INTERIM FINANCIAL REPORT
30 JUNE 2021

The Nottingham

Contents

IFRS results

This Interim Financial Report for the six months ended 30 June 2021 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) and with UK adopted International Accounting Standard (IAS) 34 Interim Financial Reporting. The Interim Financial Report should be read in conjunction with the Annual Report and Accounts for the year ended 31 December 2020, which have been prepared in accordance with International Financial Reporting Standards (IFRS) pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union.

Forward looking statements

Certain statements in this Interim Financial Report are forward looking, based on current expectations, assumptions and forecasts made relating to the future financial position. All forward-looking statements involve risk and uncertainty as they relate to future events and circumstances that are out of the control of the Society, including, but not limited to, UK domestic and global economic and business conditions; market related risks such as changes in interest rates or inflation; risks concerning borrower credit quality; delays in implementing proposals; the policies and actions of regulatory authorities and the impact of tax or other legislation in the UK, where the Society operates. The Society, defined in this Interim Financial Report as Nottingham Building Society and its subsidiary undertakings, believes that the expectations reflected in these forward-looking statements are reasonable based on the information available at the time of the approval of this report. However we can give no assurance that these expectations will prove to be an accurate reflection of actual results; because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

The Society undertakes no obligation to update any forward- looking statements whether as a result of new information, future events or otherwise.

Chief Executive introduction

As we entered 2021, we were clear in our year-end statements that great uncertainties remained, both economically and socially.

As we end the first half of this year, we remain in a partial state of lockdown, although we are hopeful that something like a new normal will be emerging over the summer.

Our priorities therefore have been to steer a steady course, manage our balance sheet carefully, grow our membership and return to a sustainable level of profitability. We also committed to continue with our plans to reinvent the Society for the new world of digital financial services.

I am very pleased to report therefore that, as we head into the second half of 2021, we have made substantial progress against all our objectives and priorities.

Continuing to reinvent the Society for the new world

We have worked hard this year to build on the initiatives and progress we achieved in 2020, to reinvent the Society for the future. Our aim is to deliver a unique combination of traditional building society activities and independent advice services, in our branch network and digitally.

In June we announced the next step in our reinvention, when we set out our new approach to providing independent mortgage advice to our members and non-members through a differentiated strategic partnership with Mortgage Advice Bureau and Belvoir Financial Services. This new partnership, which will include the sale of our mortgage broking subsidiary Nottingham Mortgage Services to the Belvoir Group, provides us access to the capacity of expert advisors and digital tools that will be essential to our future home buyers. This deal enables us to provide fast access to independent mortgage advice across our branch network and to offer digital-led mortgage advice to the tens of thousands of Lifetime ISA (LISA) savers, who are already saving with us to buy their first home.

This builds on our strategic partnership with the Belvoir Group announced last summer and enables us the scale and reach to serve our growing membership with access to expert mortgage broking advice, estate agency and lettings offerings.

We remain on track to launch our new Beehive Money app in the autumn, firstly to our existing LISA members and then to the wider market. The new app will combine an innovative digital goals-based saving capability for savers, which later in 2021 will be combined with access to independent mortgage advice. This will be a first for a building society and will be as compelling an offering as any UK fintech organisation. This will be a strong statement of intent from a building society, providing a unique customer-focused proposition for the digital age.

We also committed to continue to improve our mortgage offering, building on the launch of our mortgage intermediary broker portal, and are now pleased to offer additional services to brokers; most notably access to buy-to-let further advances. There still remains a good deal for us to do to broaden our range of lending activities and improve our efficiency in delivering quicker decisions to brokers and customers, through the use of emerging digital tools, and we will continue to work on this through the second half of this year.

Trading

In a period of very sound progress, despite the ongoing restrictions of the pandemic, a clear highlight of the year so far has been the continuing growth of younger members saving with us in a LISA to buy their first home.

We now have over 50,000 members doing so, the vast majority digitally, with balances in excess of a quarter of a billion pounds, up from just over £55m a year ago. We expect both member numbers and balances to continue to grow during the second half of the year and are very much looking forward to welcoming them to our unique Beehive Money app when it is launched. Our branch savings balances have also continued to grow, despite now having a smaller number of locations (48) across our heartland; balances now stand at £2.53bn, up over 2% on a year ago.

Our mortgage performance has reflected the increased activity seen in the housing market generally with over half a billion pounds in applications received in the first half of 2021; up 34% on the first six months of 2020. Completions, whilst slower due to delays with the conveyancing and search processes, also increased to £266m, up 18% on 2020, with a good pipeline of business taken into the second half of the year.

We have also seen an improving picture on Society non-interest income. This is a good endorsement of our new emerging business model, which we expect to be further boosted as we begin to bed in our new mortgage advice partnership model.

Our Net Promoter Score has showed good resilience. We believe the slight reduction on where we have consistently been before reflects the ongoing restrictions on service delivery to members during the pandemic. Our score of 73 still places us amongst the best performing businesses in the UK.

Financial Performance

Amongst our priorities for 2021 was to return to profit and to manage our balance sheet carefully in the ongoing uncertain environment. We are pleased that at the half year mark we are delivering on both of these priorities.

We have seen an improving income profile, up 8% on the first six months of 2020, supported by a strong improvement in our net interest margin to 1.20%, compared to 1.07% for 2020. We have also benefited from a modest release of £0.6m on loan impairments due to improved expectations driven by stronger economic forecasts and the continued low incidence of arrears.

Our arrears ratio of 0.19% remains at sector leading levels, with only 44 accounts more than 3 months in arrears at the end of June. The vast majority of the nearly 3,000 members, who we supported with mortgage payment deferrals, have now returned to making payments as normal, with only a handful now in place.

We have also seen some unwinding of charges booked for the fair valuing of derivatives in the prior periods and continuation of strategic investment expenditure supporting the reinvention of the Society. Overall, this has taken us to a statutory profit before tax of £5.7m on a total group basis, compared to a loss of £4.6m declared in the first half of 2020. This robust all-round improvement in financial performance is also demonstrated at the

Chief Executive introduction

underlying level, where we delivered a profit before tax of £3.7m in the first half, compared to a loss of £1.3m in 2020 for the total group.

We continue to manage our balance sheet conservatively. At the half year point our balance sheet has reduced by 3%. However this is accompanied by improvements in our CET 1 ratio to 15.7% and improved leverage ratio of 5.5%. We have maintained a strong liquidity position with the LCR at 208% despite continuing to reduce the level of funding from the Bank of England's term funding schemes.

The Nottingham Team

I highlighted in my annual statement in 2020, the phenomenal role played by every member of the team at The Nottingham and how this had significantly contributed to how we have been able to support our members throughout the pandemic. This is along with the hard work that went on behind the scenes to drive the significant initiatives and projects required in our reinvention of the Society. This outstanding commitment has continued throughout this year and I, and the Board, remain enormously grateful for their continued hard work and focus, without which we would not have been able to report such continued marked progress.

We have also welcomed Peter O'Donnell to our Board. Peter joined the Board, having recently retired as the Chief Executive Officer at Unum. Peter brings with him a wealth of experience in financial services, including strong digital experience, which will be increasingly important now and, in the years ahead.

Having completed over ten years as CEO of the Society, a period book-ended by the financial crisis and a global pandemic, over the recent months, the Board and I have been in discussions regarding the long-term leadership of the Society. We have agreed to work to a plan that will see me step down from my role during 2022. The process to appoint my successor, who will then be ideally placed to lead the Society through the next period of our development, is underway.

Outlook

As lockdown begins to unwind during the summer, we remain cautious around some uncertainties that will remain, particularly as the unprecedented level of government support and subsidy is withdrawn and the pandemic continues to evolve. There are also potential headwinds that we may face from Brexit which have so far been largely masked by the significance of the impact of the pandemic. These, however have begun to emerge in recent weeks with equivalence for financial services now very unlikely to be achieved and ongoing uncertainty around the Northern Ireland protocol; that feels as if it has some time to run yet, with the final outcome still unclear. Inflation too, could prove to be more persistent than some commentators and experts are currently anticipating. We will continue to monitor developments and adapt our plans accordingly.

