INTERIM FINANCIAL REPORT

30 JUNE 2017

The Nottingham

Contents

IFRS results

This Interim Financial Report for the six months ended 30 June 2017 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) and with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union (EU). The Interim Financial Report should be read in conjunction with the Annual Report and Accounts for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Forward looking statements

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

Chief Executive introduction

I am pleased to present our results for the six months ended 30 June 2017. In what was another period of good performance we continued to develop our unique 'all under one roof' advice and service proposition for members.

Key performance highlights include:

- Gross lending of £544m up 33% on the same period last year and mortgage book growth of 7.1%;
- Strong retail franchise – 3.9% increase in branch balances;
- Strong customer advocacy with a net promoter score of 78.4%;
- Net interest margin at 1.29%;
- Pre-tax profit of £7.6m, up 7%;
- Arrears levels remain at a historic low level; and
- Strong capital ratios with Common Equity Tier 1 ratio of 14.4% and leverage ratio of 4.6%.

We continue to live in uncertain times, which have been exacerbated by the recent indecisive General Election result with its implications for the UK government's approach to negotiating Brexit. Against that background we have continued to focus on building our franchise and membership through helping and rewarding our members to plan for and protect their financial futures in the face of this uncertainty.

Your Society

At the beginning of the year we undertook to continue to grow the Society, invest in improving our offering and service as well as look at how we could build and reward loyal membership of The Nottingham.

At the half year point we are pleased to report good progress in all of these objectives. We have continued to grow the balance sheet and have delivered asset growth of 6.1% in the first six months of the year.

We have achieved this whilst continuing to invest heavily in the Society's capability both for today and the future. Investment in our technology infrastructure is key to both enhancing our offering and developing our defences against the ever-increasing threat of cyber crime. We are well advanced in our project to house all of the Society's key systems in state of the art dedicated data centres, as well as announcing a partnership with globally renowned technology and customer experience experts Salesforce. This will enable us to provide members with access to our unique advice and service proposition in a manner of their choosing; seamlessly combining phone, tablet, PC and face-to-face advice and service in our growing branch network. The scale of the investment required to achieve these important improvements highlights the Society's ambition, confidence and financial strength.

We were also delighted to launch our member rewards programme in May. Central to our strategy is to support and reward our loyal members for doing the right thing to protect and plan for their family's financial future, through providing our unique combination of advice and service all available under one roof.

Our member rewards programme is designed to reward our loyal members for doing just that, through a range of unique discounts and offers. Benefits range from £500 off estate agency fees, to discounted fees for making a will, free access to whole-of-market mortgage advice against a standard advice fee of £249 and access to enhanced savings rates on special issues (Member Rewards Issue 1 paying a fixed rate of 1.30%).

This is very much the beginning of an ongoing programme to reward a growing membership for their loyalty to The Nottingham but also rewarding them for planning for their financial futures, something which we believe perfectly demonstrates our mutual ethos.

Our performance

As the Group focuses on the delivery of its unique strategy, it does so against a backdrop of good financial performance.

This is highlighted by the continued growth of our balance sheet driven by gross lending of £544m, up 33% on the first six months of last year. In fact we have exceeded half a billion pounds of lending in a six month period for the first time. This combined with continued strong levels of existing customer retention has enabled us to increase our mortgage assets by 7.1% in the first half of the year.

We have also sought to continue to build and develop our loyal savings base in branches, where despite a record low UK savings ratio in the first few months of 2017, our savings balances from our 60 branches have continued to grow, up by 3.9% over the period.

One of our principal responsibilities is to effectively balance the conflicting needs of our savers and borrowers, whilst maintaining sufficient surplus to run the Society, meet our regulatory capital requirements and continue to invest for the future. In the face of continuing reductions in mortgage market rates we feel we have achieved this balance well; attracting good levels of new mortgage lending whilst paying our savers an average rate of 1.0% (four times base rate) and delivering a margin of 1.29%, only a 0.03% point reduction from the 2016 average.

Overall this has enabled us to deliver a surplus before tax of £7.6m – just above what we achieved in H1 2016. This outcome has resulted from an overall increase in our income of 3.5% compared to the first half of 2016, offset by a 9.8% increase in costs, as the Society continues to invest heavily as outlined.

