors' emoluments comprise a basic salary, variable pay, pension entitlement and other taxable benefits as outlined on page 42.

The total remuneration received by Executive Directors is detailed on page 43. The information has been audited and shows remuneration for the years ending 31 December 2019 and 31 December 2020 as required under the Building Societies (Accounts and Related Provisions) Regulations 1998.

The remuneration of Executive Directors is considered annually by the Remuneration Committee attended by The Nottingham's Chief Executive, who (except in respect of his own remuneration) makes recommendations regarding executive pay and 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 reflective of the time commitment and responsibilities of the role. Fees for Non-Executive Directors are set by reference to benchmark information from a building society comparator group, agreed with the Board and take into consideration the principles underpinning the annual Society salary review.

The Non-Executive Directors' 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.

Non-Executive Directors do not receive variable pay or pensions in order to encourage their independence.

Non-Executive Directors are reimbursed for reasonable expenses incurred during the course of their work on the Society's business.

Remuneration Code staff (Material Risk Takers)

The remuneration of all Remuneration Code staff is overseen directly by the Remuneration Committee. Fixed and variable pay decisions (including appointment packages) for Code Staff (excluding the Head of Internal Audit where the decision is made by the Chair of the Board Audit Committee and approved by the Remuneration Committee), are proposed by the Executive and all decisions are recommended to the Remuneration Committee for approval.

The Society's Remuneration Code staff are informed of their status through written communication. This communication includes the implications of their status including the potential for remuneration which does not comply with certain requirements of the Remuneration Code to be rendered void and recoverable by the Society.

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, including Willis Towers Watson benchmark data.	Increases based on: • Overall employee pay increases in the Group; • Benchmarking comparisons; • Personal performance; and • Role and experience.	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; and/or • There has been a material increase in scope or responsibility to the Executive Director's role.
Variable pay Annual 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 bonus will only be awarded if the threshold criteria and Society and individual performance targets are met and a payment is triggered in the Group Bonus Scheme. 50% (60% for 2018 financial year and earlier) 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 two elements: • **The Building Society Core Scheme Balanced Scorecard** measures Society performance against four strategic pillars: - Financial adequacy; - Growing & rewarding membership; - People, Culture & Community; and - Safe & Secure. • **Individual performance** including achievement of strategic objectives. Personal performance objectives, appropriate to the responsibilities of the Director, including the achievement of appropriate strategic progress are set at the start of each year. Objectives are set within board risk appetite and regulatory requirements.	Due to the impact of the global pandemic, no Annual Bonus Plan was in place for the 2020 financial year.
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. Pension contributions for new Executive Directors appointed post 1 January 2020 will be aligned with the contribution matrix for all employees.
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 a 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	2020 David Marlow £000	2020 Daniel Mundy £000	2020 Charles Roe £000	2020 Total £000	2019 David Marlow £000	2019 Daniel Mundy £000	2019 Charles Roe £000	2019 Total £000
Fixed remuneration								
Salary[1]	322	278	169	**769**	313	241	184	**738**
Benefits	11	10	3	**24**	10	10	10	**30**
Variable remuneration								
Annual bonus[2]	47	-	-	**47**	91	30	-	**121**
	380	288	172	**840**	414	281	194	**889**
Pension contribution	48	42	7	**97**	47	36	26	**109**
	428	**330**	**179**	**937**	**461**	**317**	**220**	**998**

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] Charles Roe resigned as an Executive Director with effect from 31 March 2020. His 2020 salary includes £123,000 for contractual payment in lieu of notice, holiday pay and in recognition of his commitment and service to the Society.

[2] The annual bonus figure reflects the amounts awarded in the year, which are not subject to deferral, and any deferred amount from the previous financial years, paid in year. The remaining element, which is subject to deferral and the achievement of threshold criteria, will be disclosed in the year of payment. In 2020, there was no Annual Bonus Plan.

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

Executive Directors	**Performance Year**	**Due 2021[1] 2017 £000**	**Due 2022 2018 £000**	**Due 2023 2019 £000**	**Total Deferred £000**
David Marlow		64	56	37	157
Daniel Mundy		32	42	30	104
		96	**98**	**67**	**261**

[1]Deferred payments for the 2017 performance year, which were due to be paid in March 2021 have been further deferred to a date to be agreed, subject to the meeting of certain performance criteria and Remuneration Committee approval.

Simon Taylor (who left the Society on 30 November 2018), received an outstanding deferred bonus of £33,000 in 2020. A final deferred payment of £47,000 in 2021 remains outstanding. This is subject to Remuneration Committee approval.

Annual report on remuneration (continued)

Non-Executive Director remuneration

Audited Society		2020 £000	2019 £000
Simon Baum		59	57
Michael Brierley	(appointed 13 July 2020)	35	-
John Edwards (Chairman until retirement)	(retired 23 September 2020)	59	74
Jane Kibbey		-	15
Simon Linares		45	4
Andrew Neden (Vice-Chairman until Chairman from 23 September 2020)		73	59
Kavita Patel		45	42
Kerry Spooner		54	51
TOTAL EMOLUMENTS FOR SERVICES AS DIRECTORS		**370**	**302**

On behalf of the Board,

Kerry Spooner
Chair of the Remuneration Committee

8 March 2021

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

Opinion

In our opinion, the financial statements:

- The Group and Society's financial statements (the 'financial statements') give a true and fair view of the state of the Group's and the Society's affairs as at 31 December 2020 and of the Group's and the Society's income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Building Societies Act 1986 and, as regards the Group and Society financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements of the Group and Society for the year ended 31 December 2020 which comprise:

Group	Society
Consolidated statement of financial position as at 31 December 2020	Statement of financial position as at 31 December 2020
Consolidated income statement for the year ended 31 December 2020	Income statement for the year ended 31 December 2020
Consolidated statement of comprehensive income for the year ended 31 December 2020	Statement of comprehensive income for the year ended 31 December 2020
Consolidated statement of changes in members' interests for the year ended 31 December 2020	Statement of changes in members' interests for the year ended 31 December 2020
Consolidated statement of cash flows for the year ended 31 December 2020	Cash flow statement for the year ended 31 December 2020
Related notes 1 to 36 to the financial statements (except tables marked as "unaudited" in note 31), including a summary of significant accounting policies	Related notes 1 to 36 to the accounts, including a summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Building Societies Act 1986 and, as regards to the Group and Society financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC)'s Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

The directors have voluntarily complied with the UK Corporate Governance Code (the "Code") and Listing Rule 9.8.6(R)(3)(a) of the FCA and provided a statement in relation to going concern, required for companies with a premium listing on the London Stock Exchange.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and Society's ability to continue to adopt the going concern basis of accounting included:

- We obtained the Directors' going concern assessment, which assessed a period of 12 months from approval of the financial statements.
- We compared the historical budgeted financial information with historical actual results, in order to form a view on the reliability of the forecasting process.
- We assessed the reasonableness of the Group and Society's funding plans and considered the associated risks with the maturity of significant debt obligations, and the Group and Society's planned funding schedule to offset maturities and fund operational activity.
- We considered the analysis of key relevant going concern assumptions, including those relating to financial performance, regulatory capital and liquidity, and performed independent reverse stress testing and sensitivity analysis.

- We considered the impact of Covid-19, including considerations relating to operational resilience, customer behaviour and business operations.
- We considered whether there were other events subsequent to the balance sheet date which could have a bearing on the going concern conclusion.
- We reviewed regulatory correspondence and committee and board meeting minutes to identify events or conditions that may impact the Group and Society's ability to continue as a going concern.
- We reviewed the going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Society's ability to continue as a going concern for at least a twelve month period from when the financial statements are authorised for issue.

In relation to the Group and Society's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's or Society's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of the Society and audit procedures on specific balances for four components. • The components where we performed full or specific audit procedures accounted for 97% of total income, 100% of total members' interests and 100% of total assets.
Key audit matters	• Expected credit loss provisions; • Risk of fraud in relation to revenue recognition of mortgage related income.
Materiality	• Overall Group materiality of £0. 5m which represents 5% of average adjusted profit before tax.

An overview of the scope of the Society and the Group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent Internal Audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements for the four reporting components of the Group, we performed audit procedures on specific accounts within the components that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 97% (2019: 91%) of the Group's total income, 100% of the Group's total members' interests (2019: 100%) and 100% (2019: 98%) of the Group's total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage tested for the Group.

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of fraud in relation to revenue recognition of mortgage related income		
Group and Society – 31 December 2020, income included within Interest income: £68.8m, and Fees and commissions receivable: £4.7m		
Please refer to the Audit Committee report (page 38) and Accounting policies (pages 57-64) and Note 3 of the financial statements (page 67). The majority of mortgage and fee income recorded within Interest income and Fees and commissions receivable on the Income statement is low value, automatically calculated and based on contractual terms. Mortgage income and fees are a significant balance and the recognition of income on financial instruments using the effective interest rate involves assumptions and complexity. As a result the recording of interest income and fees on mortgage products represents a significant risk of fraud in revenue recognition.	We assessed the design effectiveness of internal controls operated by the Group over the mortgage income process. Our audit approach did not seek to rely on the controls identified. We critically assessed the accounting policies in relation to revenue recognition under IFRS 9 and IFRS 15, including effective interest rate accounting. We independently recalculated mortgage interest recorded for the year and recalculated the element of fees to be deferred under effective interest rate accounting. We assessed the impact of mortgage payment deferrals on interest income recognised. We agreed, on a sample basis the initial fees charged to supporting evidence.	We communicated that we were satisfied that the selection and application of accounting polices including the application of effective interest rate accounting, was appropriate under IFRS 9 and IFRS 15. We communicated that our independent recalculation of mortgage interest and deferred mortgage fees did not identify any material differences. We concluded that the introduction of mortgage payment deferrals did not materially impact the recognition of mortgage interest income.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Expected credit loss provisions Group and Society – 31 December 2020: £4.5m		
Please refer to Audit Committee report (page 38); Accounting policies (pages 57 to 64); and Note 15 of the financial statements (pages 73 to 77). Valuation and completeness of expected credit loss (ECL) provisions is an area of estimation that requires management judgement. The Covid-19 pandemic has had a significant impact on the level of uncertainty in the valuation of expected credit loss provisions particularly in relation to the application of macro-economic scenarios and the assessment of significant increase in credit risk (SICR), including evaluating the impact of government support schemes. Key judgements and estimates include: • Accounting interpretations and modelling assumptions used to build the models and calculate the ECL. • The appropriateness of staging criteria selected to determine whether a significant increase in credit risk ("SICR") has arisen including evaluating the impact of government support measures. • The application of multiple macro-economic scenarios including the appropriateness of the probability weightings assigned to the various scenarios. • The completeness and valuation of post model adjustments. Furthermore, there is a risk that the disclosures do not comply with the requirements of IFRS.	We understood and evaluated the design effectiveness of key controls over the ECL process and adopted a substantive approach. We tested the assumptions, inputs and calculations used in the ECL models with the involvement of our credit modelling specialists. This included assessing the appropriateness of the model design, model implementation and model performance along with model assumption testing and sensitivity analysis. We considered the key data points in the ECL models and performed appropriate testing procedures to establish their completeness and accuracy. We independently assessed the valuation of collateral for a sample of commercial properties with support from EY real estate valuation experts. With the support of EY economic specialists, we assessed the base case and alternative macro-economic scenarios, including challenging the probability weightings and comparing to other scenarios from external sources. We assessed whether forecasted macro-economic variables including GDP, unemployment, interest rates and property price indexes were appropriate. We critically assessed the methodology for determining SICR criteria, including evaluating the impact of government support schemes. We independently tested staging allocation with the support of EY credit risk modelling specialists. We assessed the completeness of post model adjustments using our knowledge and experience across the UK lending sector and we independently recalculated material overlays including those overlays adopted in response to Covid-19 related economic uncertainty. On completion of our procedures we performed a stand back analysis to assess the overall adequacy of the ECL provisions. This included an analytical review, assessing whether any contradictory evidence had been obtained from other parts of the audit and considering the Group and Society's provision coverage ratios in comparison to other similar lenders using available benchmarking data. We corroborated the adequacy and appropriateness of the disclosures made within the financial statements for compliance with both IFRS 9 and IFRS 7.	We communicated that we were satisfied that expected credit loss provisions were reasonable and in compliance with the requirements of IFRS 9. We communicated to the Audit Committee that the audit process of testing and challenge of models, underlying modelling assumptions and post-model adjustments identified matters that after further investigation by management resulted in adjustments being made to the overall ECL. We considered the multiple economic scenarios incorporated in the IFRS 9 models to be materially appropriate. We concluded that disclosures relating to loan impairments were in compliance with the requirements of IFRS.

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 £0.5 million (2019: £0.35 million), which is 5% of the average adjusted profit before tax (2019: 5% of adjustment profit before tax).

We believe that adjusted profit before tax, when considering an average profitability across the current and four previous years, provides us with an appropriate basis for setting planning materiality given the impact of the Covid-19 pandemic on current financial performance.

We determined materiality for the Society to be the same as the Group materiality.

Standing basis	**• Statutory loss before tax – £8.4m**
Adjustments	**• Add back non-recurring items - £13.0m**
Materiality	**• Adjusted profit before tax - £4.6m** **• 5-year average adjusted profit before tax: £10.8m** **• Materiality of £0.50m (5% of average adjusted profit before tax)**

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.

On the basis of our risk assessments, together with our assessment of the Group and Society's overall control environment, our judgement was that performance materiality was £0.38m (2019: £0.26m) being 75% (2019: 75%) of our planning materiality. We have set performance materiality at this percentage after considering our experience in the prior year, our assessment of an effective control environment and including our perspectives from the current year audit. As a result, we determined that the higher of our permissible thresholds for our performance materiality was appropriate.

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 £0.03 million (2019: £0.02 million), 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.

Other information

The other information comprises the information included in the annual report set out on pages 3 to 44, including 2020 Key Highlights, the Chairman's statement, the Group Chief Executive's review, the Strategic report, the Corporate responsibility report, Your Board of Directors, the Directors' report, the Risk management report, the Corporate governance report, the Board Audit Committee report and the Directors' remuneration report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

- Proper accounting records have not been kept by the Society; or
- The 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.

Voluntary reporting matters

Corporate Governance Statement

The directors have voluntarily complied with the UK Corporate Governance Code (the "Code") and prepares a Corporate Governance Statement in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (FCA).

The directors have requested that we review the parts of the Corporate Governance Statement relating to the Society's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) as if the Society were a premium listed company.

The Directors have voluntarily complied with the UK Corporate Governance Code (the "Code") and Listing Rule 9.8.6(R)(3)(a) of the FCA. The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Society's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement are materially consistent with the financial statements or our knowledge obtained during the audit:

- The directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 28;
- The directors' explanation as to its assessment of the Group and Society's prospects, the period this assessment covers and why the period is appropriate set out on page 28;
- The directors' statement on fair, balanced and understandable set out on page 28;
- The Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 26;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 27; and;
- The section describing the work of the audit committee set out on page 38.

Directors' remuneration report

The Society voluntarily prepares a Report of the directors on remuneration in accordance with the provisions of the Companies Act 2006. The directors have requested that we audit the part of the Report of the directors on remuneration specified by the Companies Act 2006 to be audited as if the Society were a quoted company.