All these factors are accompanied by the return of intense competition in the mortgage market which has seen the return of the sub 1% mortgage deal. It therefore remains important that we do not become complacent and feel that the worst is over. We must continue to focus on steering the Society to a stronger position increasingly able to look to the future with rising confidence.

We will remain vigilant as we focus on the launch of our unique and innovative Beehive Money app later this year, bed in our new mortgage advice partnership with MAB and Belvoir, and continue our plans to enhance and build our mortgage lending profile.

We also need to ensure that the changes to our business model that we have effected over the past 12 months continue to support members, whilst delivering the optimum combination of income and cost to deliver the appropriate level of surplus each year we require to continue to grow the Society.

We will be continuing to invest in the Society's reinvention and also aim to launch a range of initiatives under our "Responsible Society" banner to support the welfare and development of our colleagues, support good causes in our communities and be increasingly aware of mitigating our impact as a business and a building society, on our environment.

As ever, we will also seek to manage the stewardship of our balance sheet in a measured and cautious way and in doing so protect the best interests of our members.

The past 15 months have brought unprecedented challenges to our society and our communities at large. We have navigated those challenges well so far, whilst demonstrating our mutual credentials in support of our members, colleagues, and communities. We are also fundamentally reshaping the Society to support our growing membership well in a newly emerging world. It will be important that we continue to focus on this and be ready for the challenges and opportunities that lie ahead in the remainder of 2021 and beyond.

David Marlow
Chief Executive
28 July 2021

Interim business and financial review

Key highlights

- Capital strength improved with CET 1 ratio at 15.7%;
- Strong liquidity and funding position with liquidity coverage ratio of 208%;
- Arrears levels remain very low at less than a quarter of mortgage industry average;
- Continued investment in the Society's business and digital capability, whilst delivering profitability at both an underlying and statutory level (underlying profit before tax of £3.7m and statutory profit after tax of £4.9m);
- Strong customer advocacy with a Net Promoter Score of 73%;
- Strong retail franchise with over 50,000 Lifetime ISA customers alongside increased branch savings balances.

Basis of preparation

Whilst the income statements on page 9 have been presented on a continuing basis following the sale agreement of its mortgage broking business in the period, 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 interim review.

Therefore the following financial performance review considers the Group in totality. The segmental analysis presented in note 3 of this report presents the financial results for continuing and discontinued operations.

The Board monitors both reported and underlying profit/(loss) before tax. Reported profit/(loss) includes a number of items which the Board does not believe fully reflect underlying business performance and therefore underlying profit is also used to measure performance.

The Group continues to exclude gains/ losses from derivative financial instruments from its underlying performance as well as net strategic investment costs.

Income statement

On a statutory basis, the Group reports a profit before tax of £5.7m compared to a statutory loss before tax of £4.6m in the prior six month period.

The Group generated an underlying profit before tax of £3.7m in the first six months of 2021, this compares to an underlying loss before tax of £1.3m in the same period in 2020.

Of the £3.7m underlying profit before tax and £5.7m of statutory profit before tax, £0.2m is classified as discontinued operations, following the agreement to sell the wholly-owned mortgage broking subsidiary to the Belvoir Group. The 2020 comparator for discontinued operations includes the mortgage broking division and the previously exited estate agency and lettings business, which made a loss before tax of £0.1m for the comparative period.

The Group's net interest income increased to £22.2m for the six months to June 2021 from £20.5m in the comparative period.

Net Interest margin also increased to 1.20% for the six months to June 2021 from 1.07% for both the first half of 2020 and for 2020 as a whole.

The increase in net interest margin has been driven by stronger mortgage lending margins experienced across the second half of 2020 and the first six months of 2021, coupled with a reduction in savings rates in the latter part of 2020, following a period of at least six months of member savings rate protection after the Bank of England base rate cuts to 0.1% in March 2020.

Society net fee income, including mortgage related product fees and branch partnership commissions totalled £1.0m for the first six months of 2021 compared to £0.7m in the comparative period. Group net fee income related to estate agency and lettings (first six months of 2020 only) and whole-of-market mortgage advice are included within the discontinued operations line.

The Group's underlying cost income ratio is defined as total administrative expenses as a percentage of total income (excluding the impact of fair value gains or losses on derivatives

Income statements **Total Group basis**	**June 2021 £m**	**June 2020 £m**	**December 2020 £m**
Net interest income	22.2	20.5	40.6
Net fees & commissions receivable	1.8	2.2	3.7
Net underlying income	**24.0**	**22.7**	**44.3**
Management expenses	(20.9)	(21.3)	(41.1)
Impairment release/(charge) – loans & advances	0.6	(2.7)	(2.9)
Profit on disposal of property, plant & equipment	-	-	0.1
Underlying profit/(loss) before tax	**3.7**	**(1.3)**	**0.4**
Gains/(losses) from derivative financial instruments	2.6	(3.3)	(2.7)
Net strategic investment costs	(0.6)	-	(4.5)
Change in accounting estimate	-	-	(1.6)
Profit/(loss) before tax	**5.7**	**(4.6)**	**(8.4)**
Tax (expense)/credit	(0.8)	0.8	1.2
Profit/(loss) after tax	**4.9**	**(3.8)**	**(7.2)**
Represents:			
Profit/(loss) after tax – continuing operations	**4.7**	**(3.7)**	**(7.0)**
Profit/(loss) after tax – discontinued operations	**0.2**	**(0.1)**	**(0.2)**

and net strategic investment costs). The underlying cost income ratio improved to 87.1% for the period to the 30 June 2021 compared to 93.8% for the comparative period and 92.6% for 2020 overall.

The Group's underlying management expense ratio at 1.13% for the period to the 30 June 2021 has increased slightly against the prior year comparator of 1.08%. Total administrative expenses for the Group, including depreciation and amortisation, have remained flat, however the mean assets position has fallen from the prior period.

The Society has recorded net strategic investment costs of £0.6m in the period to 30 June 2021 (£nil in period to 30 June 2020). This reflects continued investment in the reinvention of the Society. The level of investment expenditure is expected to increase in the second half of 2021, with a number of new projects expected to begin.

Whilst the economic outlook remains uncertain and a number of significant government initiatives are yet to unwind, the overall projections are more favourable than they were at December 2020. House prices have continued to rise with a more positive future outlook; the UK economy has seen continued resilience in GDP, despite the lockdowns in the early part of 2021; and GDP projections are more favourable than previously expected and unemployment levels are not expected to reach the peak that they were previously forecasted to.

Despite this, the Society continues to have a cautious view on the potential impact on arrears and potential losses on mortgage assets in the future. It continues to remain prudent in its overall Expected Credit Loss (ECL) provision to reflect the uncertainty but as a result of the improvements in the economic projections, the Society has recognised a £0.6m release of its impairment provision in the first six months of 2021.

The Society has also seen a high proportion of the prior period losses from fair value on derivatives unwind in the first six months of 2021, following improvement in market yields and has recorded a £2.6m gain year to date.

Balance sheet

The Group's total assets have decreased by 3% from the position at the end of 2020.

Gross lending in the period totalled £267m (30 June 2020: £232m). The Society has had a strong pipeline of new mortgage assets throughout the first half of 2021, however it has seen the average time taken from application to completion increase significantly compared to prior periods as a result of the overall demand in the UK housing market driven by the stamp duty holiday.

Mortgage lending remains concentrated in prime high-quality mortgage assets with residential mortgages accounting for 68% of the total mortgage book. The current average LTV of the book is 51% (31 December 2020: 53%).

Retail savings continue to be the cornerstone of the Society's funding strategy. Total savings balances increased by 4% in the first six months of 2021, standing at £2.9 billion and the Society's strong branch franchise continues to attract and retain customers and support the Society's funding strategy. Branch balances increased to £2.5 billion at 30 June 2021 up 1% from 31 December 2021. The Society's Lifetime ISA has performed well during the period attracting nearly 17,000 new members and £128m of new balances in the first six months of 2021.

The remainder of the Society's funding requirements are obtained from the wholesale secured and unsecured funding markets. Overall the wholesale funding ratio at 14.5% has decreased against the December 2020 position of 19.7%. The Society has continued to repay is Bank of England's Term Funding Scheme (TFS) drawings through the period and its outstanding TFS balance is £148m at 30 June 2021. The Society has made £185m of drawings against the Bank of England's Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME). The Society also has £156m outstanding borrowed through a secured bilateral facility (31 December 2020: £191m).