The current level of profitability meets the Board's requirements, which aligned with our strategy and investment plans seeks to ensure a strong, sustainable and independent future for the Society and its membership.

Market and outlook

As already highlighted, the current economic and political picture remains very uncertain. Inflation remains above 2%, whilst real wages fall, personal indebtedness continues to increase, and interest rates remain at ultra-low levels. This picture overlaid with the uncertainty regarding the potential outcome of Brexit means that we must remain vigilant in how we manage the Society and protect members' interests. This uncertainty was also reflected by the Bank of England in its latest financial stability report. We therefore will seek to deliver a broadly consistent performance in the second half of the year.

However, what is clear is that our members and new customers across our heartland want to be supported and rewarded for how they protect and plan for their family's financial futures, by a trusted local source. We were therefore pleased to recently announce that following collaborative discussions with the Yorkshire Building Society, The Nottingham intends to open in a further seven new locations in Bourne, Spalding, Stamford, Huntingdon, Dereham, Fakenham and Thetford, following the closure of the Norwich & Peterborough Society branches in those locations. In doing so we will be able to offer advice, choice, service and value to the residents of those towns as well as alternative employment opportunities for staff being made redundant. The Nottingham believes that this, in combination with the investment in technology highlighted, underscores the strength of our strategy and vibrancy of a regional building society model to offer the residents of towns across our heartland a strong, attractive alternative to the big banks that will help them plan for and protect their futures, whilst rewarding their loyalty.

The Society remains strong with a clear strategy for growing membership and a proposition which is distinct and valued. Whilst headwinds and uncertainties remain, the Board of The Nottingham has confidence in its plans to continue to grow the Society in a safe and secure way, through differentiating strongly from the big banks and continuing to support and reward our growing membership.

David Marlow
Chief Executive
26 July 2017

Interim business and financial review

for the period ended 30 June 2017

Income statement

Overall, the Group is pleased to report a pre-tax profit of £7.6m for the first six months of 2017 compared to £7.1m for the same period in 2016.

The Group's net interest margin has fallen marginally from 1.32% at December 2016 to 1.29% for the six months to June 2017 reflecting ongoing competition in the mortgage market as well as the Society's wish to protect savers from low bank base rates as much as possible. However, as a result of the growing asset base, the Group's net interest income increased by 3.5% to £23.9m against June 2016.

Net fee income, including mortgage related product fees, estate agency and lettings fees, totalled £4.8m for the first six months of 2017, which is in line with the same period in 2016. Net fee income remains under pressure predominately as a result of the continued competition in the mortgage market, which has seen mortgage arrangement fees fall or disappear altogether on new mortgage lending. Income from the Group's subsidiary businesses has fallen marginally compared with the prior period. Continued growth and development of the mortgage advice service is offset by constrained housing market conditions in the estate agency division, which is impacted by uncertainties in the economy.

The Group's cost income ratio at 71.9% and the management expense ratio at 1.11% have both fallen marginally for the period to the 30 June 2017, compared to 72.6% and 1.12% respectively for the 2016 full year. Total administrative expenses for the Group increased by 9.8% to £19.0m at 30 June 2017, which is reflective of increased strategic investment in our systems and people to support the growing business.

There is no impairment charge in the first six months of 2017 (six months to 30 June 2016: £0.1m release), reflecting the continued strong performance of the Society's mortgage book and minimal level of arrears recorded.

The provision for liabilities cost reflects the £0.4m current year estimated charge for the FSCS levy (30 June 2016: £0.6m). The cost to the business to cover the FSCS levy continues to fall as the FSCS settles its loans with HM Treasury as planned.

Balance sheet

Overall, at £3.8 billion, the Group's total assets have grown by 6.1% from the position at the end of 2016.

This has been driven by the 7.1% increase in total mortgage balances to £3.2 billion, with strong gross lending in the period totalling £544 million (30 June 2016: £409 million). Mortgage lending remains concentrated in prime high quality mortgage assets with residential mortgages accounting for 74% of the total mortgage book. The current average LTV of the book is 56.3% (31 December 2016: 54.8%). The Secured Business Lending (SBL) book reduced further, in line with our plans, to £67.1m.

Retail savings continue to be the cornerstone of our funding requirements and despite the benign interest rate environment, the Society has continued to offer competitive savings products to members. Total savings balances increased by 6.1% to £2.6 billion at 30 June 2017 supported by the Society's strong and growing branch franchise which continues to attract and retain new customers.