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Society or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Society and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and Society and determined that the most significant were the regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority (PRA) the Financial Conduct Authority (FCA) and the Building Societies Act 1986
- We understood how the Group and Society comply with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and UK regulatory bodies; reviewed minutes of the Board and Board Risk Committee; and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of Group's Operational Risk Framework and internal control processes.
- We assessed the susceptibility of the Group and Society's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered performance and incentive plan targets and their potential to influence management to manage earnings or influence the perception of investors and stakeholders
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved inquiries of legal counsel, executive management, internal audit, and focused testing, as referred to in the Key Audit Matters section above.
- The Group and Society operate in the financial services industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

Following the recommendation from the Audit Committee, we were appointed by the Society on 24 March 2015 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods.

The period of total uninterrupted engagement, including previous renewals and reappointment is six years, covering the years ending 2015 to 2020.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Society and we remain independent of the Group and the Society in conducting the audit.

The audit opinion is consistent with the Audit Results Report provided to the audit committee.

Use of our report

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.

Stephen Littler (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds
8 March 2021

INCOME STATEMENTS
for the year ended 31 December 2020

	Notes	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
CONTINUING OPERATIONS					
Interest receivable and similar income					
Calculated using the effective interest rate method	3	69.5	84.2	70.4	85.0
Other	3	(0.7)	(0.2)	(0.5)	(0.1)
Interest receivable and similar income		68.8	84.0	69.9	84.9
Interest payable and similar charges	4	(28.2)	(37.9)	(29.5)	(38.8)
NET INTEREST INCOME		**40.6**	**46.1**	**40.4**	**46.1**
Fees and commissions receivable		3.8	4.2	2.1	2.2
Fees and commissions payable		(1.0)	(1.1)	(1.0)	(1.1)
Other income		-	-	0.5	-
Net losses from derivative financial instruments	5	(2.7)	(0.6)	(2.6)	-
TOTAL NET INCOME		**40.7**	**48.6**	**39.4**	**47.2**
Administrative expenses	6	(36.8)	(33.7)	(35.2)	(31.9)
Depreciation and amortisation	17,18 ,19	(9.1)	(5.5)	(8.7)	(5.2)
Operating (loss)/profit before impairment, change in EIR accounting estimate and fair value movement		(5.2)	9.4	(4.5)	10.1
Impairment charge – loans and advances	15	(2.9)	(0.4)	(2.9)	(0.4)
Impairment charge – goodwill	18	-	(4.0)	-	-
Change in EIR accounting estimate		-	(12.3)	-	(12.3)
Fair value movement of intercompany balances	16	-	-	(0.4)	(2.0)
Profit on disposal of property, plant & equipment	17	0.1	-	0.1	-
LOSS BEFORE TAX		**(8.0)**	**(7.3)**	**(7.7)**	**(4.6)**
Tax credit	8	1.2	0.8	1.3	0.7
LOSS AFTER TAX FOR THE FINANCIAL YEAR FROM CONTINUING OPERATIONS		**(6.8)**	**(6.5)**	**(6.4)**	**(3.9)**
DISCONTINUED OPERATIONS					
Loss after tax for the financial year from discontinued operations	**34**	**(0.4)**	**(0.7)**	**-**	**-**
Loss after tax for the financial year		**(7.2)**	**(7.2)**	**(6.4)**	**(3.9)**

A reconciliation from loss before tax for the financial year to underlying profit used by management can be found on page 10.

The 2019 Group income statement has been represented on a continuing and discontinued operations basis.

The notes on pages 57 to 111 form part of these accounts.

STATEMENTS OF COMPREHENSIVE INCOME
for the year ended 31 December 2020

	Notes	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Loss for the financial year		(7.2)	(7.2)	(6.4)	(3.9)
Items that will not be re-classified to the income statement					
Remeasurements of defined benefit obligation	28	(3.9)	-	(3.9)	-
Tax on items that will not be re-classified	8	0.8	-	0.8	-
Items that may subsequently be re-classified to the income statement					
FVOCI reserve					
Valuation gains taken to reserves	12	0.4	0.7	0.4	0.7
Tax on items that may subsequently be re-classified	8	-	(0.1)	-	(0.1)
Other comprehensive (expense)/income for the period net of income tax		**(2.7)**	**0.6**	**(2.7)**	**0.6**
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		**(9.9)**	**(6.6)**	**(9.1)**	**(3.3)**

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

The notes on pages 57 to 111 form part of these accounts.

STATEMENTS OF FINANCIAL POSITION
as at 31 December 2020

	Notes	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
ASSETS					
Cash in hand and balances with the Bank of England	9	374.9	272.4	374.9	272.4
Loans and advances to credit institutions	10	64.5	36.1	51.5	29.9
Debt securities	12	152.8	306.6	152.8	306.6
Derivative financial instruments	13	0.8	2.0	0.8	2.0
Loans and advances to customers	14	3,128.0	3,161.4	3,128.0	3,161.4
Amounts due from subsidiary undertakings	16	-	-	26.6	20.3
Other assets		5.8	3.5	5.8	3.3
Property, plant and equipment	17	10.9	12.1	10.0	11.2
Right of use assets	19	3.5	5.3	3.4	4.4
Intangible assets	18	12.5	17.0	12.5	17.0
Current tax asset		2.0	1.5	2.0	1.5
Deferred tax assets	20	2.7	1.1	2.6	0.9
TOTAL ASSETS		**3,758.4**	**3,819.0**	**3,770.9**	**3,830.9**
LIABILITIES					
Shares	21	2,794.2	2,781.1	2,794.2	2,781.1
Amounts owed to credit institutions	22	456.6	611.3	456.6	611.3
Amounts owed to other customers	23	34.9	91.9	34.9	91.9
Amounts owed to subsidiary undertakings	24	-	-	205.2	77.2
Debt securities in issue	25	193.7	68.1	2.5	5.5
Derivative financial instruments	13	32.5	12.8	32.1	12.6
Other liabilities and accruals	26	5.7	4.0	5.3	3.5
Lease liabilities	19	4.4	5.3	3.9	4.3
Provisions for liabilities		-	0.2	-	0.2
Retirement benefit obligations	28	5.9	3.4	5.9	3.4
Subscribed capital	29	24.2	24.7	24.2	24.7
TOTAL LIABILITIES		**3,552.1**	**3,602.8**	**3,564.8**	**3,615.7**
RESERVES					
General reserves		206.3	216.6	206.1	215.6
Fair value reserves	30	-	(0.4)	-	(0.4)
Total reserves attributable to members of the Society		**206.3**	**216.2**	**206.1**	**215.2**
TOTAL RESERVES AND LIABILITIES		**3,758.4**	**3,819.0**	**3,770.9**	**3,830.9**

The notes on pages 57 to 111 form part of these accounts.

These accounts were approved by the Board of directors on 8 March 2021 and signed on its behalf:

Andrew Neden
Chairman

David Marlow
Chief Executive

STATEMENTS OF CHANGES IN MEMBERS' INTERESTS
for the year ended 31 December 2020

	General reserves £m	FVOCI reserve £m	Total £m
GROUP 2020			
Balance as at 1 January 2020	216.6	(0.4)	216.2
Loss for the year	(7.2)	-	(7.2)
Other comprehensive (expense)/income for the period (net of tax)			
Net (losses)/gains from changes in fair value	(3.1)	0.4	(2.7)
Total other comprehensive (expense)/income	(3.1)	0.4	(2.7)
Total comprehensive (expense)/income for the period	(10.3)	0.4	(9.9)
BALANCE AS AT 31 DECEMBER 2020	**206.3**	**-**	**206.3**
GROUP 2019			
Balance as at 1 January 2019	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	**216.6**	**(0.4)**	**216.2**

	General reserves £m	FVOCI reserve £m	Total £m
SOCIETY 2020			
Balance as at 1 January 2020	215.6	(0.4)	215.2
Loss for the year	(6.4)	-	(6.4)
Other comprehensive (expense)/income for the period (net of tax)			
Net (losses)/gains from changes in fair value	(3.1)	0.4	(2.7)
Total other comprehensive (expense)/income	(3.1)	0.4	(2.7)
Total comprehensive (expense)/income for the period	(9.5)	0.4	(9.1)
BALANCE AS AT 31 DECEMBER 2020	**206.1**	**-**	**206.1**
SOCIETY 2019			
Balance as at 1 January 2019	219.5	(1.0)	218.5
Loss for the year	(3.9)	-	(3.9)
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	**(3.9)**	**0.6**	**(3.3)**
BALANCE AS AT 31 DECEMBER 2019	**215.6**	**(0.4)**	**215.2**

The notes on pages 57 to 111 form part of these accounts.

CASH FLOW STATEMENTS
for the year ended 31 December 2020

	Notes	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
CASH FLOWS FROM OPERATING ACTIVITIES					
Loss before tax from continuing operations		(8.0)	(7.3)	(7.7)	(4.6)
Loss from discontinued operations		(0.4)	(0.7)	-	-
Depreciation and amortisation		9.1	5.5	8.7	5.2
Profit on disposal of property, plant and equipment		(0.1)	-	(0.1)	-
Interest on subscribed capital		2.0	2.0	2.0	2.0
Interest on lease payments		0.1	0.1	0.1	0.1
Net gains on disposal and amortisation of debt securities		-	0.5	-	0.5
Increase in impairment		2.9	4.4	2.9	0.4
		5.6	**4.5**	**5.9**	**3.6**
CHANGES IN OPERATING ASSETS AND LIABILITIES					
(Increase)/decrease in prepayments, accrued income and other assets		(1.1)	12.9	120.5	(15.5)
Increase in accruals, deferred income and other liabilities		20.3	3.9	20.2	3.6
Decrease in loans and advances to customers		30.5	341.1	30.5	341.1
Increase/(decrease) in shares		13.1	(88.1)	13.1	(88.1)
Decrease in amounts owed to other credit institutions and other customers		(211.7)	(108.0)	(211.7)	(108.0)
Increase in loans and advances to credit institutions		(21.5)	(11.2)	(21.5)	(11.2)
Increase/(decrease) in debt securities in issue		125.6	(38.7)	(3.0)	-
Decrease in retirement benefit obligation		(1.5)	(1.5)	(1.5)	(1.5)
Taxation received/(paid)		0.3	(1.4)	0.3	(1.4)
NET CASH USED IN OPERATING ACTIVITIES		**(40.4)**	**113.5**	**(47.2)**	**122.6**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of debt securities		(61.7)	(334.8)	(61.7)	(334.8)
Disposal of debt securities		215.9	244.5	215.9	244.5
Purchase of property, plant and equipment		(1.3)	(0.4)	(1.1)	(0.4)
Disposal of property, plant and equipment		0.1	-	0.1	-
Consideration on disposal of trade and assets		0.2	-	-	-
Purchase of intangible assets		(0.6)	(13.3)	(0.6)	(13.3)
NET CASH GENERATED FROM INVESTING ACTIVITIES		**152.6**	**(104.0)**	**152.6**	**(104.0)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Interest paid on subscribed capital		(1.9)	(1.9)	(1.9)	(1.9)
Principal element of lease payments		(0.9)	(1.1)	(0.9)	(0.9)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**109.4**	**6.5**	**102.6**	**15.8**
Cash and cash equivalents at 1 January		272.6	266.1	266.4	250.6
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**11**	**382.0**	**272.6**	**369.0**	**266.4**

The notes on pages 57 to 111 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 International Financial Reporting Standards pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union 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 FVOCI assets, intercompany balances and derivatives.

The Directors have considered the risks and uncertainties discussed on pages 17 to 20 and 29 to 33, and the extent to which they might affect the preparation of the Annual Report & Accounts on a going concern basis. Key to this consideration were the risks associated to regulatory capital, liquidity and financial performance, and the impact on these risks arising from the uncertainties created by Covid-19. 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. The Group has a surplus to regulatory capital requirements and is forecasting this to remain across the going concern assessment period. 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, and specifically for the going concern assessment period to March 2022 – twelve months from the date of the approval of the Annual Report and Accounts. 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.

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 and future accounting developments

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

Whilst phase 1 of the reform is effective from 1 January 2020, the Society is not impacted by this phase. Phase 2 is effective from 1 January 2021. Whilst the Society has not early adopted phase 2, it has appropriate plans in place to manage its transition from LIBOR to SONIA.

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. They do not impact these financial statements.

Basis of consolidation

Subsidiary companies are defined as those in which the Society has the power over relevant activities, has exposure to the rights of variable returns and has the influence to affect those returns.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. The Group accounts consolidate the assets, liabilities and results of the Society and all of its subsidiaries, eliminating intercompany balances and transactions. All entities have accounting periods ending on 31 December. The results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date that ownership ceases.

Special purpose funding vehicles

The Society has transferred the beneficial interest in certain loans and advances to customers to special purpose funding vehicles (SPV). These SPVs enable a subsequent raising of debt to investors who gain the security of the underlying assets as collateral. The SPVs are fully consolidated into the Group accounts in accordance with IFRS 10 as the Society is deemed to have control over the SPV because it has power and exposure to variable returns. The transfer of the beneficial interest in these loans to the SPVs are not treated as sales by the Society. The Society continues to recognise these assets within its own Statement of Financial Position after the transfer because it retains substantially all the risk and rewards of the portfolio through the receipt of the majority of profits of the structured entity. In the accounts of the Society, the proceeds received from the transfer are accounted for as a deemed loan repayable to the SPV.

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 acquiree. Acquisition related costs are recognised in the income statement as incurred.

1. ACCOUNTING POLICIES (CONTINUED)

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'.

The effective interest rate (EIR) method is applied for all financial assets or liabilities recorded at amortised cost, FVOCI, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting. 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 income on financial assets is calculated by applying the EIR to the gross carrying amount of the financial asset, unless considered credit impaired. When a financial asset becomes credit impaired, and therefore considered as Stage 3, interest income is calculated by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit impaired, interest income is reverted to being calculated on a gross basis.

Interest income and expense also includes interest on derivatives measured at FVPL, where hedge accounting is not applied, using the contractual interest rate.

Fees and commissions

Fees receivable are generally recognised when all performance obligations of the contract 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 performance 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 receivable/payable.

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

Cash and cash equivalents

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

Derivative financial instruments and hedge accounting

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

The Group has elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

The Group looks to designate 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.

If derivatives are not designated as hedges, then changes in their fair values are recognised immediately in the income statement in the period in which they arise.

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 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

Classification and Measurement

Financial assets comprise cash, loans and advances to credit institutions, debt securities, derivative financial instruments and loans and advances to customers. The Group classifies non-derivative financial assets as either amortised cost, FVOCI or FVPL depending on the business model for managing the assets and the contractual cash flow characteristics. The Group determines its business model at the level that best reflects how it manages groups of assets to achieve its business objective. In making this assessment it considers how the performance of the business model is evaluated and reported within the Group, how the risks of the business model are managed and the expected frequency, value and timing of sales of assets. The contractual terms of the financial assets are assessed to determine whether their cash flows represent solely payments of principal and interest or expose the Group to other risks. Management determines the classification of financial assets under IFRS 9 at the earlier of 1 January 2018 or initial recognition.

1. ACCOUNTING POLICIES (CONTINUED)

Amortised cost

Financial assets whose business model is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI) are measured at amortised cost. Interest income from these financial assets is included in net interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. The carrying value of these assets is adjusted by any expected credit loss allowance recognised. The Society classifies the following financial instruments as amortised cost:

- cash in hand and balances with the Bank of England;
- loans and advances to credit institutions; and
- loans and advances to customers.

Loans and advances to customers

The initial value of loans and advances to customers 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.

Included in loans and advances to customers of the Society are balances which have been used to secure funding issued by the Group's special purpose vehicle, which is consolidated into the Group Accounts. The beneficial interest in the underlying loans has been transferred to this entity. The loans are retained within the Society's Statement of Financial Position however, as the Society retains substantially all of the risks and rewards relating to the loans.