The Group has continued to manage its liquidity position effectively with a liquid asset ratio of 16.6% (31 December 2020: 17.0%) and liquidity coverage ratio (LCR) at 208% (31 December 2020: 229%). The Society is well in excess of the current minimum level requirements of LCR. This is enhanced further by access to the Bank of England's contingent liquidity facilities secured against pre-approved mortgage portfolios, which can be exchanged for cash as required.

Despite the continued economic uncertainty at play during the period, the Society's arrears performance remains at sector leading levels with an arrears ratio of 0.19% compared to 0.21% at 31 December 2020 and a minimal number of accounts with some sort of contractual forbearance arrangement in place. The Society always seeks to support its customers who encounter financial difficulties, taking individual circumstances into account and agreeing tailored actions.

The vast majority of the Society's mortgage customers who were granted payment deferrals have returned to a fully paying position and continue to service their mortgages.

Regulatory capital

The Society continues to focus on maintaining strong capital ratios to protect members' interests, with the key measure being Common Equity Tier 1 (CET 1) ratio.

Capital is held to ensure the business can achieve its current and future plans, to provide a buffer against unexpected losses and to ensure that the minimum regulatory requirement is always met.

The Society has a CET1 capital ratio[1] as at 30 June 2021 of 15.7% (31 December 2020: 15.0%). An increase in capital resources through profit recognised has been offset by higher net regulatory deductions overall for intangible and deferred tax assets and IFRS 9 transitional relief. In addition, the level of risk weighted assets has also decreased in the period reflecting the marginal fall in the mortgage portfolio balance.

The leverage ratio[1] is 5.5% at 30 June 2021 (31 December 2020: 5.3%) on a transitional basis.

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

Principal risks and uncertainties

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

The principal risks and uncertainties affecting the Group were reported on pages 17 to 20 of the Annual Report and Accounts for the year ended 31 December 2020. The top risks faced by the Society are grouped into the following categories: strategy, capital, credit, market & interest rate, liquidity, legal, regulatory & conduct, operational, model governance and transformation & change, which are common to most financial services firms in the UK.

These risk categories remain applicable to the Group as at 30 June 2021 and continue to be managed in line with the Group's risk management framework. They are further 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 first half of 2021 has continued to be dominated by the Covid-19 pandemic and the Society's key risks and uncertainties inevitably remain impacted by this. As the success of the UK's vaccination programme starts to allow the unwinding of Covid restrictions, the Society is now preparing for the transition to a more stable environment and planning for the likely changes that will be made to working practices and consumer demands in a post-pandemic world. Although there is an improving picture, a degree of uncertainty remains which continues to require active management and a prudent approach to be taken.

The welfare of our team members continues to be a key priority through the remainder of 2021. This includes support to ensure that those individuals continuing to work remotely have the ability to operate safely and resiliently and we all adapt our working practices accordingly.

In addition, as the UK economy starts to re-open, the long-term economic impacts of the pandemic will fully materialise.

Risks relating to the Society's business model

The mortgage trading environment
The mortgage market has been extremely buoyant throughout 2021 to date, with high demand for products and a return to higher LTV lending from most of our competitors. Continued low interest rates have helped stimulate this demand but have contributed to the pressure on earnings. Recent trading has been extremely competitive, with some lenders introducing products at below 1% interest rates, and this is expected to continue throughout the remainder of 2021. The Society 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 maintenance of interest rates at 0.10% has presented an ongoing challenge across the building society sector in balancing the needs of savers and of borrowers, while earning sufficient margin to remain viable.

In this low base rate environment, The Nottingham's earnings are likely to remain constrained for some time.

The housing market and economic uncertainty
The stimulus provided to the housing market by government measures has helped maintain a positive trading environment in the first half of the year. Uncertainty still surrounds the medium and longer-term, as the stimulus packages are removed and the economic impacts of the pandemic on the future path of house prices become clearer.

The Nottingham will continue to take a prudent approach in its assessment of house prices, in its forecast of arrears levels and in recognition of provisions held against potential mortgage losses. The level of provision held against future mortgage defaults increased significantly in the prior year. As the country emerges from the pandemic, the Society will continue to keep its level of impairment provision under review to ensure it remains at an appropriate level, reflecting the wider economic environment. Whilst a picture of an improving macroeconomic position is emerging, there remains uncertainty in how the economy and housing market will be impacted as government support schemes and emergency policy are ultimately unwound.

Cyber risk
The Covid-19 pandemic has provided an opportunity for cyber-criminals to exploit weaknesses in cyber-defences. Reported incidents of phishing, ransomware attacks and similar activities have increased across the UK as a result. 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
Following the successful implementation of remote working in the prior year, the Society is reviewing its future working practices and preparing to implement a hybrid working model later in 2021. This will incorporate a greater degree of flexibility for non-customer facing colleagues, at the same time as making improvements to the working environment in our branches.

Principal risks and uncertainties

As the economy opens up, greater competition in the jobs market is expected. Against this background, our employee offering needs to remain competitive in order to attract and retain the best colleagues for the Society.

With a number of changes to personnel in senior roles having taken place in the last 12 months, it is important that the new members of the Board and Executive Team continue to be supported in their onboarding process and new roles to deliver the reinvention strategy.

Risks relating to the Society's strategic reinvention

The long-term implications of the pandemic led the Board and Executive Team of the Society to accelerate planned changes to the Society's strategy.

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 complimented by new 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.

Delivery of change agenda
In order 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. Delivery of this is challenging and complex. The Society continues to make inroads into progressing the reinvention plans, but with a challenging external operating environment and a complex portfolio of change activity to deliver, there is a significant degree of execution risk for the remainder of 2021 and beyond.

Certain elements of this activity were accelerated in response to the pandemic and preparations are underway to improve the Society's digital savings offering later in 2021. Alongside this digital reinvention, the Society is developing plans to make major technology and process improvements to key back office services.

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 remain key to ensure operations are scalable and that cost efficiencies are achieved. This strategy aims to lower the cost to serve for 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 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. Over recent years, the Society has strengthened its relationships with key partners as it transitions to a broader partnership model. This will be further strengthened in the second half of 2021, following the recent announcement of the Society's plans to enter into a strategic partnership agreement to deliver whole-of-market mortgage advice services with the Mortgage Advice Bureau.

The Society continues to closely manage all key supplier and partnership 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.

Condensed consolidated income statement

for the period ended 30 June 2021

	Notes	Period to 30 June 2021 Unaudited £m	Period to 30 June 2020 Unaudited £m	Year ended 31 December 2020 Audited £m
Continuing operations				
Interest receivable and similar income				
Calculated using the effective interest rate method		32.1	36.4	69.5
Other		(0.3)	(0.2)	(0.7)
Interest receivable and similar income	4	31.8	36.2	68.8
Interest payable and similar charges	5	(9.6)	(15.7)	(28.2)
Net interest income		**22.2**	**20.5**	**40.6**
Fees and commissions receivable		1.6	1.0	2.1
Fees and commissions payable		(0.6)	(0.3)	(1.0)
Net gains/(losses) from derivative financial instruments		2.6	(3.3)	(2.7)
Total net income		**25.8**	**17.9**	**39.0**
Administrative expenses	6	(18.0)	(16.6)	(35.3)
Depreciation and amortisation		(2.9)	(3.1)	(9.1)
Operating profit/(loss) before impairment		4.9	(1.8)	(5.4)
Impairment release/(charge) - loans and advances	11	0.6	(2.7)	(2.9)
Profit on disposal of property, plant & equipment		-	-	0.1
Profit/(loss) before tax		**5.5**	**(4.5)**	**(8.2)**
Tax (expense)/credit		(0.8)	0.8	1.2
Profit/(loss) after tax for financial period from continuing operations		**4.7**	**(3.7)**	**(7.0)**
Discontinued operations				
Profit/(loss) after tax for the financial period from discontinued operations		**0.2**	**(0.1)**	**(0.2)**
Profit/(loss) after tax for the financial period		**4.9**	**(3.8)**	**(7.2)**

A reconciliation from profit/(loss) before tax for the financial period to underlying profit used by management can be found on page 5.