Branch based balances have continued to increase, growing by a further 3.9% in the first half of 2017. The remainder of the Society's funding requirements is obtained from the wholesale secured and unsecured funding markets. Overall the wholesale funding ratio at 26.5% has increased marginally against the December 2016 position of 26.2%, reflecting continued participation in the Bank of England's Term Funding Scheme (TFS) to support asset growth. A further £145m of TFS funding has been drawn down in the first six months of 2017. The Society also continues to make use of the Bank of England's Funding for Lending (FLS) scheme (30 June 2017: £469m drawn down; 31 December 2016: £530m), which has now started to mature, and a secured bilateral facility (30 June 2017: £71m; 31 December 2016: £93m).

The Group has continued to manage its liquidity position effectively with a liquid assets ratio of 15.1% (31 December 2016: 15.8%) and liquidity coverage ratio (LCR) at 149% (31 December 2016: 177%). The Society is 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 approved mortgage portfolios, which can be exchanged for cash as required.

Our arrears performance remains at sector leading levels with an arrears ratio of 0.19% compared to 0.16% at 31 December 2016 and this is reflected in the flat impairment provision position compared to December 2016. The level of repossessions in the first half of the year also continues to remain at record low levels, as well as the number of customers receiving some sort of forbearance. We always seek to support our customers who encounter financial difficulties, taking individual circumstances into account and agreeing tailored actions, whilst carefully monitoring the situation of the account status.

Regulatory capital

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

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

The Society has a CET1 capital ratio as at 30 June 2017 of 14.4% (31 December 2016: 14.7%). Whilst CET1 resources have increased through the retained profit of the Society, this has been offset by an increase in risk weighted assets, reflecting the growth in mortgage assets.

The leverage ratio under the final rules is 4.6% at 30 June 2017 (31 December 2016: 4.6%).

Outlook

Although market volatility is expected to be a feature of the next six months, it continues to be business as usual for the Society.

Higher inflation, pressure on the housing market and subdued activity levels are expected in the next six months as well as a continued low interest rate environment. This will require the Group to remain watchful to ensure we continue to maintain an appropriate balance between savers and borrowers. The Group remains prudent in its assumptions and is well positioned to navigate our members through a falling or rising interest rate environment in the short, medium and long term.

Our hard work, focus and success of recent years has prepared us extremely well for whatever market uncertainty there may be ahead.

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 8 to 9 of the Annual Report and Accounts for the year ended 31 December 2016. These risks are categorised as credit, market, liquidity and funding, operational and business risk, which are common to most financial services firms in the UK. These risks remain applicable to the Group as at 30 June 2017 and continue to be managed in line with the Group's risk management framework.

Some of the risks identified in the prior year remain evident and these risks and uncertainties, and how the Group is looking to mitigate them, are summarised below.

EU referendum result

The invocation of Article 50 to signal the UK's proposed withdrawal from the European Union continues to dominate the UK political and economic agenda. The uncertainty created by the process has inevitably impacted business and consumer confidence, while the decline in the value of the pound seen after the referendum is now being felt by consumers through higher inflation. The political turmoil continues with the recent General Election result providing little in the way of answers.

The UK's credit rating was downgraded following the vote in June 2016 due to the potential of a deterioration of the UK's economic performance, and the rating remains on negative outlook with the three main rating agencies. Moody's also set a negative outlook for a number of strong financial institutions in the UK, including The Nottingham.

The Nottingham has undertaken a review of its risk profile in the light of the vote to leave, considering risks such as the impacts of the depreciation in sterling, a wide range of different bank base rate scenarios including negative interest rates, any heightened liquidity risks and indicators of asset impairment. The Nottingham will continue to assess the potential impacts of new information through its ongoing programme of stress testing and scenario planning as the picture becomes clearer, and take any necessary actions to respond. As at 30 June, the Group has no direct exposure to any Eurozone countries, minimal exposure at a global level, and remains well capitalised and with sufficient liquidity to meet its requirements both day-to-day and under stressed scenarios.