Fair value through other comprehensive income (FVOCI)

The Society recognises its debt securities as FVOCI assets. The business model for these financial assets is to hold for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest and are measured at FVOCI. Movements in the carrying amount are taken through Other Comprehensive Income (OCI). When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from reserves to the income statement. Interest income from these financial assets is included in net interest income using the effective interest rate method. The expected credit loss for these assets does not reduce the carrying amount in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were at amortised cost, is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

Fair value through profit or loss (FVPL)

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. Interest income from these financial assets is included in net interest income. The Society recognises its derivative financial instruments and some of its balances with subsidiary entities as FVPL assets.

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

Under IFRS 9, the Group assesses on a forward-looking basis the expected credit losses (ECL) associated with its financial assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments. The allowance is based on the ECLs associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination and the measurement of ECL reflects:

- An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- **Stage 1**: A financial instrument that is not credit-impaired on initial recognition and has its credit risk continuously monitored by the Group. ECL is measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.
- **Stage 2**: If a significant increase in credit risk (SICR) since initial recognition is identified, the financial asset is moved to 'Stage 2' but is not yet deemed to be credit impaired. The definition of a significant increase in credit risk is detailed below. ECL for stage 2 assets are measured based on expected credit losses on a lifetime basis.
- **Stage 3**: If the financial asset is credit-impaired, it is moved to 'Stage 3'. The definition of credit-impaired and default is outlined below. ECL for stage 3 assets is also measured on expected credit losses on a lifetime basis.

Forward-looking information is taken into account in the measurement of ECL with its use of economic assumptions such as inflation, unemployment rates, house price indices and Gross Domestic Product.

The Group has no purchased or originated credit impaired assets and has not applied any simplified approaches.

1. ACCOUNTING POLICIES (CONTINUED)

Significant increase in credit risk (SICR)

The Group considers a financial instrument to have experienced a significant increase in credit risk when one of more of the following criteria has been met:

Financial instrument	Definition of significant increase in credit risk
Loans and advances to customers – Retail	• Over 30 days past due on contractual repayments; • In forbearance; • Lifetime probability of default doubled since origination; and • Lifetime probability of default greater than 1%.
Loans and advances to customers – SBL	• Over 30 days past due on contractual repayments; • On management watch list; • Lifetime probability of default doubled since origination; or • In forbearance.
Wholesale liquidity instruments	• Any arrears or receipt of adverse information

Definition of default and credit-impaired

The Group defines a financial asset as in default, which is fully aligned with the definition of credit-impaired, when it is more than 90 days past due on contractual repayments.

It is the Society's policy to consider a financial instrument as 'cured' and therefore reclassified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated position, at the time of the cure, and whether there has been a significant increase in credit risk compared to initial recognition.

Loans and advances to customers

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. Forecasts of these economic variables are provided by a reputable third party on a regular basis and provide the best estimate view of the economy over the next five years. After five years, to project the economic variables out for the full remaining lifetime, 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. Further details of these scenarios are outlined in note 15.

ECL models

The ECL models are driven by three key components:

- **Probability of Default (PD):** The PD model takes attributes of the mortgage accounts on the portfolio (for example, origination vintage and time on book) and adjusts for the impacts of a range of independently sourced forward-looking macroeconomic scenarios to produce a vector detailing the likelihood of an account defaulting in a given month within the expected behavioural lifetime. The model outputs are scaled against a number of internal risk grades which are determined using the Society's behavioural scoring models. These behavioural scoring models contain a combination of internal and externally derived data to rank the mortgage accounts by risk and pool the accounts into groups of comparable expected performance.
- **Exposure at Default (EAD):** The EAD model predicts the loan exposure of each mortgage account at a future default date. The model takes into account balance amortisation and accrued interest from missed payments given expected changes in the repayment terms of the mortgage; for example interest rates may move in a manner consistent with the macroeconomic scenarios. The calculation produces a vector to represent 'expected' EAD at each potential point of default along the vector from the reporting date up to the expected behavioural lifetime; and
- **Loss Given Default (LGD):** The LGD model calculates the likely loss on asset disposal that the Society would suffer if a default were to occur in any given month over the expected behavioural lifetime of the mortgage account. LGD takes into account the EAD in comparison to the value expected to be recovered through the sale of an asset, given the macroeconomic scenario specific trend in property price indices. The expectation of loss is then scaled to reflect the likelihood of a mortgage account reaching default, progressing on to sale of the asset.

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.

During the year, the Society has also offered payment deferrals in response to the Covid-19 pandemic.

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.

1. ACCOUNTING POLICIES (CONTINUED)

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. The original effective interest rate will be retained.

Modifications

The Society may on occasion modify the contractual terms of loans provided to customers. When this is solely for commercial reasons and considered part of the ordinary course of business, there is no impact on the impairment approach. Generally, forbearance at the Society, whether retail or SBL lending, does not result in the terms of the loan being modified so significantly that it becomes substantially a different financial asset, and therefore, the original loan remains and does not result in derecognition.

Write off of financial assets

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery, for example by bankruptcy, insolvency, renegotiation and similar events. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the loss allowance, which is then applied to the gross carrying amount. Any subsequent recoveries are credited to the income statement on settlement receipt.

Cash in hand and balances with the Bank of England, Loans and advances to credit institutions and Debt securities

The Group reviews the external credit ratings of its liquid assets at each reporting date. Those assets, which are of investment grade or higher, are considered to have low credit risk and therefore are assumed to have not had a significant increase in credit risk since initial recognition. This includes the Society's debt security portfolio. The Society's policy to allow only high quality, senior secured exposures to Residential Mortgage Backed Securities (RMBS) and Covered Bonds ensures continued Society receipt of contractual cash flows in stressed scenarios. For all other wholesale liquidity balances, a simple model calculates the ECL allowance, based on externally provided 12 month PD rates for individual counterparties.

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 rate 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 prices

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 rate basis in the income statement as interest expense.

Intangible assets

Computer Software

Purchased software and costs and internal time 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.

1. ACCOUNTING POLICIES (CONTINUED)

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 post-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 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 5 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. For this scheme the cost is charged to the income statement as contributions become due.

1. ACCOUNTING POLICIES (CONTINUED)

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low value assets. The Group recognises lease liabilities, as the current value of future lease payments, and right-of-use assets representing the right to use the underlying leased assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight line basis over the lease term, adjusted to take account of any expected break or extension options.

- Leasehold premises over 10 to 15 years;
- Equipment, fixtures, fittings and vehicles over 3 to 5 years;
- Motor vehicles over 3 to 5 years;

Right-of-use 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.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term, discounted using the incremental borrowing rate. The lease payments include fixed payments less any lease incentive receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under any residual value guarantees.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date as the interest rate implicit in the lease is not readily determinable. The incremental borrowing rate is determined based on the cost of funding to the Group. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for lease payments made.

In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments.

The Group does not have an option to purchase the underlying asset in its lease agreements.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date). It also applies the lease of low-value assets recognition exemption to assets that are considered be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the term 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 recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and the authority permits the company to make a single net payment. 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 will only be confirmed by future events. Contingent liabilities are not recognised in the Statement of financial position.

1. ACCOUNTING POLICIES (CONTINUED)

Accounting estimates and judgements

In the course of preparing the financial statements, no judgements have been made in the process of applying the Group's significant accounting policies, other than those involving estimations, which have had a significant effect on the amounts recognised in the financial statements. The Group's significant estimates, including judgements involving estimations, are shown below.

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, in particular, the estimation of the amount and timing of future cash flows and collateral values and the assessment of significant increase in credit risk. The Society's ECL calculations under IFRS 9 are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies, which individually are not possible to isolate. Note 1 on pages 58 to 60 outlines the accounting policies and key definitions for IFRS 9.

Key elements of the ECL models that are considered accounting judgements, including estimation, include:

- The internal credit grading model, which assigns PDs to individual accounts;
- The criteria for assessing if there has been a significant increase in credit risk;
- Determination of associations between macroeconomic scenarios, economic inputs and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings to derive economic inputs to the ECL models.

Applying a 100% weighting to the Society's pessimistic economic scenario results disclosed in note 15 on page 77.

Expected mortgage life

In determining the expected life of mortgage assets, which is used as part of the effective interest rate calculation, 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.

The Group has assessed that no member remains on a Standard Variable Rate (SVR) for any meaningful period of time at the end of their product term. A two week extension of the time spent on SVR would result in an increase in the value of loans on the statement of financial position by approximately £0.2 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 note 28 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 £1.3 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 16. The Group operates throughout the UK therefore no geographical analysis has been presented.

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

Continuing operations

- **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.
- **Mortgage Broking** – Provides whole-of-market mortgage broking services. Includes all income and costs associated with Nottingham Mortgage Services Ltd.

Discontinued operations

- **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.

During the year, the Group exited the Estate Agency market and sold its Lettings portfolio of managed properties. Therefore the Estate agency operating segment is classed as a discontinued operation and is further considered in note 34. The 2019 segmental analysis has therefore also been represented on this basis.

2020	Retail financial services £m	Estate Agency to be transferred £m	Mortgage Broking £m	Consolidation adjustments £m	Group continuing operations £m	Discontinued operations: Estate agency £m	Total Group £m
Net interest income	40.6	-	-	-	40.6	-	40.6
Fees and commission receivable	2.1	-	1.7	-	3.8	0.9	4.7
Fees and commission payable	(1.0)	-	-	-	(1.0)	-	(1.0)
Other income	0.5	-	-	(0.5)	-	-	-
TOTAL INCOME	**42.2**	**-**	**1.7**	**(0.5)**	**43.4**	**0.9**	**44.3**
Administrative expenses	(31.7)	-	(1.4)	-	(33.1)	(0.9)	(34.0)
Depreciation and amortisation	(6.7)	(0.4)	-	-	(7.1)	-	(7.1)
Impairment losses on loans and advances	(2.9)	-	-	-	(2.9)	-	(2.9)
Profit on disposal of property, plant & equipment	0.1	-	-	-	0.1	-	0.1
UNDERLYING PROFIT/(LOSS)	**1.0**	**(0.4)**	**0.3**	**(0.5)**	**0.4**	**-**	**0.4**
Net losses from derivative financial instruments	(2.7)	-	-	-	(2.7)	-	(2.7)
Other income	-	-	-	-	-	0.2	0.2
Strategic investment costs	(4.1)	-	-	-	(4.1)	(0.6)	(4.7)
Change in accounting estimates	(1.6)	-	-	-	(1.6)	-	(1.6)
Fair value movement of intercompany balances	(0.4)	0.4	-	-	-	-	-
(LOSS)/PROFIT BEFORE TAX	**(7.8)**	**-**	**0.3**	**(0.5)**	**(8.0)**	**(0.4)**	**(8.4)**
Tax credit	1.3	-	(0.1)	-	1.2	-	1.2
(LOSS)/PROFIT AFTER TAX	**(6.5)**	**-**	**0.2**	**(0.5)**	**(6.8)**	**(0.4)**	**(7.2)**
Total assets	3,756.6	1.5	0.5	(0.2)	3,758.4	-	3,758.4
Total liabilities	3,551.4	0.6	0.3	(0.2)	3,552.1	-	3,552.1
Capital expenditure	1.7	-	-	-	1.7	-	1.7

The continuing Estate Agency segment relates to property costs which will be transferred to other Group entities and therefore will remain ongoing in future periods.

2. SEGMENTAL REPORTING (CONTINUED)

2019	Retail financial services £m	Estate Agency to be transferred £m	Mortgage Broking £m	Consolidation adjustments £m	Group continuing operations £m	Discontinued operations: Estate agency £m	Total Group £m
Net interest income	46.1	-	-	-	46.1	-	46.1
Fees and commission receivable	2.2	-	2.0	-	4.2	2.0	6.2
Fees and commission payable	(1.1)	-	-	-	(1.1)	-	(1.1)
TOTAL INCOME	**47.2**	**-**	**2.0**	**-**	**49.2**	**2.0**	**51.2**
Administrative expenses	(31.3)	-	(1.7)	-	(33.0)	(2.3)	(35.3)
Depreciation and amortisation	(5.2)	(0.3)	-	-	(5.5)	-	(5.5)
Impairment losses on loans and advances	(0.4)	-	-	-	(0.4)	-	(0.4)
Profit on disposal of property, plant & equipment	-	-	-	-	-	-	-
UNDERLYING PROFIT/(LOSS)	**10.3**	**(0.3)**	**0.3**	**-**	**10.3**	**(0.3)**	**10.0**
Net losses from derivative financial instruments	(0.6)	-	-	-	(0.6)	-	(0.6)
Other income	-	-	-	-	-	0.2	0.2
Strategic investment costs	(0.7)	-	-	-	(0.7)	(0.6)	(1.3)
Impairment charge - goodwill	-	-	-	(4.0)	(4.0)	-	(4.0)
Change in EIR accounting estimates	(12.3)	-	-	-	(12.3)	-	(12.3)
Fair value movement of intercompany balances	(2.0)	2.0	-	-	-	-	-
(LOSS)/PROFIT BEFORE TAX	**(5.3)**	**1.7**	**0.3**	**(4.0)**	**(7.3)**	**(0.7)**	**(8.0)**
Tax credit	0.7	0.1	-	-	0.8	-	0.8
(LOSS)/PROFIT AFTER TAX	**(4.6)**	**1.8**	**0.3**	**(4.0)**	**(6.5)**	**(0.7)**	**(7.2)**
Total assets	3,816.0	2.5	0.7	(0.2)	3,819.0	-	3,819.0
Total liabilities	3,601.4	1.4	0.2	(0.2)	3,602.8	-	3,602.8
Capital expenditure	13.7	-	-	-	13.7	-	13.7

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 52 to 56.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
On loans fully secured on residential property	72.4	80.4	72.4	80.4
On other loans	4.6	3.6	4.6	3.6
On amounts due from group undertakings	-	-	1.0	0.8
On liquid assets	1.0	2.3	1.0	2.3
On instruments held at amortised cost	78.0	86.3	79.0	87.1
On debt securities	1.3	2.3	1.3	2.3
On derivative hedging of financial assets	(9.8)	(4.4)	(9.9)	(4.4)
On instruments calculated on an EIR basis	69.5	84.2	70.4	85.0
On derivatives not in a hedge accounting relationship	(0.7)	(0.2)	(0.5)	(0.1)
	68.8	**84.0**	**69.9**	**84.9**

Interest on debt securities includes £0.7 million (2019: £1.4 million) arising from fixed income investment securities.

Included within interest income is £0.2 million (2019: £0.1 million) in respect of interest income accrued on impaired loans three or more months in arrears.

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
On shares held by individuals	24.3	29.1	24.3	29.1
On amounts due to group undertakings	-	-	2.0	2.1
On deposits and other borrowings	2.6	7.3	1.9	6.1
On subscribed capital	2.0	2.0	2.0	2.0
On leases	0.1	0.1	0.1	0.1
On derivative hedging of financial liabilities	(0.8)	(0.6)	(0.8)	(0.6)
	28.2	**37.9**	**29.5**	**38.8**

5. NET LOSSES FROM DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Derivatives in designated fair value hedge relationships	(16.7)	(12.8)	(16.7)	(12.8)
Adjustments to hedged items in fair value hedge accounting relationships	15.0	11.1	15.0	11.1
Derivatives not in designated fair value hedge relationships	(1.0)	1.1	(0.9)	1.7
	(2.7)	**(0.6)**	**(2.6)**	**-**

The net loss from derivative financial instruments of £2.7 million (2019: £0.6 million) 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.