The June 2020 and December 2020 Group income statements have been represented on a continuing and discontinued operations basis.

Condensed consolidated statement of comprehensive income

for the period ended 30 June 2021

	Period to 30 June 2021 Unaudited £m	Period to 30 June 2020 Unaudited £m	Year ended 31 December 2020 Audited £m
Profit/(loss) for the financial period	4.9	(3.8)	(7.2)
Items that will not be re-classified to the income statement			
Remeasurement of defined benefit obligation	-	-	(3.9)
Tax on items that will not be re-classified	(0.1)	(0.1)	0.8
Items that may subsequently be re-classified to the income statement			
FVOCI reserve			
Valuation gains taken to reserves	0.7	0.4	0.4
Other comprehensive income/(expense) for the period net of income tax	**0.6**	**0.3**	**(2.7)**
Total comprehensive income/(expense) for the period	**5.5**	**(3.5)**	**(9.9)**

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

Condensed consolidated statement of financial position

as at 30 June 2021

	Notes	30 June 2021 Unaudited £m	30 June 2020 Unaudited £m	31 December 2020 Audited £m
Assets				
Cash in hand and balances with the Bank of England		289.6	425.6	374.9
Loans and advances to credit institutions	7	51.5	58.4	64.5
Debt securities	9	220.6	182.2	152.8
Derivative financial instruments		4.5	1.5	0.8
Loans and advances to customers	10	3,045.9	3,152.1	3,128.0
Other assets		10.3	4.2	5.8
Property, plant and equipment		10.5	11.2	10.9
Right-of-use assets		3.2	4.9	3.5
Intangible assets		10.7	15.8	12.5
Current tax asset		2.0	1.2	2.0
Deferred tax assets		1.8	1.8	2.7
Total assets		**3,650.6**	**3,858.9**	**3,758.4**
Liabilities				
Shares		2,891.0	2,809.1	2,794.2
Amounts owed to credit institutions		333.6	650.1	456.6
Amounts owed to other customers		0.9	59.4	34.9
Debt securities in issue		156.5	55.3	193.7
Derivative financial instruments		17.8	35.8	32.5
Other liabilities and accruals		6.1	4.2	5.7
Lease liabilities		3.8	4.9	4.4
Provisions for liabilities		-	0.2	-
Retirement benefit obligations		5.1	2.7	5.9
Subscribed capital	12	24.0	24.5	24.2
Total liabilities		**3,438.8**	**3,646.2**	**3,552.1**
Reserves				
General reserves		211.1	212.7	206.3
Fair value reserves	13	0.7	-	-
Total reserves attributable to members of the Society		**211.8**	**212.7**	**206.3**
Total reserves and liabilities		**3,650.6**	**3,858.9**	**3,758.4**

Condensed consolidated statement of changes in members' interests

for the period ended 30 June 2021

	General reserve £m	FVOCI reserve £m	Total £m
Balance as at 1 January 2021 (Audited)	206.3	-	206.3
Profit for the period	4.9	-	4.9
Other comprehensive (expense)/income for the period (net of tax)			
Net gains from changes in fair value	-	0.7	0.7
Remeasurement of defined benefit obligation	(0.1)	-	(0.1)
Total other comprehensive (expense)/income	(0.1)	0.7	0.6
Total comprehensive income for the period	4.8	0.7	5.5
Balance as at 30 June 2021 (Unaudited)	**211.1**	**0.7**	**211.8**
Balance as at 1 January 2020 (Audited)	216.6	(0.4)	216.2
Loss for the period	(3.8)	-	(3.8)
Other comprehensive (expense)/income for the period (net of tax)			
Net gains from changes in fair value	-	0.4	0.4
Remeasurement of defined benefit obligation	(0.1)	-	(0.1)
Total other comprehensive (expense)/income	(0.1)	0.4	0.3
Total comprehensive (expense)/income for the period	(3.9)	0.4	(3.5)
Balance as at 30 June 2020 (Unaudited)	**212.7**	**-**	**212.7**
Balance as at 1 January 2020 (Audited)	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 gains from changes in fair value	-	0.4	0.4
Remeasurement of defined benefit obligation	(3.1)	-	(3.1)
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 (Audited)	**206.3**	**-**	**206.3**

Condensed consolidated cash flow statement

for the period ended 30 June 2021

	Notes	Period to 30 June 2021 Unaudited £m	Period to 30 June 2020 Unaudited £m	Year ended 31 December 2020 Audited £m
Cash flows from operating activities				
Profit/(loss) before tax from continuing operations		5.5	(4.5)	(8.2)
Profit/(loss) from discontinued operations		0.2	(0.1)	(0.2)
Depreciation and amortisation		2.9	3.1	9.1
Profit on disposal of property, plant and equipment		-	-	(0.1)
Interest on subscribed capital		1.0	1.0	2.0
Interest on lease payments		-	-	0.1
Net gains on disposal and amortisation of debt securities		0.1	-	-
(Decrease)/increase in impairment		(0.6)	2.7	2.9
Total		9.1	**2.2**	5.6
Changes in operating assets and liabilities				
Increase in prepayments, accrued income and other assets		(8.3)	(0.2)	(1.1)
(Decrease)/increase in accruals, deferred income and other liabilities		(14.5)	23.0	20.3
Decrease in loans and advances to customers		82.7	6.6	30.5
Increase in shares		96.8	28.0	13.1
(Decrease)/increase in amounts owed to other credit institutions and other customers		(157.0)	6.3	(211.7)
Increase/(decrease) in loans and advances to credit institutions		12.5	(23.6)	(21.5)
(Decrease)/increase in debt securities in issue		(37.2)	(12.8)	125.6
Decrease in retirement benefit obligation		(0.8)	(0.7)	(1.5)
Taxation received		-	0.3	0.3
Net cash (used in)/ generated by operating activities		**(16.7)**	**29.1**	**(40.4)**
Cash flows from investing activities				
Purchase of debt securities		(96.0)	(64.3)	(61.7)
Disposal of debt securities		28.9	189.1	215.9
Purchase of property, plant and equipment		(0.6)	(0.1)	(1.3)
Disposal of property, plant and equipment		-	-	0.1
Consideration on disposal of trade and assets		-	-	0.2
Purchase of intangible assets		(0.1)	(0.5)	(0.6)
Net cash (used in)/ generated by investing activities		**(67.8)**	**124.2**	**152.6**
Cash flows from financing activities				
Interest paid on subscribed capital		(1.0)	(1.0)	(1.9)
Principal element of lease payments		(0.3)	(0.4)	(0.9)
Net (decrease)/ increase in cash and cash equivalents		**(85.8)**	**151.9**	**109.4**
Cash and cash equivalents at start of period		382.0	272.6	272.6
Cash and cash equivalents at end of period	8	**296.2**	**424.5**	**382.0**

Notes to the interim financial report

1 Reporting period

These results have been prepared as at 30 June 2021 and show the financial performance for the period from, and including, 1 January 2021 to this date.

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

Basis of preparation

This condensed consolidated financial report for the six months ended 30 June 2021 has been prepared in accordance with the UK adopted International Accounting Standard 34 and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority (FCA). The interim financial report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Annual Reports and Accounts for the year ended 31 December 2020, which have been prepared in accordance with International Financial Reporting Standards pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union.

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

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted by the Group in the preparation of its 2021 Interim Financial Report are consistent with those disclosed in the Annual Report and Accounts for the year ended 31 December 2020, except as outlined below.

Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39 and IFRS 7 was issued by the IASB in August 2020 and the Society has adopted from 1 January 2021. The amendments allow a relief for accounting for changes to financial assets and liabilities where the modification is as a direct result of the IBOR reforms. The amendments allow organisations to account for the modification to the asset or liability by applying the updated effective interest rate following a transition to a new benchmark interest rate to value the financial asset or liability, rather than continuing to discount the asset or liability at the original discount rate and recognising a gain or loss in the income statement as per the usual requirements under the relevant accounting standard for modifications of financial assets and liabilities.