Core mortgage lending yield

Margin earned on core mortgage lending products has and will continue to be reduced due to increasing market lending capacity and appetite in an already highly competitive marketplace. The Society has clear risk-adjusted return thresholds which have to be met, and will adjust its growth plans to ensure it continues to deliver a long-term sustainable return on its lending whilst delivering good value, relative to the market conditions, to savers.

Government lending stimulus

The introduction of the Funding for Lending Scheme (FLS) and the Help to Buy Scheme in 2013 have continued to provide strong stimulus to the mortgage market through the availability of high levels of inexpensive funding. This has resulted in a reduction in new business market rates for both mortgages and savings. The introduction of the Term Funding Scheme (TFS) in 2016 (replacing FLS) has lengthened the period this stimulus is available and therefore the impact it will have on both these markets. There are forward-looking risks in terms of how the market will adjust as this stimulus is removed, which continue to be closely managed by the Society.

Retail lending impairments

The level of retail lending impairments has continued to remain benign with the Society experiencing a very low number of arrears cases. Although arrears are expected to continue to be stable while interest rates remain low, the Society will need to remain vigilant over the medium term.The pace of future increases in interest rates and the regulator's concern regarding the level of customer indebtedness may potentially put borrowers under additional financial pressure. The majority of the Society's customers are currently on fixed rate mortgages and would therefore not be immediately impacted by changes in interest rates. Management regularly conducts stress testing on the mortgage book to gauge possible impacts of higher interest rate costs on our borrowers and are confident that our customers are well placed to manage rising costs.

Cyber risk

Cyber attacks continue to be experienced across a number of large and high profile organisations in the UK, with significant impacts. The regulatory authorities continue to remind financial services organisations of the constant need to remain vigilant in this area. Guarding against potential cyber attacks remains a key focus for Society management. The Society strives to keep pace with market trends in the prevention and detection of any potential attacks, in order to safeguard the business and protect its members' data and savings. This vigilance will need to be ongoing and a permanent feature of our risk management. The Society has allocated ring-fenced budget each financial year to make continued investment in this area to ensure that controls and defences keep pace with the risk.

Housing market

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

The UK regulatory authorities continue to remain concerned over the significant growth in the buy-to-let market and the potential future risks this may bring, culminating in a number of changes to the profitability of owning buy-to-let properties. The Society is closely monitoring the impact of these changes and adjusting its appetite for this type of lending accordingly.

The Board remains vigilant to monitoring trends in the housing market as uncertainty in the market fuelled by the EU referendum and general election results prevail.

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

Condensed consolidated income statement

for the period ended 30 June 2017

	Notes	Period to 30 June 2017 Unaudited £m	Period to 30 June 2016 Unaudited £m	Year ended 31 December 2016 Audited £m
Interest receivable and similar income	4	40.9	46.2	89.3
Interest payable and similar charges	5	(17.0)	(23.1)	(43.7)
Net interest income		**23.9**	**23.1**	**45.6**
Fees and commissions receivable		4.8	4.8	9.8
Fees and commissions payable		(0.8)	(0.6)	(1.2)
Other income		-	-	0.3
Net gains/(losses) from derivative financial instruments		0.6	(0.6)	(0.9)
Total net income		**28.5**	**26.7**	**53.6**
Administrative expenses	6	(19.0)	(17.3)	(35.4)
Depreciation and amortisation		(1.5)	(1.8)	(3.3)
Finance cost		-	-	(0.2)
Impairment losses on loans and advances	11	-	0.1	-
Provisions for liabilities – FSCS levy and other	12	(0.4)	(0.6)	(0.4)
Loss on disposal of property, plant and equipment		-	-	(0.1)
Profit before tax		**7.6**	**7.1**	**14.2**
Tax expense		(1.6)	(1.6)	(3.2)
Profit after tax for the financial period		**6.0**	**5.5**	**11.0**

Profit for the financial period arises from continuing operations.

Both the profit for the financial period and total comprehensive income for the period are attributable to the members of the Society.