Further information regarding the Group and Society's derivative financial instruments and fair value hedge accounting is presented in notes 13 and 31 of these financial statements.

6. ADMINISTRATIVE EXPENSES

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Continuing operations				
Wages and salaries	18.9	17.9	18.0	16.8
Social security costs	1.7	1.8	1.7	1.8
Other pension costs	1.1	1.1	1.0	1.0
Total employee costs	**21.7**	**20.8**	**20.7**	**19.6**
Premises and facilities	3.1	3.1	3.1	3.1
IT	5.6	4.0	5.5	4.0
Marketing and advertising	1.0	1.0	1.0	1.1
Lease costs	0.4	0.4	0.4	0.4
Other administrative costs	5.0	4.4	4.5	3.7
	36.8	**33.7**	**35.2**	**31.9**

Included in continuing wages and salaries for the Group is £0.8m (2019: £0.4m) of restructuring costs relating to continuing operations. A further £2.9m of strategic investment costs are included in other administrative costs (2019: £0.3m).

	Group 2020 £m	Group 2019 £m
Discontinued operations		
Wages and salaries	0.8	1.3
Social security costs	0.1	0.1
Other pension costs	-	-
Total employee costs	0.9	1.4
Marketing and advertising	0.1	0.4
Other administrative costs	0.5	1.1
	1.5	**2.9**

Included in wages and salaries for the Group discontinued operations is £0.3m (2019: £0.3m) of restructuring costs. A further £0.3m of strategic investment costs are included in other administrative costs (2019: £nil).

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Other administrative costs include:				
Remuneration of auditors and associates (excluding VAT)				
Fees payable to the auditor for the audit of the annual accounts	245	220	245	220
Fees payable to the auditor for other services:				
Audit of the accounts of subsidiary undertakings	43	32	-	-
Audit of associated pension schemes	13	11	13	11
Audit related assurance services	58	50	58	50
Total audit fees for the financial year	**359**	**313**	**316**	**281**

7. EMPLOYEES

	Group 2020 Number	Group 2019 Number	Society 2020 Number	Society 2019 Number
The average number of persons employed during the year was:				
Full time	449	510	414	455
Part time	184	194	175	179
	633	**704**	**589**	**634**
Building Society				
Central Administration	293	293	293	293
Branches	296	341	296	341
Subsidiaries	44	70	-	-
	633	**704**	**589**	**634**

The average number of employees on a full time equivalent basis in the Society was 532 (2019: 557) and all of these are employed within the United Kingdom.

8. TAX CREDIT

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Current tax charge/(credit)	0.3	(0.8)	0.3	(0.9)
Adjustments for prior years	(0.6)	(0.2)	(0.6)	(0.2)
TOTAL CURRENT TAX	**(0.3)**	**(1.0)**	**(0.3)**	**(1.1)**
Deferred tax	(1.5)	0.1	(1.6)	0.3
Adjustments for prior years	0.6	0.1	0.6	0.1
TOTAL DEFERRED TAX	**(0.9)**	**0.2**	**(1.0)**	**0.4**
20	**(1.2)**	**(0.8)**	**(1.3)**	**(0.7)**

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

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Loss before taxation	(8.4)	(8.0)	(7.7)	(4.6)
Expected tax credit at 19% (2019: 19%)	(1.6)	(1.5)	(1.5)	(0.9)
Expenses not deductible for corporation tax	0.2	0.8	0.4	0.3
Amounts not recognised	0.2	-	-	-
Effective securitisation	0.1	-	-	-
Income not taxable	(0.1)	-	(0.2)	-
Adjustment for prior years	-	(0.1)	-	(0.1)
	(1.2)	**(0.8)**	**(1.3)**	**(0.7)**

ACCOUNTS

8. TAX CREDIT (CONTINUED)

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Tax recognised directly in other comprehensive income				
Tax on FVOCI assets	-	0.1	-	0.1
Tax on pension scheme	(0.8)	-	(0.8)	-
TAX (CREDIT)/CHARGE FOR THE YEAR	**(0.8)**	**0.1**	**(0.8)**	**0.1**

The tax impact of discontinued operations is immaterial to the financial statements.

Factors affecting future tax charges

The Finance Act 2016, which was enacted in September 2016, reduced the rate of tax from 19% to 17% with effect from 1 April 2020. However, the Finance Act 2020 reversed this decision and as a result, the rate of tax was held at 19%, when enacted in March 2020.

9. CASH IN HAND AND BALANCES WITH THE BANK OF ENGLAND

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Cash in hand	1.6	1.9	1.6	1.9
Balances with the Bank of England	373.3	270.5	373.3	270.5
	374.9	**272.4**	**374.9**	**272.4**

Balances with the Bank of England includes cash ratio deposits of £6.2 million (2019: £6.1 million) which are not readily available for use in the Group's day-to-day operations and therefore are excluded from cash and cash equivalents.

10. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Repayable on call and short notice	13.3	6.3	0.3	0.1
Other loans and advances to credit institutions	51.2	29.8	51.2	29.8
	64.5	**36.1**	**51.5**	**29.9**

As at 31 December 2020 £51.2 million (2019: £29.8 million) of cash has been deposited by the Group and Society as collateral against derivative contracts.

11. CASH AND CASH EQUIVALENTS

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Cash in hand and balances with the Bank of England	368.7	266.3	368.7	266.3
Loans and advances to credit institutions	13.3	6.3	0.3	0.1
	382.0	**272.6**	**369.0**	**266.4**

12. DEBT SECURITIES

Group and Society	Notes	2020 £m	2019 £m
Debt securities			
Gilts		10.0	20.3
Treasury bills		-	129.0
Fixed rate notes		8.1	7.7
Floating rate notes		70.6	59.3
Mortgage backed securities		46.7	76.2
Floating covered bonds		17.4	14.1
		152.8	**306.6**
Movements on debt securities during the year may be analysed as follows:			
As at 1 January		306.6	216.1
Additions		61.7	334.3
Disposals and maturities		(215.9)	(244.4)
Net gains from changes in fair value recognised in other comprehensive income	30	0.4	0.6
		152.8	**306.6**

Of this total £18.1 million (2019: £157.0 million) is attributable to fixed income debt securities.

Debt securities include items with a carrying value of £nil million (2019: £10.2 million) which have been pledged as collateral under Bank of England facilities.

13. DERIVATIVE FINANCIAL INSTRUMENTS

Group	2020 Contract/ notional amount £m	2020 Fair value of assets £m	2020 Fair value of liabilities £m	2019 Contract/ notional amount £m	2019 Fair value of assets £m	2019 Fair value of liabilities £m
Derivatives not in hedge accounting relationship						
Interest rate swaps	669.4	0.4	(1.0)	454.3	0.7	(0.2)
Derivatives designated as fair value hedges						
Interest rate swaps	2,173.0	0.4	(31.5)	2,064.0	1.3	(12.6)
	2,842.4	**0.8**	**(32.5)**	**2,518.3**	**2.0**	**(12.8)**

Society	2020 Contract/ notional amount £m	2020 Fair value of assets £m	2020 Fair value of liabilities £m	2019 Contract/ notional amount £m	2019 Fair value of assets £m	2019 Fair value of liabilities £m
Derivatives not in a hedge accounting relationship						
Interest rate swaps	464.7	0.4	(0.6)	374.6	0.7	-
Derivatives designated as fair value hedges						
Interest rate swaps	2,173.0	0.4	(31.5)	2,064.0	1.3	(12.6)
	2,637.7	**0.8**	**(32.1)**	**2,438.6**	**2.0**	**(12.6)**

Further information regarding the Group's hedge accounting and fair value hedges is presented in note 31 'Financial Instruments' on page 106.

14. LOANS AND ADVANCES TO CUSTOMERS

Group and Society	Notes	2020 £m	2019 £m
Loans fully secured on residential property		2,942.1	3,058.4
Other loans fully secured on land		164.1	95.2
		3,106.2	3,153.6
Provision for impairment losses on loans and advances	15	(4.5)	(1.6)
		3,101.7	3,152.0
Fair value adjustment for hedged risk		26.3	9.4
		3,128.0	**3,161.4**

Other loans fully secured on land represents Secured Business Lending (SBL) assets.

Encumbrance

The Society pledges a proportion of its loans and advances to customers to enable it to access funding either through a secured funding arrangement or as whole mortgage loan pools with the Bank of England.

Loans and advances to customers used to support these funding activities are as follows:

Group and Society 2020	Mortgages pledged £m	Held by third parties £m	Held by the Group drawn £m	Held by the Group undrawn £m
Bank of England	1,404.6	-	582.9	821.7
Other secured funding	207.1	207.1	-	-
	1,611.7	**207.1**	**582.9**	**821.7**

Group and Society 2019	Mortgages pledged £m	Held by third parties £m	Held by the Group drawn £m	Held by the Group undrawn £m
Bank of England	1,349.1	-	769.7	579.4
Other secured funding	78.0	78.0	-	-
	1,427.1	**78.0**	**769.7**	**579.4**

Other secured funding

As at 31 December 2020, loans and advances to customers also includes balances for both the Group and Society which have been used in secured funding arrangements, resulting in the beneficial interest of these loans being transferred to Arrow Mortgage Finance No.1 Limited, a special purpose vehicle consolidated into the Group Accounts. All of the loans pledged are retained within the Society's Statement of Financial Position as the Society retains substantially all the risk and rewards relating to the loans. These loans secure £191.2 million (2019: £62.6 million) of funding for the Group (note 25).

15. 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. The gross carrying amounts and impairment provisions are presented in detail below.

Group and Society	Notes	Loans fully secured on residential property 2020 £m	Other loans fully secured on land 2020 £m	Total 2020 £m	Loans fully secured on residential property 2019 £m	Other loans fully secured on land 2019 £m	Total 2019 £m
Gross carrying amount							
Stage 1		1,807.4	106.0	1,913.4	2,419.3	51.7	2,471.0
Stage 2		1,127.0	56.9	1,183.9	634.6	42.2	676.8
Stage 3		7.7	1.2	8.9	4.5	1.3	5.8
	14	**2,942.1**	**164.1**	**3,106.2**	**3,058.4**	**95.2**	**3,153.6**

Group and Society	Loans fully secured on residential property 2020 £m	Other loans fully secured on land 2020 £m	Total 2020 £m	Loans fully secured on residential property 2019 £m	Other loans fully secured on land 2019 £m	Total 2019 £m
Expected Credit Loss allowance						
Stage 1	0.5	1.5	2.0	0.1	-	0.1
Stage 2	1.1	0.7	1.8	0.3	0.4	0.7
Stage 3	0.2	0.5	0.7	0.1	0.7	0.8
	1.8	**2.7**	**4.5**	**0.5**	**1.1**	**1.6**

The ECL allowance recognised against the Society's loan commitment balance at 31 December 2020 and 2019 is immaterial to the financial statements and therefore has not been separately disclosed. Future loan commitments are classified as Stage 1 for ECL calculation purposes under IFRS 9.

15. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The ECL allowance recognised against the Society's future loan commitment balance at 31 December 2020 and 2019 is immaterial to the financial statements and therefore has not been separately disclosed. Future loan commitments are classified as Stage 1 for ECL calculation purposes under IFRS 9.

At 31 December 2020, 38% (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 (retail)/tripling (SBL) 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 31 December 2020 for the total book and 0.15% 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 ongoing Covid-19 pandemic and resulting government interventions are driving a level of uncertainty in the ECL allowance with regards expected impact on losses being deferred into 2021 and beyond. This is resulting in a time lag between the third party economic indicators applied and defaults and losses that may flow from this. As a consequence, management have modelled a stress scenario at 31 December 2020 to recognise this expected lag.

The Society has a high quality mortgage book, with a very low probability of default at origination and very low levels of default experience. The Significant Increase in Credit Risk criteria and movements of balances between stages 1 and 2 is highly sensitive to changes in macroeconomic factors. The Society recognises that the ECL models have been heavily tested during the year as a result of the external economic environment and a significant post model adjustment has been recognised to reflect this. The Society is working to develop and enhance the core models to support future reporting periods and stress events.

At 31 December 2020, £5.1m of balances were over 3 months in arrears, representing 0.2% of the total mortgage book. As at 31 December 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 31 on pages 99 and 101.

During 2020, The Nottingham has granted approximately 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 13% of customers and £467.6m of loan balances. 97% of the deferrals taken relate to the retail portfolio. 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 that may roll into arrears on completion of their payment deferral is immaterial to the financial statements. As at 31 December 2020, 0.7% of the total mortgage portfolio have a payment deferral in place, represented 161 loans, with the vast majority of the remaining customers opting to capitalise the outstanding interest and commence repaying over the remaining term of the loan.

The charge to the income statement comprises:

Group and Society	2020 Loans fully secured on residential property £m	2020 Other loans fully secured on land £m	2020 Total £m	2019 Loans fully secured on residential property £m	2019 Other loans fully secured on land £m	2019 Total £m
Charge of provision for impairment	1.3	1.6	2.9	0.3	0.1	0.4
Recoveries of debts previously written off	-	-	-	-	-	-
	1.3	**1.6**	**2.9**	**0.3**	**0.1**	**0.4**

15. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

Gross balances	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	(737.1)	737.1	-	-
Transfers to stage 3	(1.6)	(4.5)	6.1	-
Transfers from stage 2 to stage 1	115.2	(115.2)	-	-
Transfers from stage 3	0.3	1.5	(1.8)	-
NET MOVEMENT ARISING FROM TRANSFER OF STAGE	**(623.2)**	**618.9**	**4.3**	**-**
New assets originated[1]	447.1	24.1	0.7	471.9
Net further lending/repayments and redemptions	(381.5)	(135.9)	(1.9)	(519.3)
At 31 December 2020	**1,913.4**	**1,183.9**	**8.9**	**3,106.2**

Expected Credit Loss allowance	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	0.1	(0.1)	-	-
Transfers from stage 3	-	0.1	(0.1)	-
Net remeasurement of ECL arising from transfer of stage	(0.1)	(0.1)	0.2	-
NET MOVEMENT ARISING FROM TRANSFER OF STAGE	**-**	**(0.1)**	**0.1**	**-**
New assets originated[1]	0.3	-	-	0.3
Further lending/repayments and redemptions	-	-	(0.1)	(0.1)
Changes in risk parameters in relation to credit quality	1.6	1.2	(0.1)	2.7
At 31 December 2020	**2.0**	**1.8**	**0.7**	**4.5**

[1] New assets originated enter at stage 1. The balances presented are the final position as at 31 December 2020.

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

15. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information, which takes into account key economic impacts such as Brexit and the Covid-19 pandemic. 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 calculation. The weightings, which are provided by the third party supplier of economic forecasts, are consistent in both the current and prior year. Due to the timing of establishing the economic scenarios and fluctuating change, the final EU exit arrangements and Q1 2021 lockdown are not reflected in the scenarios outlined below. A review was completed against the 31 December position and management concluded that the scenarios applied were robust.