In addition, the amendments state that a hedging relationship must not be discontinued solely due to the IBOR reform. Where the Society's hedging instruments and hedged items that are in a hedging relationship have been converted from LIBOR to SONIA, the hedging relationship has not been discontinued and all hedging documentation has been updated accordingly in line with the requirements of the amendments.

Further details of how the Society is managing its transition to replacement benchmark interest rates, and the amount of LIBOR exposure that remains as at 30 June 2021, are set out in note 16.

Going concern

Details of the Group's objectives, policies and processes for managing its exposure to liquidity, credit, market, operational and business risks are contained in the Risk Management Report of the 2020 Annual Report and Accounts. The Directors are required to make an assessment of the Society's ability to adopt the going concern basis of accounting in the future and the information should cover a period of at least 12 months from the date of signing the financial statement but not be limited to that period. Therefore the Directors' assessment period over the use of the going concern basis of accounting is for the period to the end of July 2022.

Following the global pandemic during 2020 and 2021, and the unprecedented economic uncertainty in the short and medium term that has followed, the Society continues to review and update its objectives, policies, processes and risks to ensure they remain relevant and include appropriate downside scenarios. The key risks associated with the delivery of the Society's strategic plans are outlined on pages 7 and 8 of this Interim Financial Report.

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

Notes to the interim financial report

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

Significant accounting judgement and estimates

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event, or actions, actual results ultimately may differ from these estimates. Those items where management are required to make critical accounting estimates remain unchanged from the year ended 31 December 2020. Details as at 31 December 2020 are provided on page 64 of the 2020 Annual Report and Accounts.

3 Segmental reporting

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

During the prior year, the Group exited the Estate Agency market and sold its Lettings portfolio of managed properties. Therefore the Estate Agency operating segment is classified as a discontinued operation in the prior period comparatives.

In June 2021, the Group agreed to sell its mortgage broking services entity and therefore this operating segment is classified as a discontinued operation in the current period and prior period comparatives.

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.

Discontinued operations

- **Estate Agency** – provides estate agency and letting services. Includes all income and costs associated with Nottingham Property Services Ltd, Harrison Murray Ltd and HM Lettings Ltd.
- **Mortgage Broking** – provides whole-of-market mortgage broking services. Includes all income and costs associated with Nottingham Mortgage Services Ltd.

Six months to 30 June 2021 **Unaudited**	Retail financial services £m	Estate Agency to be transferred	Consolidation adjustments £m	Group continuing operations	Mortgage Broking £m	Estate Agency £m	Total Discontinued operations £m	Total Group £m
Net interest income	22.2	-	-	22.2	-	-	-	22.2
Total net income	25.8	-	-	25.8	0.8	-	0.8	26.6
Profit before tax	5.5	-	-	5.5	0.2	-	0.2	5.7

Six months to 30 June 2020 **Unaudited**	Retail financial services £m	Estate Agency to be transferred	Consolidation adjustments £m	Group continuing operations	Mortgage Broking £m	Estate Agency £m	Total Discontinued operations £m	Total Group £m
Net interest income	20.5	-	-	20.5	-	-	-	20.5
Total net income	17.9	-	-	17.9	0.8	0.7	1.5	19.4
(Loss)/profit before tax	(4.4)	(0.1)	-	(4.5)	0.1	(0.2)	(0.1)	(4.6)

Year ended 31 December 2020 **Audited**	Retail financial services £m	Estate Agency to be transferred	Consolidation adjustments £m	Group continuing operations	Mortgage Broking £m	Estate Agency £m	Total Discontinued operations £m	Total Group £m
Net interest income	40.6	-	-	40.6	-	-	-	40.6
Total net income	39.5	-	(0.5)	39.0	1.7	1.1	2.8	41.8
(Loss)/profit before tax	(7.7)	-	(0.5)	(8.2)	0.2	(0.4)	(0.2)	(8.4)

Notes to the interim financial report

4 Interest receivable and similar income

	Period to 30 June 2021 Unaudited £m	Period to 30 June 2020 Unaudited £m	Year ended 31 December 2020 Audited £m
On loans fully secured on residential property	33.8	36.1	72.4
On other loans	3.3	2.1	4.6
On liquid assets	0.2	0.7	1.0
On instruments held at amortised cost	37.3	38.9	78.0
On debt securities	0.3	1.0	1.3
On derivatives hedging of financial assets	(5.5)	(3.5)	(9.8)
On instruments calculated on an EIR basis	32.1	36.4	69.5
On derivatives not in a hedge accounting relationship	(0.3)	(0.2)	(0.7)
	31.8	**36.2**	**68.8**

5 Interest payable and similar charges

	Period to 30 June 2021 Unaudited £m	Period to 30 June 2020 Unaudited £m	Year ended 31 December 2020 Audited £m
On shares held by individuals	7.9	13.3	24.3
On deposits and other borrowings	1.1	1.8	2.6
On subscribed capital	1.0	1.0	2.0
On leases	-	-	0.1
On derivatives hedging of financial liabilities	(0.4)	(0.4)	(0.8)
	9.6	**15.7**	**28.2**

6 Administrative expenses

	Period to 30 June 2021 Unaudited £m	Period to 30 June 2020 Unaudited £m	Year ended 31 December 2020 Audited £m
Continuing operations			
Wages and salaries	8.8	9.0	18.0
Social security costs	0.9	0.8	1.7
Other pension costs	0.8	0.7	1.0
Total employee costs	**10.5**	**10.5**	**20.7**
Premises and facilities	1.2	1.4	3.1
IT	2.8	2.1	5.6
Marketing and advertising	0.5	0.6	1.0
Lease costs	0.2	0.2	0.4
Other administrative costs	2.8	1.8	4.5
	18.0	**16.6**	**35.3**

There are no restructuring costs included in continuing wages and salaries (30 June 2020: £0.2 million; 31 December 2020: £0.3 million). There are £0.6 million strategic investment costs included in other continuing administrative costs (30 June 2020: £nil; 31 December 2020: £0.3 million).

A further £0.6 million (30 June 2020: £1.6 million; 31 December 2020: £3.0 million) of administrative expenses were incurred in relation to the Group's discontinued operations.

Notes to the interim financial report

7 Loans and advances to credit institutions

	30 June 2021 Unaudited £m	30 June 2020 Unaudited £m	31 December 2020 Audited £m
Repayable on call and short notice	13.4	4.6	13.3
Other loans and advances to credit institutions	38.1	53.8	51.2
	51.5	**58.4**	**64.5**

At 30 June 2021, £38.1 million (30 June 2020: £53.8 million; 31 December 2020: £51.2 million) of cash has been deposited by the Group as collateral against derivative contracts.

8 Cash and cash equivalents

	30 June 2021 Unaudited £m	30 June 2020 Unaudited £m	31 December 2020 Audited £m
Cash in hand and balances with the Bank of England	282.8	419.9	368.7
Loans and advances to credit institutions	13.4	4.6	13.3
	296.2	**424.5**	**382.0**

9 Debt securities

	Note	30 June 2021 Unaudited £m	30 June 2020 Unaudited £m	31 December 2020 Audited £m
Movement on debt securities during the period may be analysed as follows:				
At 1 January		152.8	306.6	306.6
Additions		96.0	64.3	61.7
Disposals and maturities		(28.9)	(189.1)	(215.9)
Net gains from changes in fair value recognised in other comprehensive income	13	0.7	0.4	0.4
		220.6	**182.2**	**152.8**

10 Loans and advances to customers

	Note	30 June 2021 Unaudited £m	30 June 2020 Unaudited £m	31 December 2020 Audited £m
Loans fully secured on residential property (FSRP)		2,840.8	3,018.6	2,942.1
Other loans fully secured on land (FSOL)		199.3	106.8	164.1
		3,040.1	3,125.4	3,106.2
Provision for impairment losses on loans and advances	11	(3.9)	(4.3)	(4.5)
		3,036.2	3,121.1	3,101.7
Fair value adjustment for hedged risk		9.7	31.0	26.3
		3,045.9	**3,152.1**	**3,128.0**