Condensed consolidated statement of comprehensive income

for the period ended 30 June 2017

	Period to 30 June 2017 Unaudited £m	Period to 30 June 2016 Unaudited £m	Year ended 31 December 2016 Audited £m
Profit for the financial period	6.0	5.5	11.0
Items that will not be re-classified to the income statement			
Remeasurement of defined benefit obligation	-	-	(4.5)
Tax on items that will not be re-classified	-	-	0.7
Items that may subsequently be re-classified to the income statement			
Available-for-sale reserve			
Valuation (losses)/gains taken to reserves	(0.2)	0.2	0.2
Tax on items that may subsequently be re-classified	-	-	(0.1)
Other comprehensive (expense)/income for the period net of income tax	**(0.2)**	**0.2**	**(3.7)**
Total comprehensive income for the period	**5.8**	**5.7**	**7.3**

Condensed consolidated statement of financial position

as at 30 June 2017

	Notes	30 June 2017 Unaudited £m	30 June 2016 Unaudited £m	31 December 2016 Audited £m
Assets				
Cash in hand and balances with the Bank of England		398.5	323.5	390.5
Loans and advances to credit institutions	7	46.0	43.1	39.1
Debt securities	9	91.6	110.7	97.4
Derivative financial instruments		5.9	4.2	4.7
Loans and advances to customers	10	3,239.2	2,944.4	3,032.6
Other assets		5.1	3.6	4.6
Property, plant and equipment		14.8	12.8	12.7
Intangible assets		7.5	7.8	7.7
Deferred tax assets		2.1	1.5	2.1
Total assets		**3,810.7**	**3,451.6**	**3,591.4**
Liabilities				
Shares		2,608.3	2,568.4	2,457.4
Amounts owed to credit institutions		675.2	420.5	557.6
Amounts owed to other customers		183.3	188.2	215.7
Debt securities in issue		81.7	8.0	98.7
Derivative financial instruments		14.7	28.7	19.7
Other liabilities and accruals		4.2	4.2	4.7
Current tax liabilities		1.5	1.7	1.3
Provisions for liabilities	12	1.2	1.9	0.9
Retirement benefit obligations		9.1	5.2	9.4
Subscribed capital	13	25.9	26.6	26.2
Total liabilities		**3,605.1**	**3,253.4**	**3,391.6**
Reserves				
General reserves		205.5	197.8	199.5
Available-for-sale reserves	14	0.1	0.4	0.3
Total reserves attributable to members of the Society		**205.6**	**198.2**	**199.8**
Total reserves and liabilities		**3,810.7**	**3,451.6**	**3,591.4**

Condensed consolidated statement of changes in members' interests

for the period ended 30 June 2017

	General reserve £m	Available-for-sale reserves £m	Total £m
Balance as at 1 January 2017 (Audited)	199.5	0.3	199.8
Profit for the period	6.0	-	6.0
Other comprehensive expense for the period (net of tax)			
Net losses from changes in fair value	-	(0.2)	(0.2)
Total other comprehensive expense	-	(0.2)	(0.2)
Total comprehensive income/(expense) for the period	6.0	(0.2)	5.8
Balance as at 30 June 2017 (Unaudited)	**205.5**	**0.1**	**205.6**
Balance as at 1 January 2016 (Audited)	192.3	0.2	192.5
Profit for the period	5.5	-	5.5
Other comprehensive income for the period (net of tax)			
Net gains from changes in fair value	-	0.2	0.2
Total other comprehensive income	-	0.2	0.2
Total comprehensive income for the period	5.5	0.2	5.7
Balance as at 30 June 2016 (Unaudited)	**197.8**	**0.4**	**198.2**
Balance as at 1 January 2016 (Audited)	192.3	0.2	192.5
Profit for the year	11.0	-	11.0
Other comprehensive income for the period (net of tax)			
Net gains from changes in fair value	-	0.1	0.1
Remeasurement of defined benefit obligation	(3.8)	-	(3.8)
Total other comprehensive (expense)/income	(3.8)	0.1	(3.7)
Total comprehensive income for the period	7.2	0.1	7.3
Balance as at 31 December 2016 (Audited)	**199.5**	**0.3**	**199.8**