	Weighting
Base The base economic scenario assumes that Covid-19 infections would peak in November 2020, with infections abating by mid 2021 and no further lockdowns would be implemented. The scenario assumes a continuing fiscal stimulus with recovering stock and bond markets and that oil prices would gradually increase from historic lows as demand increased. Due to the timing of establishing the scenario, a lockdown in Q1 2021 is not assumed.	43%
Upside The upside scenario assumes that business and consumer confidence returns quickly and reduces unemployment accordingly. Covid-19 infections are assumed to peak in November 2020, vaccines are successful and rolled out quickly, giving significant hope for the later end of the first quarter of 2021. A return to spending on travel and tourism is assumed alongside a decline in international trade disputes. Due to the timing of establishing the scenario, a lockdown in Q1 2021 is not assumed.	30%
Downside The downside scenario assumes that the pandemic worsens, with a flare up of Covid-19 infections in 2021, abating during 2022, resulting in longer term and more severe restrictions on economic activity. Businesses closing and consumer confidence impacted, a declining oil price and continued international tensions between the US and China are all assumed. Due to the timing of establishing the scenario, a lockdown in Q1 2021 is not assumed and there are worsening impacts following the Brexit agreement conclusion. Lower interest rates, significant government fiscal deficits and weak domestic demand results in GDP remaining below baseline indefinitely.	27%

15. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The summary below outlines the most significant forward-looking assumptions under IFRS 9, over the five year planning period across the optimistic, base and pessimistic scenarios.

As at 31 December 2020		2021 %	2022 %	2023 %	2024 %	2025 %
Unemployment rate	Upside	6.4	5.6	5.0	4.8	4.7
	Base	7.4	6.8	5.9	5.5	5.3
	Downside	9.6	10.3	9.5	8.7	7.8
House price index	Upside	(1.1)	7.6	7.4	5.5	3.6
	Base	(5.0)	3.2	5.7	5.8	4.2
	Downside	(12.1)	(5.4)	3.8	6.9	5.9
Gross Domestic Product	Upside	10.7	3.9	2.4	1.1	0.8
	Base	6.8	5.4	2.7	1.0	1.0
	Downside	0.4	6.6	2.8	1.2	1.3

Due to the level of uncertainty in the economy at 31 December 2020, the Society has applied a stressed scenario to its core ECL models to reflect management's view that there will be a delay in recovery of the unemployment position and underlying GDP, alongside the potential for increased forced sale discount on collateral held. As a result of this stress scenario, an overlay ECL allowance of £2.7m has been recognised at 31 December 2020. This is based on the core underlying models with a time lag of GDP recovery and adjusted forced sale discount assumptions. The stress scenario recognises £1.6m of ECL in stage 1 and £1.1m in stage 2.

The key driver of the probability of default for the Society's core models is the movement in GDP. Ongoing government intervention surrounding the support of individuals through furlough and payment deferral schemes has suppressed emerging defaults. Management have assessed that the risk of default is not mitigated, but deferred further into the future and beyond the end date of the government schemes. As the core model outputs do not fully reflect this time lag for crystallising the resulting unemployment risk, the GDP indicator has been adjusted by three months to show a future peak-to-trough reduction of 20% deferred until Q1 2021.

A significant degree of estimation relates to the relative weightings of the economic scenarios. In order to demonstrate this sensitivity, the impact of applying 100% of a particular scenario on the 31 December 2020 reported ECL position output is shown below.

31 December 2020	ECL provision £m	(Decrease)/ increase £m	(Decrease)/ increase %
IFRS 9 weighted average	4.5	-	-
Base	4.2	(0.3)	(6.7)%
Downside	5.4	0.9	20.0%
Upside	4.1	(0.4)	(8.9)%

Applying a 100% weighting to the pessimistic economic scenario resulted in further impairment losses of £1.1 million as at 31 December 2019.

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16. AMOUNTS DUE FROM SUBSIDIARY UNDERTAKINGS

Society	2020 Shares £m	2020 Amount due £m	2019 Shares £m	2019 Amount due £m
As at 1 January	-	20.3	-	21.2
Additions/(repayments)	-	6.7		1.1
Change in fair value	-	(0.4)	-	(2.0)
	-	**26.6**	-	**20.3**

The Society has the following subsidiary undertakings which all operate and have a registered office in the United Kingdom and are included in the Group accounts:

Name of subsidiary undertaking	Principal business activity	Ownership interest
Arrow Mortgage Finance No. 1 Limited	Funding vehicle	See below
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 Mortgage Advice Centre (East Midlands) Ltd	Dormant	100%

The registered office of Arrow Mortgage Finance No. 1 Limited is 1 Bartholomew Lane, London, EC2N 2AX. The registered office address for all other subsidiary companies listed above is detailed in note 36.

The special purpose vehicle (SPV), Arrow Mortgage Finance No. 1 Limited, has been formed with nominal share capital, is funded through loans from the Society and its activities are carried out under the direction of the Society, under the legal terms of its operation. The Society is exposed to variable returns from this entity and therefore the SPV passes the test of control under IFRS 10. Consequently it is fully consolidated into the Group Accounts.

The amounts due from Arrow Mortgage Finance No. 1 Ltd have a contractual maturity of less than two years and are expected to be repaid within this period in line with the secured funding term. The amount due from Arrow is classed as Stage 1 for ECL calculation purposes under IFRS 9 and the ECL arising is immaterial to the financial statements.

All other intercompany balances have no fixed date of repayment and are recognised at fair value through profit or loss. The directors have reviewed the recoverability of outstanding balances with subsidiary undertakings and therefore the fair value as at 31 December 2020 and a change in fair value of £0.4m has been recognised in the year (2019: £2.0m).

Details of the balances outstanding with subsidiary undertakings are disclosed in the related party transactions note 33.

During the year, the Group decided to exit the delivery of estate agency services and move to a alliance arrangement to deliver such services in the future, resulting in the closure to new business. As a result the trade and operations of Harrison Murray Ltd, Nottingham Property Services Ltd and HM Lettings Ltd are in the process of wind down at 31 December 2020.

17. PROPERTY, PLANT AND EQUIPMENT

	Group			Society		
2020	**Land and buildings £m**	**Equipment, fixtures, fittings £m**	**Total £m**	**Land and buildings £m**	**Equipment, fixtures, fittings £m**	**Total £m**
Cost						
As at 1 January 2020	16.5	25.6	42.1	14.5	24.9	39.4
Additions	-	1.2	1.2	-	1.2	1.2
Disposals	(0.2)	-	(0.2)	(0.2)	-	(0.2)
As at 31 December 2020	**16.3**	**26.8**	**43.1**	**14.3**	**26.1**	**40.4**
Depreciation						
As at 1 January 2020	9.6	20.4	30.0	8.4	19.8	28.2
Charge for the year	0.3	2.0	2.3	0.4	1.9	2.3
On disposals	(0.1)	-	(0.1)	(0.1)	-	(0.1)
As at 31 December 2020	**9.8**	**22.4**	**32.2**	**8.7**	**21.7**	**30.4**
Net Book Value						
As at 31 December 2020	**6.5**	**4.4**	**10.9**	**5.6**	**4.4**	**10.0**

	Group			Society		
2019	**Land and buildings £m**	**Equipment, fixtures, fittings £m**	**Total £m**	**Land and buildings £m**	**Equipment, fixtures, fittings £m**	**Total £m**
Cost						
As at 1 January 2019	16.5	25.2	41.7	14.5	24.5	39.0
Additions	-	0.4	0.4	-	0.4	0.4
Disposals	-	-	-	-	-	-
As at 31 December 2019	**16.5**	**25.6**	**42.1**	**14.5**	**24.9**	**39.4**
Depreciation						
As at 1 January 2019	9.3	18.6	27.9	8.1	18.1	26.2
Charge for the year	0.3	1.8	2.1	0.3	1.7	2.0
On disposals	-	-	-	-	-	-
As at 31 December 2019	**9.6**	**20.4**	**30.0**	**8.4**	**19.8**	**28.2**
Net Book Value						
As at 31 December 2019	**6.9**	**5.2**	**12.1**	**6.1**	**5.1**	**11.2**

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
The net book value of land and buildings comprises:				
Freehold	6.2	6.5	5.4	5.7
Short Leasehold	0.3	0.4	0.2	0.4
	6.5	**6.9**	**5.6**	**6.1**
The net book value of land and buildings occupied for own use:				
Building Society	5.3	5.7	5.3	5.7
Subsidiaries	0.9	0.8	-	-
Non - Group	0.3	0.4	0.3	0.4
	6.5	**6.9**	**5.6**	**6.1**

18. INTANGIBLE ASSETS

Group 2020	Goodwill £m	Purchased Software £m	Developed Software £m	Other Intangibles £m	Total £m
Cost					
As at 1 January 2020	4.5	7.9	30.7	0.7	43.8
Additions	-	0.2	0.4	-	0.6
As at 31 December 2020	**4.5**	**8.1**	**31.1**	**0.7**	**44.4**
Amortisation and impairment					
As at 1 January 2020	4.5	7.6	14.0	0.7	26.8
Charge for the year	-	0.2	4.9	-	5.1
Impairment in the year	-	-	-	-	-
As at 31 December 2020	**4.5**	**7.8**	**18.9**	**0.7**	**31.9**
Net Book Value					
As at 31 December 2020	**-**	**0.3**	**12.2**	**-**	**12.5**

Group 2019	Goodwill £m	Purchased Software £m	Developed Software £m	Other Intangibles £m	Total £m
Cost					
As at 1 January 2019	4.5	7.9	17.4	0.7	30.5
Additions	-	-	13.3	-	13.3
As at 31 December 2019	**4.5**	**7.9**	**30.7**	**0.7**	**43.8**
Amortisation					
As at 1 January 2019	0.5	7.3	11.8	0.7	20.3
Charge for the year	-	0.3	2.2	-	2.5
Impairment in the year	4.0	-	-	-	4.0
As at 31 December 2019	**4.5**	**7.6**	**14.0**	**0.7**	**26.8**
Net Book Value					
As at 31 December 2019	**-**	**0.3**	**16.7**	**-**	**17.0**

18. INTANGIBLE ASSETS (CONTINUED)

Society	2020 Purchased Software £m	2020 Developed Software £m	2020 Total £m	2019 Purchased Software £m	2019 Developed Software £m	2019 Total £m
Cost						
As at 1 January	7.8	30.7	38.5	7.8	17.4	25.2
Additions	0.2	0.4	0.6	-	13.3	13.3
As at 31 December	**8.0**	**31.1**	**39.1**	**7.8**	**30.7**	**38.5**
Amortisation						
As at 1 January	7.5	14.0	21.5	7.2	11.8	19.0
Charge for the year	0.2	4.9	5.1	0.3	2.2	2.5
As at 31 December	**7.7**	**18.9**	**26.6**	**7.5**	**14.0**	**21.5**
Net Book Value						
As at 31 December	**0.3**	**12.2**	**12.5**	**0.3**	**16.7**	**17.0**

The Society continues to move forward on its digitalisation journey and as a result of continued enhancement to its core digital savings technology platforms, has reviewed the lives of these assets. This has resulted in an additional one-off £1.6m amortisation charge in the year for the change in estimation.

At 31 December 2020, the Society has £2.2m (2019: £0.1m) held within other assets relating to assets under development in relation to the Society's digital technology platform.

19. LEASES

The statement of financial position shows the following amounts relating to leases:

	Group				Society			
Right of use assets 2020	**Property £m**	**Equipment £m**	**Motor Vehicles £m**	**Total £m**	**Property £m**	**Equipment £m**	**Motor Vehicles £m**	**Total £m**
Cost								
As at 1 January 2020	5.6	0.3	0.3	6.2	4.5	0.3	0.3	5.1
Additions	0.1	-	-	0.1	-	-	-	-
Transfer between group	-	-	-	-	0.5	-	-	0.5
Disposals	(0.2)	-	(0.1)	(0.3)	(0.2)	-	(0.1)	(0.3)
As at 31 December 2020	**5.5**	**0.3**	**0.2**	**6.0**	**4.8**	**0.3**	**0.2**	**5.3**
Depreciation								
As at 1 January 2020	0.7	0.1	0.1	0.9	0.5	0.1	0.1	0.7
Charge for the year & impairment	1.7	-	-	1.7	1.3	-	-	1.3
On disposals	(0.1)	-	-	(0.1)	(0.1)	-	-	(0.1)
As at 31 December 2020	**2.3**	**0.1**	**0.1**	**2.5**	**1.7**	**0.1**	**0.1**	**1.9**
Net Book Value								
As at 31 December 2020	**3.2**	**0.2**	**0.1**	**3.5**	**3.1**	**0.2**	**0.1**	**3.4**

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19. LEASES (CONTINUED)

Right of use assets 2019	Group Property £m	Group Equipment £m	Group Motor Vehicles £m	Group Total £m	Society Property £m	Society Equipment £m	Society Motor Vehicles £m	Society Total £m
Cost								
As at 1 January 2019	-	-	-	-	-	-	-	-
On adoption of IFRS 16	4.7	0.3	0.3	5.3	3.8	0.3	0.3	4.4
Additions	1.0	-	-	1.0	0.7	-	-	0.7
Disposals	(0.1)	-	-	(0.1)	-	-	-	-
As at 31 December 2019	**5.6**	**0.3**	**0.3**	**6.2**	**4.5**	**0.3**	**0.3**	**5.1**
Depreciation								
As at 1 January 2019	-	-	-	-	-	-	-	-
Charge for the year	0.7	0.1	0.1	0.9	0.5	0.1	0.1	0.7
On disposals	-	-	-	-	-	-	-	-
As at 31 December 2019	**0.7**	**0.1**	**0.1**	**0.9**	**0.5**	**0.1**	**0.1**	**0.7**
Net Book Value								
As at 31 December 2019	**4.9**	**0.2**	**0.2**	**5.3**	**4.0**	**0.2**	**0.2**	**4.4**

	Group 31 December 2020 £m	Group 31 December 2019 £m	Society 31 December 2020 £m	Society 31 December 2019 £m
Lease liabilities				
Current	0.6	0.7	0.5	0.5
Non-current	3.8	4.6	3.4	3.8
	4.4	**5.3**	**3.9**	**4.3**

The income statement shows the following amounts relating to leases:

	Note	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Depreciation charge for right-of-use assets		1.7	0.9	1.3	0.7
Interest expense (included in interest payable and similar charges)	**4**	0.1	0.1	0.1	0.1
Expense relating to short-term leases (included in administrative expenses)		0.4	0.4	0.4	0.4

The total cash outflow for leases in 2020 was £0.9m (2019: £1.1m) for the Group, of which £0.7m (2019: £0.9m) related to the Society.

20. DEFERRED TAX

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
As at 1 January	1.1	1.4	0.9	1.4
Adjustments in respect of prior periods	(0.6)	(0.1)	(0.6)	(0.1)
Charge to the income statement	1.5	(0.1)	1.6	(0.3)
Recognised directly in other comprehensive income	0.7	(0.1)	0.7	(0.1)
	2.7	**1.1**	**2.6**	**0.9**

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

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Pensions and other post tax retirement benefits	0.1	0.4	0.1	0.4
Intangible assets	0.5	-	0.5	-
Other provisions	-	(0.1)	-	(0.1)
Tax losses	(1.5)	(0.2)	(1.6)	-
	(0.9)	**0.1**	**(1.0)**	**0.3**

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

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Deferred tax assets				
Pensions and other post-retirement benefits	1.2	0.7	1.2	0.7
Property, plant and equipment	0.4	0.4	0.3	0.4
Fair value reserves	0.2	0.1	0.2	0.1
Other timing differences	0.1	-	0.1	-
Tax losses	1.6	0.2	1.6	-
	3.5	**1.4**	**3.4**	**1.2**
Deferred tax liabilities				
IFRS transitional adjustments	0.2	0.2	0.2	0.2
Intangibles	0.6	0.1	0.6	0.1
	0.8	**0.3**	**0.8**	**0.3**
Net deferred tax asset	**2.7**	**1.1**	**2.6**	**0.9**

Deferred tax liabilities have been offset against deferred tax assets in the statement of financial position in the current year as it is deemed that there is a legal right of offset.