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

Notes to the interim financial report

11 Provision for impairment losses on loans and advances

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

			30 June 2021 Unaudited			30 June 2020 Unaudited			31 December 2020 Audited
	FSRP £m	FSOL £m	Total £m	FSRP £m	FSOL £m	Total £m	FSRP £m	FSOL £m	Total £m
Gross carrying amount									
Stage 1	1,454.8	142.0	1,596.8	1,321.4	50.2	1,371.6	1,807.4	106.0	1,913.4
Stage 2	1,380.4	56.0	1,436.4	1,691.0	54.6	1,745.6	1,127.0	56.9	1,183.9
Stage 3	5.6	1.3	6.9	6.2	2.0	8.2	7.7	1.2	8.9
	2,840.8	**199.3**	**3,040.1**	**3,018.6**	**106.8**	**3,125.4**	**2,942.1**	**164.1**	**3,106.2**

			30 June 2021 Unaudited			30 June 2020 Unaudited			31 December 2020 Audited
	FSRP £m	FSOL £m	Total £m	FSRP £m	FSOL £m	Total £m	FSRP £m	FSOL £m	Total £m
Expected Credit Loss allowance									
Stage 1	0.4	2.0	2.4	0.5	0.2	0.7	0.5	1.5	2.0
Stage 2	0.5	0.6	1.1	2.2	0.6	2.8	1.1	0.7	1.8
Stage 3	0.1	0.3	0.4	0.2	0.6	0.8	0.2	0.5	0.7
	1.0	**2.9**	**3.9**	**2.9**	**1.4**	**4.3**	**1.8**	**2.7**	**4.5**

At 30 June 2021, 47% (30 June 2020: 56%; 31 December 2020: 38%) 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 only participates in the prime mortgage lending market, and within the residential loan category in particular, this results in very low Probability of Default (PD) at origination. Any slight deterioration in a customer's PD can impact the move in staging of the loan, but has a limited impact on the level of ECL due to the high collateral value of the portfolio.

The Society's ECL coverage ratio, as a percentage of gross loans is 0.13% at 30 June 2021 for the total book and 0.08% for those balances in stage 2. The equivalent ECL coverage ratios at 31 December 2020 were 0.14% across the total portfolio and 0.15% for stage 2 assets.

The ongoing Covid-19 pandemic and resulting government interventions continue to drive a level of uncertainty in the ECL allowance with regards expected impact on losses that may flow from this. As a consequence, management have modified a stress scenario at 30 June 2021 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 from stage 1 to stage 2 is highly sensitive to changes in macroeconomic factors. The Society recognises that the ECL models continue to be heavily tested during the period 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 30 June 2021, £4.0m of balances were over 3 months in arrears (31 December 2020: £5.1m), representing 0.1% (31 December 2020: 0.2%) of the total mortgage book. As at 30 June 2021, 0.5% (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, of which only less than 20 cases remain. Further details of the Society's arrears and forbearance cases are disclosed in note 14 to this Interim Financial Report on page 30.

Notes to the interim financial report

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

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

	30 June 2021 Unaudited £m	30 June 2020 Unaudited £m	31 December 2020 Audited £m
(Release)/charge of provision for impairment			
Loans fully secured on residential property	(0.7)	2.4	1.3
Other loans fully secured on land	0.1	0.3	1.6
	(0.6)	**2.7**	**2.9**

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

Gross balances	Non-credit impaired Subject to 12 month ECL Stage 1 £m	Non-credit impaired Subject to lifetime ECL Stage 2 £m	Credit impaired Subject to lifetime ECL Stage 3 £m	Total £m
At 1 January 2021	1,913.4	1,183.9	8.9	3,106.2
Stage transfers:				
Transfers from stage 1 to stage 2[1]	(541.7)	541.7	-	-
Transfers to stage 3	(0.1)	(2.1)	2.2	-
Transfers from stage 2 to stage 1	169.2	(169.2)	-	-
Transfers from stage 3	0.1	3.4	(3.5)	-
Net movement arising from transfer of stage	(372.5)	373.8	(1.3)	-
New assets originated[2]	256.2	1.9	-	258.1
Further lending/repayments and redemptions	(200.3)	(123.2)	(0.7)	(324.2)
At 30 June 2021	**1,596.8**	**1,436.4**	**6.9**	**3,040.1**

Expected Credit Loss allowance	Non-credit impaired Subject to 12 month ECL Stage 1 £m	Non-credit impaired Subject to lifetime ECL Stage 2 £m	Credit impaired Subject to lifetime ECL Stage 3 £m	Total £m
At 1 January 2021	2.0	1.8	0.7	4.5
Stage transfers:				
Transfers from stage 1 to stage 2	(0.2)	0.2	-	-
Transfers to stage 3	-	-	-	-
Transfers from stage 2 to stage 1	0.2	(0.2)	-	-
Transfers from stage 3	-	0.1	(0.1)	-
Net remeasurement of ECL arising from transfer of stage	(0.5)	(0.6)	(0.2)	(1.3)
Net movement arising from transfer of stage	(0.5)	(0.5)	(0.3)	(1.3)
New assets originated[2]	0.9	-	-	0.9
Further lending/repayments and redemptions	-	(0.1)	-	(0.1)
Changes in risk parameters in relation to credit quality	-	(0.1)	-	(0.1)
At 30 June 2021	**2.4**	**1.1**	**0.4**	**3.9**

[1] The level of gross loan transfers from stage 1 to stage 2 in the period is impacted by the highly sensitive models and 1% floor within its definition of default and SICR criteria.

[2] New assets originated enter at stage 1. The balances presented are the final position as at 30 June 2021.

Notes to the interim financial report

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

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

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

Notes to the interim financial report

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

Gross balances	Non-credit impaired Subject to 12 month ECL Stage 1 £m	Non-credit impaired Subject to lifetime ECL Stage 2 £m	Credit impaired Subject to lifetime ECL Stage 3 £m	Total £m
At 1 January 2020	2,471.0	676.8	5.8	3,153.6
Stage transfers:				
Transfers from stage 1 to stage 2	(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
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	Non-credit impaired Subject to 12 month ECL Stage 1 £m	Non-credit impaired Subject to lifetime ECL Stage 2 £m	Credit impaired Subject to lifetime ECL Stage 3 £m	Total £m
At 1 January 2020	0.1	0.7	0.8	1.6
Stage transfers:				
Transfers from stage 1 to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Transfers from stage 2 to stage 1	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**

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 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 calculations. The weightings, which are provided by the third party supplier of economic forecasts, are consistent in both the current and prior year.

Notes to the interim financial report

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

Forward-looking information incorporated in the ECL models (continued)

	Weighting
Base The base economic scenario assumes that Covid-19 infections would increase with the Delta variant, but the vaccines would prove effective and less stringent lockdowns would be imposed. The scenario assumes that unemployment would spike in the third quarter of 2021, with the end of the job retention scheme. It assumes inflation, and the pressure it brings, would be contained until 2022.	43%
Upside The upside scenario assumes that business and consumer confidence returns quickly, drives increased demand in industries impacted heavily by the pandemic, such as travel and hospitality and reduces unemployment and business defaults accordingly. Covid-19 infections are assumed to peak in January 2021 as vaccines are successfully rolled out and take effect and infections abate in June 2021.	30%
Downside The downside scenario assumes that a resurgence in Covid-19 infections with a new vaccine resistant strain arising., resulting in increased cases, hospitalisations and death rate. Due to this, and the strain on the health service, a further lockdown is imposed, business activity declines, unemployment and bankruptcies rise and the Bank of England agreed a negative interest rate for the first time in Q3 2021 until Q3 2023. The scenario also assumes a declining oil price and international tensions between the EU and UK over a trade deal on services shrinking economic demand.	27%

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 30 June 2021		**2021**	**2022**	**2023**	**2024**	**2025**
		%	**%**	**%**	**%**	**%**
Unemployment rate	Upside	6.3	4.9	4.3	4.2	4.3
	Base	6.7	6.0	5.3	5.0	4.9
	Downside	7.5	9.1	8.2	7.8	7.2
House price index	Upside	3.8	10.2	6.9	3.9	2.2
	Base	(1.4)	3.2	6.3	5.2	3.8
	Downside	(7.1)	(6.8)	2.8	5.8	5.8
Gross Domestic Product	Upside	9.3	4.5	2.3	1.3	0.9
	Base	6.4	4.6	2.9	1.3	1.0
	Downside	1.3	3.3	3.9	2.0	1.4

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

Due to the level of uncertainty in the economy at 30 June 2021, 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, a post model adjustment ECL allowance of £2.7m has been recognised at 30 June 2021 (31 December 2021: £2.7m). 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 £2.0m of ECL in stage 1 and £0.7m 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 Q3 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.