Condensed consolidated cash flow statement

for the period ended 30 June 2017

	Notes	Period to 30 June 2017 Unaudited £m	Period to 30 June 2016 Unaudited £m	Year ended 31 December 2016 Audited £m
Cash flows from operating activities				
Profit before tax		7.6	7.1	14.2
Depreciation and amortisation		1.5	1.8	3.3
Loss on disposal of property, plant and equipment		-	-	0.1
Interest on subscribed capital		1.0	1.0	2.0
Net gains on disposal and amortisation of debt securities		0.3	(0.4)	0.8
(Decrease)/increase in impairment of loans and advances		-	(0.1)	-
Total		10.4	9.4	20.4
Changes in operating assets and liabilities				
Increase in prepayments, accrued income and other assets		(1.7)	(0.8)	(2.3)
(Decrease)/increase in accruals, deferred income and other liabilities		(5.7)	20.1	9.6
Increase in loans and advances to customers		(206.6)	(147.8)	(236.1)
Increase in shares		150.9	135.2	24.2
Increase/(decrease) in amounts owed to other credit institutions and other customers		85.2	(25.3)	139.3
Increase in loans and advances to credit institutions		(1.1)	(20.7)	(15.7)
(Decrease)/increase in debt securities in issue		(17.0)	(1.0)	89.7
Decrease in retirement benefit obligation		(0.3)	(0.3)	(0.6)
Taxation paid		(1.4)	(2.1)	(3.9)
Net cash generated by/(used in) operating activities		**12.7**	**(33.3)**	**24.6**
Cash flows from investing activities				
Purchase of debt securities		(13.5)	(33.8)	(152.9)
Disposal of debt securities		19.0	25.8	157.3
Purchase of property, plant and equipment		(3.1)	(0.7)	(1.5)
Purchase of intangible assets		(0.3)	(0.4)	(1.0)
Net cash generated by/(used in) investing activities		**2.1**	**(9.1)**	**1.9**
Cash flows from financing activities				
Interest paid on subscribed capital		(1.0)	(1.0)	(1.9)
Net increase/(decrease) in cash and cash equivalents		**13.8**	**(43.4)**	**24.6**
Cash and cash equivalents at start of period		393.8	369.2	369.2
Cash and cash equivalents at end of period	8	**407.6**	**325.8**	**393.8**

Notes to the interim financial report

1 Reporting period

These results have been prepared as at 30 June 2017 and show the financial performance for the period from, and including, 1 January 2017 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 2017 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) and with IAS 34 Interim Financial Reporting as adopted by the EU. The interim financial report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Annual Reports and Accounts for the year ended 31 December 2016, which have been prepared in accordance with IFRS as adopted by the EU.

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

The accounting policies adopted by the Group in the preparation of its 2017 Interim Financial Report are consistent with those disclosed in the Annual Report and Accounts for the year ended 31 December 2016. There were no new accounting policies and new standards or interpretations effective as of 1 January 2017 which were not previously adopted.

Future accounting developments

An overview of the pronouncements that will be relevant to the Group in future periods was provided in the 2016 Annual Report and Accounts. Of these pronouncements, the most significant is IFRS 9 'Financial Instruments', which will be implemented in the financial statements for the year ending 31 December 2018 and will replace IAS 39 'Financial Instruments: Recognition and Measurement'.

The overall impacts of the standard were outlined in the 2016 Annual Report and Accounts. The Society has a project group in place which is operating to the Society's standard project governance framework. The project group continues to work through the requirements and contains individuals with the appropriate knowledge and skills to ensure compliance with the accounting standard and regulatory guidance. The Society has developed and is refining new expected credit loss models using the three key input parameters for the calculation of expected loss: probability of default, loss given default and exposure at default. Refinement of the expected credit loss models, establishment of robust supporting governance processes as well as finalisation of the classification and measurement changes will continue throughout the second half of the financial year in readiness for 1 January 2018 go-live.

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 2016 Annual Report and Accounts. The Group's assessment of going concern and longer term viability are contained on pages 21 and 22 of the 2016 Annual Report and Accounts. Taking these objectives, policies and processes into account alongside the current economic and regulatory environment, the directors confirm they are satisfied the Group 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 information.

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 2016, and details are provided on page 54 of the 2016 Annual Report and Accounts.

Notes to the interim financial report

3 Segmental reporting

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

- **Retail financial services** – provides mortgages, savings, third party insurance and investments. Includes all income and costs associated with Nottingham Building Society and Arrow Mortgage Finance No.1 Ltd.
- **Estate Agency** – provides estate agency and letting services. Includes all income and costs associated with Nottingham Property Services Ltd, Harrison Murray Ltd and HM Lettings Ltd.
- **Mortgage Broking** – provides whole-of-market mortgage broking services. Includes all income and costs associated with Nottingham Mortgage Services Ltd.