The Society has recognised £1.6m (2019: £nil) of deferred tax assets relating to losses incurred in the financial year as it is more likely than not that future profitability will enable the recovery of such assets. There is a further £0.2m asset for unrecognised tax losses in the Group, which have not been recognised at 31 December 2020 (2019: £0.2m recognised).

21. SHARES

Group and Society	2020 £m	2019 £m
Held by individuals	2,793.2	2,781.4
Fair Value Adjustment for hedged risk	1.0	(0.3)
	2,794.2	**2,781.1**

22. AMOUNTS OWED TO CREDIT INSTITUTIONS

Group and Society	2020 £m	2019 £m
Amounts owed to credit institutions	456.6	611.3
	456.6	**611.3**

23. AMOUNTS OWED TO OTHER CUSTOMERS

Group and Society	2020 £m	2019 £m
Demand accounts		
Retail customers	0.6	1.2
Other	0.4	3.2
	1.0	**4.4**
Term deposits		
Local Authorities	21.3	75.4
Pension Funds/ Insurers	-	2.0
Other	12.6	10.1
	33.9	**87.5**
	34.9	**91.9**

24. AMOUNTS OWED TO SUBSIDIARY UNDERTAKINGS

Society	2020 £m	2019 £m
At 1 January	77.2	106.1
Advance	155.4	-
Repayment	(27.4)	(28.9)
	205.2	**77.2**

The amounts owed to subsidiary undertakings represents a deemed loan as part of a secured funding balance. The repayment of the loan will follow the collection of the principal and interest of the underlying mortgage assets, which is contractually due to be settled within two years. As outlined in note 25, the Group successfully extended and drew down on this facility duing the year, which has resulted in an advance in the amounts owed to subsidiary undertakings.

25. DEBT SECURITIES IN ISSUE

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Senior secured debt	191.2	62.6	-	-
Certificates of deposit	2.5	5.5	2.5	5.5
	193.7	**68.1**	**2.5**	**5.5**

The underlying security for the senior secured debt are certain loans and advances to customers (see note 14 for further detail).

During the year, the Group successfully extended and drew down £150m on its bilateral senior loan securitised facility. The facility is now due to mature in September 2022.

26. OTHER LIABILITIES AND ACCRUALS

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Trade creditors	1.0	0.2	1.0	0.2
Accruals and deferred income	2.8	2.3	2.4	2.1
Other creditors	1.9	1.5	1.9	1.2
	5.7	**4.0**	**5.3**	**3.5**

27. PROVISIONS FOR LIABILITIES

FSCS levy
Following the settlement of the loans outstanding from the 2008/09 banking failures, there are no further liabilities outstanding. Ongoing costs of the FSCS scheme are recognised in administrative expenses.

Customer redress and other related provisions
Other provisions have been made in previous periods in respect of various customer claims, including claims in relation to previous sales of payment protection insurance and endowment policies. The remaining liability at 31 December 2020 is immaterial to the financial statements.

Contingent liabilities
As a deposit taker, the Society continues to have obligations to the FSCS, as well as other contractual obligations to third party suppliers, which may create a financial obligation in future accounting periods.

28. 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 as at 31 March 2020. This review showed that the market value of the scheme assets as at 31 March 2020 was £55.3 million and that the actuarial value of those assets represented 86% of the benefits that had accrued to members after allowing for expected future increase in salaries.

An updated actuarial valuation at 31 December 2020 was carried out on a market value basis by a qualified independent actuary, as follows:

Group and Society	2020 %	2019 %
The principal actuarial assumptions used were as follows:		
Discount rate	1.25	2.05
Rate of increase in salaries	3.05	3.05
Rate of increase in pensions	3.50	3.50
Inflation	3.05	3.05

The assumptions applied follow the requirements of IAS 19, which are different to the technical valuation approach. This requires the discount rate to be benchmarked against AA corporate rated bonds, which as at 31 December 2020 were lower than the rate of inflation.

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

Group and Society	2020 Male Years	2020 Female Years	2019 Male Years	2019 Female Years
Expected life at retirement for a new pensioner	26.5	27.6	24.7	26.9
Expected life at retirement in 20 years' time	27.8	29.0	26.6	28.8

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	2020 £m	2019 £m
Principal actuarial assumption			
Discount rate	+/- 0.25%	(3.2)	(2.7)
Rate of increase in salaries	+/- 0.25%	0.1	0.2
Rate of increase in pensions	+/- 0.25%	0.9	0.8
Mortality age adjustment	+/- 0.25%	0.7	0.6
Inflation	+/- 0.25%	1.2	1.1

28. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Group and Society	2020 £m	2019 £m
Fair value of scheme assets:		
As at 1 January	60.1	49.9
Interest on pension scheme assets	1.2	1.4
Contributions by employer	1.5	1.5
Benefits paid	(3.1)	(1.8)
Expenses paid by trustees	-	-
Gain on asset returns	5.9	9.1
As at 31 December	**65.6**	**60.1**
Present value of defined benefit obligations:		
As at 1 January	(60.0)	(54.1)
Past service cost	-	-
Interest on pension scheme liabilities	(1.3)	(1.5)
Benefits paid	3.1	1.8
Experience gain on liabilities	0.5	-
Changes in demographic assumptions	(2.2)	-
Gain on changes in financial assumptions	(8.9)	(6.2)
As at 31 December	**(68.8)**	**(60.0)**
(Deficit)/surplus in scheme at 31 December	**(3.2)**	**0.1**
Impact of asset ceiling	(2.7)	(3.5)
LIABILITY IN THE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER	**(5.9)**	**(3.4)**

In recognising the net surplus or deficit of the pension scheme, the funded status of the scheme is adjusted to reflect the funding requirement agreed by the sponsor alongside the rights of any return of surplus, with the recognition of an asset ceiling liability. The actual return on plan assets was a gain of £7.1 million (2019: £10.5 million gain).

The major categories of plan assets are as follows:

Group and Society	2020 £m	2019 £m
Equities	12.3	30.0
Multi asset growth	15.0	-
High yield credit	16.0	-
Liability driven investments	15.9	16.0
Cash	4.8	13.0
Secured pensioners	1.6	1.1
Fair value of scheme assets	**65.6**	**60.1**

Amounts recognised in finance cost in the income statement:	2020 £m	2019 £m
Interest cost	(1.3)	(1.5)
Interest on pension scheme assets	1.2	1.4
	(0.1)	**(0.1)**

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

Group and Society	2020 £m	2019 £m
Opening defined benefit obligation at 1 January	(3.4)	(4.8)
Amount recognised in the income statement	(0.1)	(0.1)
Employer contributions	1.5	1.5
Remeasurement (losses)/gains	(3.9)	-
Closing defined benefit obligation as at 31 December	**(5.9)**	**(3.4)**

28. 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	2020 £m	2019 £m
Actual return less expected return on plan assets	5.9	9.1
Experience loss arising on scheme liabilities	0.5	-
Changes in assumptions underlying the present value of the scheme liabilities	(8.9)	(6.2)
Change in demographic assumptions	(2.2)	-
Change in impact of asset ceiling	0.8	(2.9)
Remeasurement of defined benefit obligation	**(3.9)**	**-**

The average duration of the defined benefit obligation as at 31 December 2020 is 16 years (2019: 17 years). This number can be analysed as follows:

Group and Society	2020 Years	2019 Years
Active members	22	22
Deferred members	22	22
Retired members	13	13

During the year, the Group made contributions of £1.5 million (2019: £1.5 million) as part of its funding plan. The Group and Society have committed to contribute £1.5 million in 2021 under the agreed funding plan.

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 £1.1 million (2019: £1.0 million) and for the Society £1.0 million (2019: £0.9 million). There were no outstanding or prepaid contributions at either the beginning or end of the year.

29. SUBSCRIBED CAPITAL

Group and Society	2020 £m	2019 £m
7.875% sterling permanent interest bearing shares	23.9	23.9
Fair value adjustment for hedged risk	0.3	0.8
	24.2	**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. PIBS holders do not have any right to a residual interest in the Society.

30. FAIR VALUE RESERVES

Group and Society	2020 £m	2019 £m
At 1 January	(0.4)	(1.0)
Net gain from changes in fair value	0.4	0.6
	-	**(0.4)**

31. 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, supported by the Executive Risk Committee (ERC). Five sub committees, the Assets and Liabilities Committee (ALCO), including its sub committees Credit Committee (CC) and Liquidity and Funding Committee (LAF), Model Governance (MGC), Operational Risk & Resilience Committee (ORRC), Legal, Regulatory & Conduct Risk Committee (LRC), and the Transformation and Change Committee monitor the individual areas of risk and report to the Board Risk Committee quarterly.

The ALCO, supported by the CC and LAF, 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 and ensures that the management of credit risk is consistent with the credit risk appetite statement.

Key performance indicators are provided to the Executive Risk Committee and Board monthly by the ALCO and its sub-committees.

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 as at 31 December 2020 are shown in note 13.

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31. FINANCIAL INSTRUMENTS (CONTINUED)

Classification & Measurement (continued)

Below are the summary terms and conditions and accounting policies of financial instruments held by the Group. These are the same for the Society, except for intercompany balances, which are accounted for at fair value through profit and loss.

Financial instrument	Terms and conditions	Accounting policy: IFRS 9
Loans and advances to credit institutions	Fixed or reference linked interest rate Fixed term Short to medium term maturity	Amortised cost Accounted for at settlement date
Debt securities	Fixed or reference linked interest rate Fixed term Short to medium term maturity	Fair value through other comprehensive income Accounted for at settlement date
Loans and advances to customers	Secured on residential property or land Standard maximum contractual term of 25 years Fixed or variable rate interest	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 reference linked interest rate Fixed term Short to medium term maturity	Amortised cost Accounted for at settlement date
Amounts owed to other customers	Fixed or reference linked interest rate Fixed term Short to medium term maturity	Amortised cost Accounted for at settlement date
Debt securities in issue	Fixed or reference 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

31. 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 2020**	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	374.9	-	-	-	374.9
Loans and advances to credit institutions	64.5	-	-	-	64.5
Debt securities	-	152.8	-	-	152.8
Derivative financial instruments	-	-	0.4	0.4	0.8
Loans and advances to customers	3,128.0	-	-	-	3,128.0
Other assets	37.4	-	-	-	37.4
	3,604.8	**152.8**	**0.4**	**0.4**	**3,758.4**
Financial liabilities					
Shares	2,794.2	-	-	-	2,794.2
Amounts owed to credit institutions	456.6	-	-	-	456.6
Amounts owed to other customers	34.9	-	-	-	34.9
Debt securities in issue	193.7	-	-	-	193.7
Derivative financial instruments	-	-	31.5	1.0	32.5
Subscribed capital	24.2	-	-	-	24.2
Other liabilities	16.0	-	-	-	16.0
	3,519.6	**-**	**31.5**	**1.0**	**3,552.1**

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31. FINANCIAL INSTRUMENTS (CONTINUED)

Classification & Measurement (continued)

Carrying values by category	Held at amortised cost	Held at fair value			
Group As at 31 December 2019	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**

31. 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		2020 Book value £m	2020 Fair value £m	2019 Book value £m	2019 Fair value £m
Financial assets					
Cash in hand and Balances with the Bank of Engand	a	374.9	374.9	272.4	272.4
Loans and advances to credit institutions	b	64.5	64.5	36.1	36.1
Loans and advances to customers	c	3,128.0	3,119.3	3,161.4	3,175.4
Financial liabilities					
Shares	d	2,794.2	2,791.9	2,781.1	2,784.5
Amounts owed to credit institutions	d	456.6	456.6	611.3	611.3
Amounts owed to other customers	d	34.9	34.9	91.9	92.0
Debt securities in issue	e	193.7	193.7	68.1	68.2
Subscribed capital	f	23.9	30.5	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 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.

31. 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	2020 Level 1 £m	2020 Level 2 £m	2020 Total £m	2019 Level 1 £m	2019 Level 2 £m	2019 Total £m
Financial assets							
FVOCI - Debt securities	12	152.8	-	152.8	306.6	-	306.6
Derivative financial instruments – Interest rate swaps	13	-	0.8	0.8	-	2.0	2.0
		152.8	**0.8**	**153.6**	**306.6**	**2.0**	**308.6**
Financial liabilities							
Derivative financial instruments – Interest rate swaps	13	-	(32.5)	(32.5)	-	(12.8)	(12.8)
		-	**(32.5)**	**(32.5)**	**-**	**(12.8)**	**(12.8)**

The Group has 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 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.

The Society's intercompany balances

The Society's intercompany balances are carried at fair value and are classed as level 3 instruments. They are measured based on a discounted cash flow calculation based on the most recent corporate plan, taking into account the risks inherent in the business areas and existing liquidity positions in the relevant entity.

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.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk

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

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

Group and Society	2020 £m	2019 £m
Credit risk exposure		
Cash in hand and Balances with the Bank of England	374.9	272.4
Loans and advances to credit institutions	64.5	36.1
Debt securities	152.9	307.1
Derivative financial instruments	0.8	2.0
Loans and advances to customers	3,128.0	3,161.4
Total statement of financial position exposure	**3,721.1**	**3,779.0**
Off balance sheet exposure – mortgage commitments	96.6	93.8
	3,817.7	**3,872.8**

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

The Executive Risk Committee, supported by ALCO and CC, is responsible for approving treasury counterparties for both derivatives and investment purposes, within the Board's risk appetite. 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 weekly by the Society's Treasury risk team and reviewed monthly by the ALCO and CC.

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	2020 £m	2020 %	2019 £m	2019 %
Industry sector				
Banks	112.8	19.0	119.3	19.4
Building Societies	17.4	2.9	9.0	1.5
Multilateral Development Banks	78.6	13.3	67.0	10.9
Central Government	383.4	64.8	419.8	68.2
	592.2		**615.1**	

Group	2020 £m	AAA %	AA %	A %	Other %	2019 £m
Geographic region						
United Kingdom	513.4	12.5	84.7	2.8	-	548.1
Multilateral Development banks	78.6	100.0	-	-	-	67.0
North America	0.2	-	100.0	-	-	-
	592.2					**615.1**

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31. 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.

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 as at 31 December 2020 (2019: £nil).

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 CC to ensure that it remains in line with the stated risk appetite of the Group, including adherence to the lending principles, policies and lending limits.

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

For existing customers who have been added to the lending portfolio, management use behavioural scorecards to review the ongoing creditworthiness of customers by determining the likelihood of them defaulting over a rolling 12 month period together with the amount of loss if they do default. The continual assessment of customer risk of default is used to assess the customer's suitability for further lending as well as feed into strategic decision making processes, such as the corporate plan. Models used within the customer rating process are monitored in line with industry best practice and to provide insight into changes observed within the mortgage portfolios.

Credit risk management information is comprehensive and is circulated to the CC 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 95.

Loans and advances to customers are predominantly made up of retail loans fully secured against UK residential property (£2,942.1 million), split between residential and buy-to-let loans with the remaining £164.1 million being secured on commercial property.

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

31. 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	2020 %	2019 %
Geographical analysis		
Eastern	9.9	9.6
East Midlands	18.0	18.7
London	8.0	7.9
North East	5.0	5.0
North West	11.3	11.0
South East	13.8	14.1
South West	8.8	8.6
Wales	3.3	3.1
West Midlands	9.6	9.7
Yorkshire & Humberside	12.1	12.1
Other	0.2	0.2
	100.0	**100.0**

Retail loans (Loans fully secured on residential properties)

Loans fully secured on residential property are split between residential and buy-to-let. The average 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 simple average LTV of residential mortgages is 52% (2019: 54%). All residential loans above 80% LTV are insured against loss.