30 June 2021	ECL provision £m	(Decrease)/ increase £m	(Decrease)/ increase %
IFRS 9 weighted average	3.9	-	-
Base	3.8	(0.1)	(2.6)%
Downside	4.5	0.6	15.4%
Upside	3.5	(0.4)	(10.3)%

12 Subscribed capital

	30 June 2021 Unaudited £m	30 June 2020 Unaudited £m	31 December 2020 Audited £m
7.875% sterling Permanent Interest Bearing Shares	23.9	23.9	23.9
Fair value adjustment for hedged risk	0.1	0.6	0.3
	24.0	**24.5**	**24.2**

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

13 Fair value reserves

	30 June 2021 Unaudited £m	30 June 2020 Unaudited £m	31 December 2020 Audited £m
FVOCI reserve			
At 1 January	-	(0.4)	(0.4)
Net gain from changes in fair value	0.7	0.4	0.4
	0.7	-	-

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

Notes to the interim financial report

14 Financial instruments

Classification & Measurement

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

Financial assets and liabilities are measured on an ongoing basis either at fair value or at amortised cost. The tables below analyse the Group's assets and liabilities by financial classification:

Carrying values by category	Held at amortised cost	Held at fair value			
As at 30 June 2021 Unaudited	Financial assets and liabilities at amortised cost £m	Fair value through other comprehensive income £m	Derivatives designated as fair value hedges £m	Unmatched derivatives £m	Total £m
Financial assets					
Cash in hand and balances with the Bank of England	289.6	-	-	-	289.6
Loans and advances to credit institutions	51.5	-	-	-	51.5
Debt securities	-	220.6	-	-	220.6
Derivative financial instruments	-	-	4.2	0.3	4.5
Loans and advances to customers	3,045.9	-	-	-	3,045.9
Other assets	38.5	-	-	-	38.5
	3,425.5	**220.6**	**4.2**	**0.3**	**3,650.6**
Financial liabilities					
Shares	2,891.0	-	-	-	2,891.0
Amounts owed to credit institutions	333.6	-	-	-	333.6
Amounts owed to other customers	0.9	-	-	-	0.9
Debt securities in issue	156.5	-	-	-	156.5
Derivative financial instruments	-	-	17.2	0.6	17.8
Subscribed capital	24.0	-	-	-	24.0
Other liabilities	15.0	-	-	-	15.0
	3,421.0	**-**	**17.2**	**0.6**	**3,438.8**

Notes to the interim financial report

14 Financial instruments (continued)

Classification & Measurement (continued)

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

Carrying values by category	Held at amortised cost	Held at fair value			
As at 31 December 2020 Audited	**Financial assets and liabilities at amortised cost £m**	**Fair value through other comprehensive income £m**	**Derivatives designated as fair value hedges £m**	**Unmatched derivatives £m**	**Total £m**
Financial assets					
Cash in hand and balances with the Bank of England	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**

Notes to the interim financial report

14 Financial instruments (continued)

Fair values of financial assets and liabilities carried at amortised cost

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

		30 June 2021 Unaudited Book value £m	30 June 2021 Unaudited Fair value £m	30 June 2020 Unaudited Book value £m	30 June 2020 Unaudited Fair value £m	31 December 2020 Audited Book value £m	31 December 2020 Audited Fair value £m
Financial assets							
Cash in hand & balances with the Bank of England	a	289.6	289.6	425.6	425.6	374.9	374.9
Loans & advances to credit institutions	b	51.5	51.5	58.4	58.4	64.5	64.5
Loans & advances to customers	c	3,045.9	3,053.7	3,152.1	3,154.0	3,128.0	3,119.3
Financial liabilities							
Shares	d	2,891.0	2,890.4	2,809.1	2,807.7	2,794.2	2,791.9
Amounts owed to credit institutions	d	333.6	333.6	650.1	650.1	456.6	456.6
Amounts owed to other customers	d	0.9	0.9	59.4	59.5	34.9	34.9
Debt securities in issue	e	156.5	156.5	55.3	55.3	193.7	193.7
Subscribed capital	f	23.9	30.6	23.9	28.1	23.9	30.5

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair value of the financial assets and liabilities above has been calculated using the following valuation methodology:

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

b) Loans and advances to credit institutions – Level 2
The fair value of overnight deposits is the amount repayable on demand. The estimated fair value of 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.

Notes to the interim financial report

14 Financial instruments (continued)

Fair values of financial assets and liabilities carried at fair value

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

30 June 2021 Unaudited	Level 1 £m	Level 2 £m	Total Fair Value £m
Financial assets			
Debt securities	220.6	-	220.6
Derivative financial instruments - Interest rate swaps	-	4.5	4.5
	220.6	**4.5**	**225.1**
Financial liabilities			
Derivative financial instruments - Interest rate swaps	-	(17.8)	(17.8)
	-	**(17.8)**	**(17.8)**

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

31 December 2020 Audited	Level 1 £m	Level 2 £m	Total Fair Value £m
Financial assets			
Debt securities	152.8	-	152.8
Derivative financial instruments - Interest rate swaps	-	0.8	0.8
	152.8	**0.8**	**153.6**
Financial liabilities			
Derivative financial instruments - Interest rate swaps	-	(32.5)	(32.5)
	-	**(32.5)**	**(32.5)**

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

14 Financial instruments (continued)

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

Valuation techniques (continued)

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

Debt securities

- **Level 1** – Market prices have been used to determine the fair value of listed debt securities
- **Level 2** - Debt securities for which there is no readily available traded price are valued based on the 'present value' method. This requires expected future principal and interest cash flows to be discounted using prevailing relevant yield curves. The yield curves are generally observable market data which is derived from quoted interest rates in similar time bandings which match the timings of the cash flows and maturities of the instruments.

Interest rate swaps

The valuation of interest rate swaps is also based on the 'present value' method. Expected interest cash flows are discounted using the prevailing SONIA yield curves. The yield curves are generally observable market data which is derived from quoted interest rates in similar time bandings which match the timings of the interest cash flows and maturities of the instruments. All swaps are fully collateralised and therefore no adjustment is required for credit risk in the fair value of derivatives.

Transfers between fair value hierarchies

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

Credit risk

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

	30 June 2021 Unaudited £m	30 June 2020 Unaudited £m	31 December 2020 Audited £m
Credit risk exposure			
Cash in hand and balances with the Bank of England	289.6	425.6	374.9
Loans and advances to credit institutions	51.5	58.4	64.5
Debt securities	221.1	182.2	152.9
Derivative financial instruments	4.5	1.5	0.8
Loans and advances to customers	3,045.9	3,152.1	3,128.0
Total statement of financial position exposure	**3,612.6**	**3,819.8**	**3,721.1**
Off balance sheet exposure – mortgage commitments	133.2	113.5	96.6
	3,745.8	**3,933.3**	**3,817.7**

Notes to the interim financial report

14 Financial instruments (continued)

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

Credit risk (continued)

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

The percentage of these exposures (including cash in hand and balances with the Bank of England) that are rated A or better at 30 June 2021 is 100% (30 June 2020: 100%; 31 December 2020: 100%).

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

All of the Group's treasury assets are classified as Stage 1 for ECL calculation purposes under IFRS 9 and there are no impairment charges against any of the Group's treasury assets at 30 June 2021 (30 June 2020: £nil; 31 December 2020: £nil).

b) Loans and advances to customers

Loans and advances to customers are predominately made up of retail loans fully secured against UK residential property of £2,840.8 million, split between residential and buy-to-let loans with the remaining £199.3 million being secured on commercial property. The Group operates throughout England & Wales with the portfolio spread throughout the geographic regions.