The indexed LTV analysis on the Group's residential mortgage portfolio is shown below:

Group and Society	2020 Residential %	2020 Buy-to-let %	2019 Residential %	2019 Buy-to-let %
Loan to Value analysis				
< 60%	41.6	55.7	37.0	50.5
60% - 80%	42.0	44.3	42.3	49.5
80% - 90%	14.5	-	16.9	-
> 90%	1.9	-	3.8	-
	100.0	**100.0**	**100.0**	**100.0**
Average loan to value of loans	51.8	55.6	53.8	56.9
Average loan to value of new business	71.0	66.6	68.5	59.9

The quality of the Group's retail mortgage book is reflected in the number and value of accounts in arrears. By volume 0.2% (2019: 0.1%) of loans are three months or more in arrears and by value it is 0.2% (2019: 0.1%).

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.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (continued)

Retail loans (continued)

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

Group and Society	2020 Indexed £m	2020 Unindexed £m	2019 Indexed £m	2019 Unindexed £m
Value of collateral held:				
Stage 1: *12 month expected credit losses*	3,873.1	3,162.7	4,908.1	4,125.3
Stage 2: *Lifetime expected credit losses*	1,971.7	1,692.3	970.1	866.3
Stage 3: *Lifetime expected credit losses*	17.4	12.9	10.8	7.8
	5,862.2	**4,867.9**	**5,889.0**	**4,999.4**

The collateral held consists of residential property. Collateral values are adjusted by the ONS Property Price Index 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 in stages 2 and 3 under IFRS 9 and which are in arrears, is £15.1 million as at 31 December 2020 (2019: £13.3 million).

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 gross loans and Expected Credit Loss stages split by the number of days past due (DPD):

Group and Society	2020 Gross loans £m	2020 Expected Credit Loss £m	2019 Gross loans £m	2019 Expected Credit Loss £m
Stage 1: 12 month expected credit losses				
< 30 days past due	1,807.4	0.5	2,419.3	0.1
Stage 2: Lifetime expected credit losses				
< 30 days past due	1,117.7	1.0	625.0	0.3
> 30 days past due	9.3	0.1	9.6	-
Stage 3: Lifetime expected credit losses				
< 90 days past due	3.2	0.1	2.4	0.1
> 90 days past due	4.5	0.1	2.1	-
	2,942.1	**1.8**	**3,058.4**	**0.5**

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (continued)

Retail loans (continued)

Forbearance

Temporary interest only concessions were historically 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 that 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 CC on a monthly basis. In addition the Legal, Regulatory & 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 Society does not offer payment deferrals as a forbearance option as part of normal operating arrangements. Payment deferrals, which have been granted in response to the Covid-19 pandemic and as part of the government interventions are therefore excluded from the forbearance data presented below and considered separately.

The table below details the number of forbearance cases within the retail loans category:

Unaudited Group and Society	2020 Number	2019 Number
Type of forbearance		
Interest only concessions	2	2
Reduced payment concessions	1	1
Payment plans	30	23
Capitalisations	53	53
Mortgage term extensions	62	54
Less: cases with more than one form of forbearance	(38)	(47)
	110	**86**

These cases are covered by an IFRS 9 ECL allowance of £32,000 (2019: £2,000). In total, £9.6 million (2019: £5.2 million) of loans are subject to forbearance. There are a further 153 residential cases with an active payment deferral in place, which are not included in forbearance category above, totalling £22.7m of loans.

Secured Business Loans (Other loans fully secured on land)

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 as at 31 December is as follows:

Unaudited Group and Society	2020 £m	2020 %	2019 £m	2019 %
Owner occupied	44.1	26.9	42.5	44.6
Investment property	120.0	73.1	52.7	55.4
	164.1	**100.0**	**95.2**	**100.0**

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (continued)

Secured Business Loans (continued)

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

Group and Society	2020 %	2019 %
Loan to Value analysis		
< 60%	28.4	38.4
60% - 80%	66.9	51.5
80% - 90%	4.6	9.9
> 90%	0.1	0.2
	100.0	**100.0**
Average loan to value of loans	63.1	58.4
Average loan to value of new business	68.4	54.3

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

Group and Society	2020 Indexed £m	2020 Unindexed £m	2019 Indexed £m	2019 Unindexed £m
Value of collateral held:				
Stage 1: 12 month expected credit losses	171.1	171.1	108.8	106.7
Stage 2: Lifetime expected credit losses	139.3	144.7	92.1	99.3
Stage 3: Lifetime expected credit losses	1.9	2.2	1.6	2.6
	312.3	**318.0**	**202.5**	**208.6**

Collateral reflects the latest valuation completed. If a property has had a desktop valuation since the latest full valuation, the collateral reflects the desktop valuation (35% of the SBL book has had a desktop valuation (2019: 58%)).

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

Group and Society	2020 Gross loans £m	2020 Expected Credit Loss £m	2019 Gross loans £m	2019 Expected Credit Loss £m
Stage 1: 12 month expected credit losses				
< 30 days past due	106.0	1.5	51.7	-
Stage 2: Lifetime expected credit losses				
< 30 days past due	56.0	0.4	41.2	0.4
> 30 days past due	0.9	0.3	1.0	-
Stage 3: Lifetime expected credit losses				
< 90 days past due	0.6	0.1	0.4	0.3
> 90 days past due	0.6	0.4	0.9	0.4
	164.1	**2.7**	**95.2**	**1.1**

In terms of SBL risk, the single largest borrower represents less than 0.6% (2019: 1.0%) of the SBL mortgage book.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (continued)

Secured Business Loans (continued)

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 Society does not offer payment deferrals as a forbearance option as part of normal operating arrangements. Payment deferrals which have been granted in response to the Covid-19 pandemic and as part of the government interventions are therefore excluded from the forbearance data presented below and considered separately.

The table below shows those loans subject to forbearance within the SBL loans category:

Unaudited Group and Society	2020 Number	2019 Number
Type of forbearance		
Interest only concessions	6	1
Re-negotiation of contractual payment	6	6
Active payment plan	3	1
	15	**8**

These cases are covered by an IFRS 9 ECL allowance of £0.5 million (2019: £0.2 million). In total, £2.5 million (2019: £1.9 million) of loans are subject to forbearance.

There are a further eight SBL cases with an active payment deferral in place, which are not included in forbearance category above, totalling £1.2m of loans.

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 ALCO and LAF monthly and through to the Executive Risk and Board Risk Committees.

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 Internal Liquidity Adequacy Assessment process (ILAAP). 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 and LAF to confirm that the liquidity policy remains appropriate.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

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 unencumbered mortgage assets. At the end of the year the ratio of liquid assets to shares and deposits was 17.0% compared to 17.3% at the end of 2019. When also taking into account the off balance sheet liquid resources, the ratio of liquid resources to shares and deposits was 32.5% (2019: 27.4%).

The Society maintains a contingency funding plan, as part of its Recovery and Resolution Plan process, 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 4.3 years (2019: 4.0 years). Conversely, retail deposits repayable on demand generally remain on the balance sheet much longer.

Group Residual maturity as at 31 December 2020	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						
Liquid assets						
Cash in hand and balances with the Bank of England	368.7	-	6.2	-	-	374.9
Loans and advances to credit institutions	13.2	51.3	-	-	-	64.5
Debt securities	-	18.2	8.5	126.1	-	152.8
Total liquid assets	381.9	69.5	14.7	126.1	-	592.2
Derivative financial instruments	-	(0.2)	(0.5)	1.4	0.1	0.8
Loans and advances to customers	3.2	25.8	78.1	488.8	2,532.1	3,128.0
Other assets	-	1.8	8.4	0.3	26.9	37.4
	385.1	**96.9**	**100.7**	**616.6**	**2,559.1**	**3,758.4**
Financial liabilities and reserves						
Shares	1,364.9	584.1	394.4	450.4	0.4	2,794.2
Amounts owed to credit institutions	3.0	0.5	260.1	193.0	-	456.6
Amounts owed to other customers	1.0	33.9	-	-	-	34.9
Debt securities in issue	-	2.5	-	191.2	-	193.7
Derivative financial instruments	-	-	-	27.0	5.5	32.5
Subscribed capital	-	0.1	-	-	24.1	24.2
Reserves	-	-	-	-	206.3	206.3
Other liabilities	1.9	2.6	0.9	3.4	7.2	16.0
	1,370.8	**623.7**	**655.4**	**865.0**	**243.5**	**3,758.4**
Net liquidity gap	**(985.7)**	**(526.8)**	**(554.7)**	**(248.4)**	**2,315.6**	**-**

31. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

Group **Residual maturity** **as at 31 December 2019**	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						
Liquid assets						
Cash in hand and balances with the Bank of England	266.3	-	6.1	-	-	272.4
Loans and advances to credit institutions	6.2	29.9	-	-	-	36.1
Debt securities	-	58.9	98.8	148.9	-	306.6
Total liquid assets	272.5	88.8	104.9	148.9	-	615.1
Derivative financial instruments	-	(0.1)	(0.4)	2.0	0.5	2.0
Loans and advances to customers	2.4	27.4	78.8	472.1	2,580.7	3,161.4
Other assets	-	1.6	3.9	0.5	34.5	40.5
	274.9	**117.7**	**187.2**	**623.5**	**2,615.7**	**3,819.0**
Financial liabilities and reserves						
Shares	1,303.5	488.7	454.8	533.0	1.1	2,781.1
Amounts owed to credit institutions	3.6	7.6	156.3	443.8	-	611.3
Amounts owed to other customers	6.4	42.3	43.2	-	-	91.9
Debt securities in issue	-	-	68.1	-	-	68.1
Derivative financial instruments	-	0.1	1.2	11.5	-	12.8
Subscribed capital	-	0.1	-	-	24.6	24.7
Reserves	-	-	-	-	216.2	216.2
Other liabilities	0.9	2.4	0.8	3.5	5.3	12.9
	1,314.4	**541.2**	**724.4**	**991.8**	**247.2**	**3,819.0**
Net liquidity gap	**(1,039.5)**	**(423.5)**	**(537.2)**	**(368.3)**	**2,368.5**	**-**

There is no material difference between the maturity profile for the Group and that for the Society. As at 31 December 2020, £841.2 million (2019: £887.7 million) of the Group's assets were encumbered.

ACCOUNTS

31. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

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

Group 31 December 2020	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	1,384.3	584.1	394.4	451.4	0.4	2,814.6
Amounts owed to credit institutions	2.9	0.6	260.1	193.0	-	456.6
Amounts owed to other customers	0.9	34.0	-	-	-	34.9
Debt securities in issue	-	11.8	23.5	158.4	-	193.7
Derivative financial instruments	-	0.9	4.5	28.3	-	33.7
Subscribed capital	-	0.5	1.5	7.9	23.9	33.8
TOTAL LIABILITIES	**1,388.1**	**631.9**	**684.0**	**839.0**	**24.3**	**3,567.3**
Group 31 December 2019						
Shares	1,358.9	488.7	454.8	532.7	1.1	2,836.2
Amounts owed to credit institutions	3.6	7.5	156.3	443.9	-	611.3
Amounts owed to other customers	6.4	42.3	43.5	-	-	92.2
Debt securities in issue	-	3.1	65.1	-	-	68.2
Derivative financial instruments	-	0.5	4.8	40.7	-	46.0
Subscribed capital	-	0.5	1.5	7.9	23.9	33.8
TOTAL LIABILITIES	**1,368.9**	**542.6**	**726.0**	**1,025.2**	**25.0**	**3,687.7**

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.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Market and interest rate 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 and changes in the relationship between different types of interest rates (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.

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 range of stress tests, including a 2% rise in interest rates on a weekly basis. The results are measured against the risk appetite for market risk which is currently set at a maximum of 4.0% of capital. In addition, management review interest rate basis risk and its potential impact on earnings. Risk positions are reviewed monthly by the ALCO and LAF and reported through to the Executive Risk and Board Risk Committees.

The table below summarises the Group's exposure to interest rate risk.

Group and Society	2020 £m	2019 £m
Changes in market value from a 2% parallel upward shift in interest rates	0.9	4.3

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 IAS 32 '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, which requires it to enter into Credit Support Annexes (CSAs) and which typically provide for the exchange of collateral on a daily basis to mitigate net mark to market credit exposure.

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

Group and Society	2020 Gross Amounts £m	2020 Financial collateral* £m	2020 Net amounts £m	2019 Gross Amounts £m	2019 Financial collateral* £m	2019 Net amounts £m
Financial assets						
Derivative financial instruments	0.8	(0.8)	-	2.0	(2.0)	-
TOTAL FINANCIAL ASSETS	**0.8**	**(0.8)**	**-**	**2.0**	**(2.0)**	**-**
Financial liabilities						
Derivative financial instruments	32.5	(32.5)	-	12.8	(12.8)	-
Repurchase agreements	-	-	-	9.9	(9.9)	-
TOTAL FINANCIAL LIABILITIES	**32.5**	**(32.5)**	**-**	**22.7**	**(22.7)**	**-**

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

31. FINANCIAL INSTRUMENTS (CONTINUED)

Market and interest rate risk (continued)

Fair value hedges

The Group holds a portfolio of fixed rate mortgages and savings products as well as fixed rate PIBS and therefore is exposed to changes in fair value due to movements in market interest rates. The Group manages this risk exposure by entering into pay fixed/receive floating interest rate swaps for its loans to customers and pay floating/receive fixed interest rate swaps to hedge its fixed rate liabilities.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed separately but are not managed through hedged derivative financial instruments by the Group. The interest rate risk component is determined as the change in the fair value of the long term fixed rate mortgages arising solely from changes in the appropriate 3 month LIBOR or SONIA (the benchmark rate of interest). Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the loans attributable to changes in the benchmark rate of interest with changes in the fair value of the loans attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps. The Group establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Possible sources of ineffectiveness are as follows:

- differences between the expected and actual volumes of prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;
- difference in the discounting between the hedged item and the hedging instrument, as cash collateralised interest rate swaps are discounted using the relevant reference rate discount curves, which are not applied to the fixed rate mortgages; and
- hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument.

The exposure from this portfolio frequently changes due to new loans originated, contractual repayments and early prepayments made by customers in each period. As a result, the Group adopts a dynamic hedging strategy (sometimes referred to as a 'macro' or 'portfolio' hedge) to hedge the exposure profile by closing and entering into new swap agreements at each month-end. The Group uses the portfolio fair value hedge of interest rate risk to recognise fair value changes related to changes in interest rate risk in the relevant portfolio, and therefore reduce the profit or loss volatility that would otherwise arise from changes in fair value of the interest rate swaps alone.

The following table details the hedging instruments included in the derivative financial instruments line of the Group's consolidated statement of financial position:

Group and Society	2020 Contract/notional amount £m	2020 Fair value of assets £m	2020 Fair value of liabilities £m	2020 Changes in fair value used for calculating hedge ineffectiveness £m
Derivatives designated as fair value hedges for interest rate risk (note 13)				
Fixed rate mortgages	1,854.0	0.1	(31.5)	(17.5)
Fixed rate savings	309.0	-	-	-
Subscribed capital	10.0	0.3	-	0.8
	2,173.0	**0.4**	**(31.5)**	**(16.7)**

Group and Society	2019 Contract/notional amount £m	2019 Fair value of assets £m	2019 Fair value of liabilities £m	2019 Changes in fair value used for calculating hedge ineffectiveness £m
Derivatives designated as fair value hedges for interest rate risk (note 13)				
Fixed rate mortgages	1,705.0	0.5	(12.2)	(12.1)
Fixed rate savings	349.0	-	(0.4)	-
Subscribed capital	10.0	0.8	-	(0.7)
	2,064.0	**1.3**	**(12.6)**	**(12.8)**

31. FINANCIAL INSTRUMENTS (CONTINUED)

Market and interest rate risk (continued)

Fair value hedges (continued)

The following table details the hedge exposures covered by the Group's hedging strategies:

Group and Society	2020 Carrying amount of hedged item Assets £m	2020 Carrying amount of hedged item Liabilities £m	2020 Accummulated amount of fair value adjustments on the hedged item Assets £m	2020 Accummulated amount of fair value adjustments on the hedged item Liabilities £m	2020 Balance sheet line item	2020 Change in fair value of hedged item for ineffectiveness assessment £m
Hedged items in fair value hedges for interest rate risk (note 13)						
Fixed rate mortgages	1,897.6	-	26.3	-	Loans & advances to customers	15.8
Fixed rate savings	-	301.0	-	(1.0)	Shares	(1.3)
Subscribed capital	-	10.0	-	(0.3)	Subscribed capital	0.5
	1,897.6	**311.0**	**26.3**	**(1.3)**		**15.0**

Group and Society	2019 Carrying amount of hedged item Assets £m	2019 Carrying amount of hedged item Liabilities £m	2019 Accummulated amount of fair value adjustments on the hedged item Assets £m	2019 Accummulated amount of fair value adjustments on the hedged item Liabilities £m	2019 Balance sheet line item	2019 Change in fair value of hedged item for ineffectiveness assessment £m
Hedged items in fair value hedges for interest rate risk (note 13)						
Fixed rate mortgages	1,715.1	-	9.3	-	Loans & advances to customers	10.4
Fixed rate savings	-	344.7	0.3	-	Shares	0.3
Subscribed capital	-	10.0	-	(0.7)	Subscribed capital	0.4
	1,715.1	**354.7**	**9.6**	**(0.7)**		**11.1**

31. FINANCIAL INSTRUMENTS (CONTINUED)

Market and interest rate risk (continued)

Fair value hedges (continued)

The following table contains information regarding the effectiveness of the hedging relationships designated by the Group, as well as the impacts on profit or loss.

Group and Society	2020 Hedge ineffectiveness recognised in income statement £m	2020 Income statement line item that includes reclassified amount
Fair value hedges		
Interest rate swaps		
Fixed rate mortgages	(1.7)	Net losses from derivative financial instruments
Fixed rate savings	-	Net losses from derivative financial instruments
Subscribed capital	-	Net losses from derivative financial instruments
	(1.7)	

Group and Society	2019 Hedge ineffectiveness recognised in income statement £m	2019 Income statement line item that includes reclassified amount
Fair value hedges		
Interest rate swaps		
Fixed rate mortgages	(1.7)	Net losses from derivative financial instruments
Fixed rate savings	-	Net losses from derivative financial instruments
Subscribed capital	-	Net losses from derivative financial instruments
	(1.7)	

32. 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 Total Capital Requirement (TCR).

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

- **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 portfolios and individual customers. In addition, for residential and buy-to-let mortgages property values are updated on a quarterly basis.
- **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.
- **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.
- **Counterparty risk** – Wholesale lending is only carried out with approved counterparties in line with the Society's lending criteria and is subject to a range of limits. The limits are monitored daily to ensure the Society remains within risk appetite.

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

The Group's capital requirements are set and monitored by the PRA. During 2020, 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 16.

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**.

33. RELATED PARTY TRANSACTIONS

Transactions with Group companies

Details of the Society's shares in group undertakings are given in note 16.

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

Society	2020 Nottingham Mortgage Services £m	2020 Nottingham Property Services £m	2020 Harrison Murray £m	2019 Nottingham Mortgage Services £m	2019 Nottingham Property Services £m	2019 Harrison Murray £m
Management charges paid	0.1	0.1	0.1	0.1	0.1	0.1
People related recharges	0.3	0.1	0.1	0.4	0.2	0.3
Fixed occupancy related recharges	-	-	-	-	0.1	-

During the year, Nottingham Building Society has received £0.1 million (2019: £0.1 million) in fees for providing cash manager and mortgage servicer fees to Arrow Mortgage Finance No.1 Limited.

Movement on the intercompany balances are disclosed in note 16.

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

	2020 Amount owed to subsidiaries £m	2020 Amount owed by subsidiaries £m	2019 Amount owed to subsidiaries £m	2019 Amount owed by subsidiaries £m
Arrow Mortgage Finance No. 1 Limited	(205.2)	26.6	(77.2)	20.1
Estate Agency	-	-	-	0.1
Mortgage Broking	-	-	-	0.1
	(205.2)	**26.6**	**(77.2)**	**20.3**

Interest accrues on the balances outstanding with Arrow Mortgage Finance at SONIA plus a margin. The repayment of the loans will follow the collection of the principal and interest of the underlying mortgage assets, used as security and has a contractual maturity within two years.

No interest is charged on balances between the other Group companies.

33. 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 £0.9 million (2019: £1.0 million) and a breakdown is disclosed on page 43 in the Directors' remuneration report.

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

Group and Society	2020 Number of key management personnel and their close family members Number	2020 Amounts in respect of key management personnel and their close family members £000	2019 Number of key management personnel and their close family members Number	2019 Amounts in respect of key management personnel and their close family members £000
Loans and advances				
Net movements in the year	-	(16)	-	(15)
Balances outstanding 31 December	2	123	2	139
Share accounts				
Net movement in the year	(1)	24	-	-
Balances outstanding 31 December	8	105	9	81
Subscribed capital				
Net movement in the year	1	6	-	-
Balances outstanding 31 December	1	6	-	-
Interest receivable on loans & advances		3		3
Interest payable on share accounts		-		1

Directors' loans and transactions

As at 31 December 2020 there was one (2019: 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 that 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 2020, will be available for inspection at the head office for a period of 15 days up to and including the annual general meeting.

34. DISCONTINUED OPERATIONS

During the year, the Group exited the Estate agency market and sold its Lettings portfolio of managed properties to a third party. Therefore the Estate agency operating segment, as presented in note 2 and which comprises Nottingham Property Services Ltd, Harrison Murray Ltd and HM Lettings Ltd, is discontinued and in the process of winding down their operations. A gain of £0.2m was recognised in the year on disposal of the portfolio of Lettings managed properties.

The following results included in the Group's statement of comprehensive income for the year are attributable to the discontinued operations:

	2020 Discontinued operations £m	2019 Discontinued operations £m
Net interest income	-	-
Fees & commissions receivable	0.9	2.0
Other income	0.2	0.2
Total net income	**1.1**	**2.2**
Administrative expenses	(1.5)	(2.9)
Loss before tax	**(0.4)**	**(0.7)**
Loss for the financial year	**(0.4)**	**(0.7)**

Both the cashflows and assets and liabilities relating to the discontinued operations are immaterial to the Group financial statements and therefore have not been separately disclosed.

35. NOTES TO THE CASH FLOW STATEMENTS

Group	Notes	2020 £m	2019 £m
Changes in liabilities arising from financing activities			
Subscribed capital at 1 January		23.9	23.9
Accrued interest		1.9	1.9
Interest paid		(1.9)	(1.9)
Balance at 31 December	29	**23.9**	**23.9**

36. 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 2020

1. Statutory percentages	2020 %	Statutory limit %
Lending limit		
Proportion of business assets not in the form of loans fully secured on residential property	6.42	25
Funding limit		
Proportion of shares and borrowings not in the form of shares held by individuals	19.69	50

The percentages are calculated in accordance with, and the statutory limits are those prescribed by, sections 6 and 7 of the Building Societies Act 1986 and are based on the Group statement of financial position.

Business assets are the total assets of the Society and its subsidiary undertakings as shown in the Group statement of financial position plus impairment for losses on loans and advances (note 15), less property, plant and equipment, intangible assets and liquid assets.

Loans fully secured on residential property are the amount of principal owing by borrowers and interest accrued not yet payable.

Total 'shares and borrowings' are the aggregate of 'shares', 'amounts owed to credit institutions', 'amounts owed to other customers' and 'debt securities in issue' in the Group statement of financial position. Shares held by individuals are found in note 21.

2. Other percentages	2020 %	2019 %
As a percentage of shares and borrowings:		
Gross capital	6.62	6.78
Free capital	5.85	5.81
Liquid assets	17.02	17.32
As a percentage of mean total assets:		
(Loss)/profit after taxation	(0.19)	(0.18)
Management expenses (Group)	1.25	1.07
Management expenses (Society)	1.15	0.94
As a percentage of year end assets:		
Return on assets	(0.19)	(0.19)

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 less property, plant and equipment, lease assets 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 2020:

Director's name	Date of appointment	Age	Business occupation	Other directorships (and offices)
Simon Baum	18.06.18	58	Director	Baum Associates Ltd
Michael Brierley	13.07.20	62	Director	Admiral Group plc Admiral Financial Services Ltd
Simon Linares	01.12.19	56	Director	Kids Out Trading Ltd Kids Out UK Charity
David Marlow Chief Executive	16.01.06	55	Building Society Executive	Harrison Murray Limited HM Lettings Limited Nottingham Mortgage Services Ltd Nottingham Property Services Ltd Member of FCA Smaller Business Practitioner Panel
Daniel Mundy Chief Financial Officer	19.04.17	44	Building Society Executive	Harrison Murray Limited HM Lettings Limited Nottingham Mortgage Services Ltd Nottingham Property Services Ltd
Andrew Neden Chairman	17.09.14	58	Director	ABC International Bank plc Aetna Insurance Company Ltd Ashmill Worcester Ltd Eltham College Ltd Grace Church Dulwich Ltd Northgate (Warwick) Developments Ltd The Great St Helen's Trust Ltd St Peter's Canary Wharf Trust Ltd Wesleyan Assurance Society Wesleyan Unit Trust Managers Ltd
Kavita Patel	01.01.17	44	Director	Shakespeare Martineau LLP Philsec Ltd Meaujo Incorporations Ltd
Kerry Spooner	01.09.16	59	Director	Scotiabank Europe plc

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. Daniel Mundy entered into his contract as Finance Director on 19 April 2017, and became Chief Financial Officer in January 2020; he resigned from his role as Executive Director with effect from 31 December 2020.

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.

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:

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.
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.
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 (BTL)	Buy-to-let loans are those loans which are offered to customers buying residential property specifically to let out and generate a rental income.
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.
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.
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 of stock market indices. The Society uses derivative financial instruments to hedge its exposure to interest rate risk.
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.
Expected Credit Loss (ECL)	The present value of all cash shortfalls over the expected life of the financial instrument. The term is used for accounting for impairment provisions under the new IFRS 9 standard.
Exposure	The maximum loss a financial institution might suffer if a borrower, counterparty or group fails to meet their obligations.
Exposure at Default (EAD)	A component of the IFRS 9 expected credit loss calculation. The EAD model calculates the balance profile of each mortgage account over its expected behavioural lifetime.
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.
Fair value through other comprehensive income (FVOCI)	Financial assets held at fair value on the balance sheet with changes in fair value being recognised through other comprehensive income.
Fair value through profit or loss (FVPL)	Financial assets held at fair value on the balance sheet with changes in fair value being recognised through the income statement.
Financial Conduct Authority (FCA)	The statutory body responsible for conduct of business regulation and supervision of UK authorised firms.
Financial Services Compensation Scheme (FSCS)	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 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.
Funding limit	Measures the proportion of shares and borrowings (excluding the fair value adjustment for hedged risk) not in the form of shares held by individuals. The calculation of the funding limit is explained in the Annual Business Statement.
General reserves	The accumulation of the Society's historic and current year profits which is the main component of Common Equity Tier 1 capital.
Gross capital	The aggregate of general reserves, fair value reserves and subscribed capital.
Impaired loans	Loans where there is objective evidence that an impairment event has occurred, meaning that the Society does not expect to collect all the contractual cash flows or expect to collect them later than they are contractually due.
Interest rate risk	The risk of loss due to a change in market interest rates. Interest rate risk can have an impact on Society's mortgages and savings products.
Internal Capital Adequacy Assessment Process (ICAAP)	The Society's own assessment, as part of Basel III requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements for risks it faces under a business as usual scenario including stress events.
Internal Liquidity Adequacy Assessment Process (ILAAP)	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.
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 ratio (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.
Loss Given Default (LGD)	A component of the IFRS 9 expected credit loss calculation. The LGD model calculates the likely loss on asset disposal that the Society would suffer if a default event were to occur in any given month over the expected behavioural lifetime of a mortgage account.
Management expenses	The aggregate of administrative expenses, depreciation and amortisation.
Management expenses ratio	A ratio that expresses management expenses 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.

Net interest margin	A ratio expressing net interest income as a percentage of mean total assets.
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.
Probability of Default (PD)	A component of the IFRS 9 expected credit loss calculation. An estimate of the probability that a borrower will default on their credit obligation over a fixed time period. A 12 month ECL uses a 12 month PD, whilst a lifetime ECL uses the estimated PD over the remaining contractual life of the loan.
Prudential Regulation Authority (PRA)	The statutory body responsible for the prudential supervision of banks, building societies, insurers and small number of significant investment firms in the UK. The PRA is a subsidiary of the Bank of England.
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 and are secured against residential property.
Right-of-use assets	A lessee's right to use an asset over the life of a lease. The cost of the asset is calculated as the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.
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.
Significant increase in credit risk (SICR)	A significant increase in credit risk on a financial asset is judged to have occurred when an assessment, using quantitative and qualitative factors, identifies at a reporting date that the credit risk has moved significantly since the last asset was originally recognised.
Special Purpose Vehicle (SPV)	A legal entity (usually a limited company) created to fulfil narrow, specific or temporary objectives. In the context of the Society, the SPV is used in relation to securitisation activities.
SPPI test	An assessment of whether the contractual terms of the financial asset give rise to cash flows that are in substance solely payments of principal and interest.
Stage 1	A component of the IFRS 9 expected credit loss calculation. Stage 1 assets are assets which have not experienced a significant increase in credit risk since the asset was originally recognised on the balance sheet. 12 month ECL are recognised as the impairment provision for all financial assets on initial recognition. Interest revenue is the EIR on the gross carrying amount.
Stage 2	A component of the IFRS 9 expected credit loss calculation. Stage 2 assets have experienced a significant increase in credit risk since initial recognition. Lifetime ECL is recognised as an impairment provision. Interest revenue is the EIR on the gross carrying amount.
Stage 3	A component of the IFRS 9 expected credit loss calculation. Stage 3 assets are identified as in default and considered credit impaired. Lifetime ECL is also recognised as an impairment provision. Interest revenue is the EIR on the net carrying amount.
Standardised approach	The basic method used to calculate capital requirements for credit risk. In this approach the risk weighting used in the capital calculation are determined by specified percentages.

Term Funding Scheme (TFS) Term Funding with additional incentives for SMEs (TFSME)	Schemes 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.
Tier 1 capital	A component of regulatory capital, it comprises CET1 and AT1.
Tier 1 ratio	Tier 1 capital as a percentage of risk weighted assets.
Tier 2 capital	Comprises the collective impairment allowance (for exposures treated on a Standardised basis), less certain regulatory deductions.
Total Capital Requirement (TCR)	The total amount of capital the regulator requires the Society to hold, which is made up of Pillar 1 and Pillar 2A capital.
Underlying profit	A measure which aims to present management's view of the Group's underlying performance for the reader of the Annual Report & Accounts with like for like comparisons of performance across years without the distortion of one-off volatility and items which are not reflective of the Group's ongoing business activities.
Wholesale funding	Amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

The Nottingham

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