Retail loans

Loans fully secured on residential property are split between residential and buy-to-let. At 30 June 2021, the average LTV of retail mortgages is 51% (30 June 2020: 56%; 31 December 2020: 52%).

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

		30 June 2021 Unaudited		30 June 2020 Unaudited		30 December 2020 Audited
	Gross loans £m	Expected Credit Loss £m	Gross loans £m	Expected Credit Loss £m	Gross loans £m	Expected Credit Loss £m
Stage 1: *12 month expected credit losses*						
< 30 days past due	1,454.8	0.4	1,321.4	0.5	1,807.4	0.5
Stage 2: *Lifetime expected credit losses*						
< 30 days past due	1,375.6	0.5	1,675.4	2.1	1,117.7	1.0
> 30 days past due	4.8	-	15.6	0.1	9.3	0.1
Stage 3: *Lifetime expected credit losses*						
< 90 days past due	1.6	-	1.6	-	3.2	0.1
> 90 days past due	4.0	0.1	4.6	0.2	4.5	0.1
	2,840.8	**1.0**	**3,018.6**	**2.9**	**2,942.1**	**1.8**

14 Financial instruments (continued)

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

Credit risk (continued)

Secured Business Loans

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

The average LTV of secured business loans is 60.3% (30 June 2020: 50.5%; 31 December 2020: 63.1%).

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

		30 June 2021 Unaudited		30 June 2020 Unaudited		30 December 2020 Audited
	Gross loans £m	Expected Credit Loss £m	Gross loans £m	Expected Credit Loss £m	Gross loans £m	Expected Credit Loss £m
Stage 1: *12 month expected credit losses*						
< 30 days past due	142.2	2.1	50.2	0.2	106.0	1.5
Stage 2: *Lifetime expected credit losses*						
< 30 days past due	54.4	0.5	51.9	0.6	56.0	0.4
> 30 days past due	1.5	-	2.7	-	0.9	0.3
Stage 3: *Lifetime expected credit losses*						
< 90 days past due	0.9	0.1	0.8	0.2	0.6	0.1
> 90 days past due	0.3	0.2	1.2	0.4	0.6	0.4
	199.3	**2.9**	**106.8**	**1.4**	**164.1**	**2.7**

Forbearance

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

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

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 government interventions are therefore excluded from the forbearance data. Nearly 3,000 payment deferrals were approved during 2020 and 2021. Almost all have now returned to full repayment, with less than 20 remaining in place.

At 30 June 2021, there were 102 forbearance cases within the retail loans category (30 June 2020: 95; 31 December 2020: 110) and 14 cases within the SBL loans category (30 June 2020: 9; 31 December 2020: 15).

15 Notes to the cash flow statements

	Period to 30 June 2021 Unaudited £m	Period to 30 June 2020 Unaudited £m	Year ended 31 December 2020 Audited £m
Changes in liabilities arising from financing activities			
Subscribed capital at 1 January	23.9	23.9	23.9
Accrued interest	1.0	1.0	1.9
Cash flows	(1.0)	(1.0)	(1.9)
Subscribed capital at end of period	**23.9**	**23.9**	**23.9**

16 Derivative financial instruments

Interest rate benchmark reform (IBOR reform)

On 1 January 2021, the Society adopted Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). The Society will continue to apply these amendments until the uncertainty arising from the interest rate benchmark reforms, with respect to the timing and amount of the underlying cash flows to which the Society is exposed, ends.

The Society has assumed that this uncertainty will not end until the Society's remaining contracts that reference IBORs are amended to specify the date on which the interest rate benchmark is replaced, the cash flows of the alternative benchmark rate and the relevant spread adjustment. This uncertainty is expected to end by 31 December 2021. The Society is party to the International Swaps and Derivatives Association (ISDA) 2020 IBOR Fallbacks Protocol, through its central clearing house, which means that the fall-back arrangements within that protocol are available if required.

The Society has been carrying out an exercise to close out existing LIBOR interest rate financial instruments in preparation for the benchmark transition deadline and this remains on course to close out all of its LIBOR exposures during 2021 and transition to SONIA. The table below summarises the notional amounts and fair values of the Group's remaining net exposure to LIBOR at 30 June 2021.

	Notional amount Unaudited £m	Fair value Unaudited £m	Average maturity Unaudited Years
Non-derivative financial assets			
Debt securities	17.8	17.8	0.7
Derivative financial instruments			
In qualifying hedge accounting relationships	855.0	(10.8)	1.4
Not in a hedge relationship	35.0	-	-
Net exposure as at 30 June 2021	**907.8**	**7.0**	

Notes to the interim financial report

17 Discontinued operations

During the period, the Group entered into a sale agreement for its subsidiary entity, Nottingham Mortgage Services Ltd, which is due to complete later in 2021. Therefore the mortgage broking operating segment, as presented in note 3 and which represents this entity, has been presented as discontinued operations.

During the prior 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, 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 prior 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:

	Period to 30 June 2021			Period to 30 June 2020			Year ended 31 December 2020		
	Mortgage Broking £m	Estate Agency £m	Total Discontinued operations £m	Mortgage Broking £m	Estate Agency £m	Total Discontinued operations £m	Mortgage Broking £m	Estate Agency £m	Total Discontinued operations £m
Net interest income	-	-	-	-	-	-	-	-	-
Fees & commissions receivable	0.8	-	0.8	0.8	0.7	1.5	1.7	0.9	2.6
Other income	-	-	-	-	-	-	-	0.2	0.2
Total net income	**0.8**	**-**	**0.8**	**0.8**	**0.7**	**1.5**	**1.7**	**1.1**	**2.8**
Administrative expenses	(0.6)	-	(0.6)	(0.7)	(0.9)	(1.6)	(1.5)	(1.5)	(3.0)
Profit/(loss) before tax	**0.2**	**-**	**0.2**	**0.1**	**(0.2)**	**(0.1)**	**0.2**	**(0.4)**	**(0.2)**
Profit/(loss) for the financial period	**0.2**	**-**	**0.2**	**0.1**	**(0.2)**	**(0.1)**	**0.2**	**(0.4)**	**(0.2)**

Both the cash flows and assets and liabilities relating to the discontinued operations are immaterial to the Group financial statements and therefore have not been separately disclosed.

Responsibility statement

The Directors confirm that this Interim Financial Report has been prepared in accordance with UK adopted International Accounting Standard 34 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority. The interim management report includes a fair review of the important events that have occurred during the first six months of the financial year and their impact on the Interim Financial Report, as required by the Disclosure and Transparency Rules (DTR 4.2.7). The principal risks and uncertainties continue to be those reported within the Strategic Report on pages 17 to 20, and within the Risk Management Report starting on page 29 of the 2020 Annual Report and Accounts and those detailed on pages 7 and 8 of this Interim Financial Report.

A full list of the Board of directors can be found in the 2020 Annual Reports and Accounts. Peter O'Donnell was appointed to the Board as a Non-Executive Director on 1 January 2021.

Signed on behalf of the Board by

Andrew Neden Chairman	David Marlow Chief Executive

28 July 2021

Independent review report to Nottingham Building Society

Conclusion

We have been engaged by the Society to review the condensed set of consolidated financial statements in the Interim Financial Report for the six months ended 30 June 2021 which comprises the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Members' Interests, Condensed Consolidated Cash Flow Statement and the related explanatory notes 1 to 17. We have read the other information contained in the Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of consolidated financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the Interim Financial Report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

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

As disclosed in note 2, the annual financial statements of the Society will be prepared in accordance with UK adopted IFRSs. The condensed set of consolidated financial statements included in this Interim Financial Report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

Responsibilities of the directors

The directors are responsible for preparing the Interim Financial Report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Auditor's responsibilities for the review of the financial information

In reviewing the Interim Financial Report, we are responsible for expressing to the Society a conclusion on the condensed set of consolidated financial statements in the Interim Financial Report. Our conclusion, based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report.

Use of our report

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

Ernst & Young LLP
Manchester

28 July 2021

Other information

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

The financial information for the year ended 31 December 2020 has been extracted from the Annual Report and Accounts for that year. The Annual Report and Accounts for the year ended 31 December 2020 have been filed with the Financial Conduct Authority. The Auditors' report on these Annual Report and Accounts was unqualified.

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

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