Six months to 30 June 2017 Unaudited	**Retail financial services £m**	**Estate Agency £m**	**Mortgage broking £m**	**Consolidation adjustments £m**	**Total £m**
Net interest income	23.9	-	-	-	23.9
Total net income	25.5	2.2	0.8	-	28.5
Profit/(loss) before tax	8.1	(0.6)	0.1	-	7.6

Six months to 30 June 2016 Unaudited	**Retail financial services £m**	**Estate Agency £m**	**Mortgage broking £m**	**Consolidation adjustments £m**	**Total £m**
Net interest income	23.1	-	-	-	23.1
Total net income	23.6	2.5	0.6	-	26.7
Profit/(loss) before tax	7.4	(0.4)	0.1	-	7.1

Year to 31 December 2016 Audited	**Retail financial services £m**	**Estate Agency £m**	**Mortgage broking £m**	**Consolidation adjustments £m**	**Total £m**
Net interest income	45.6	-	-	-	45.6
Total net income	47.1	5.2	1.3	-	53.6
Profit/(loss) before tax	14.9	(0.8)	0.2	(0.1)	14.2

4 Interest receivable and similar income

	Period to 30 June 2017 Unaudited £m	**Period to 30 June 2016 Unaudited £m**	**Year ended 31 December 2016 Audited £m**
On loans fully secured on residential property	44.3	48.1	93.4
On other loans	1.2	1.3	2.5
On liquid assets	0.5	0.7	1.2
On instruments held at amortised cost	46.0	50.1	97.1
On debt securities	0.4	0.5	1.1
On derivatives hedging of financial assets	(5.5)	(4.4)	(8.9)
	40.9	**46.2**	**89.3**

Notes to the interim financial report

5 Interest payable and similar charges

	Period to 30 June 2017 Unaudited £m	Period to 30 June 2016 Unaudited £m	Year ended 31 December 2016 Audited £m
On shares held by individuals	12.7	18.9	35.0
On deposits and other borrowings	3.7	3.5	7.4
On subscribed capital	1.0	1.0	2.0
On derivatives hedging of financial liabilities	(0.4)	(0.3)	(0.7)
	17.0	**23.1**	**43.7**

6 Administrative expenses

	Period to 30 June 2017 Unaudited £m	Period to 30 June 2016 Unaudited £m	Year ended 31 December 2016 Audited £m
Wages and salaries	10.1	9.3	19.4
Social security costs	0.9	0.7	1.6
Other pension costs	0.4	0.4	0.8
Total staff costs	11.4	10.4	21.8
Operating lease rentals	0.5	0.5	1.0
Other administrative costs	7.1	6.4	12.6
	19.0	**17.3**	**35.4**

7 Loans and advances to credit institutions

	30 June 2017 Unaudited £m	30 June 2016 Unaudited £m	31 December 2016 Audited £m
Repayable on call and short notice	12.3	5.2	6.3
Other loans and advances to credit institutions	33.7	37.9	32.8
	46.0	**43.1**	**39.1**

At 30 June 2017, £27.7 million (30 June 2016: £37.9 million; 31 December 2016: £30.8 million) of cash has been deposited by the Group as collateral against derivative contracts.

8 Cash and cash equivalents

Cash and cash equivalents is made up of cash in hand and balances with the Bank of England of £395.3 million (30 June 2016: £320.6 million; 31 December 2016: £387.5 million) and loans and advances to credit institutions of £12.3 million (30 June 2016: £5.2 million; 31 December 2016 £6.3 million).

9 Debt securities

	30 June 2017 Unaudited £m	30 June 2016 Unaudited £m	31 December 2016 Audited £m
Movement on debt securities during the year may be analysed as follows:			
At 1 January	97.4	102.3	102.3
Additions	13.9	34.2	152.6
Disposals and maturities	(19.5)	(26.0)	(157.6)
Net (losses)/gains from changes in fair value recognised in other comprehensive income	(0.2)	0.2	0.1
	91.6	**110.7**	**97.4**

Notes to the interim financial report

10 Loans and advances to customers

	Note	30 June 2017 Unaudited £m	30 June 2016 Unaudited £m	31 December 2016 Audited £m
Loans fully secured on residential property		3,166.1	2,850.6	2,950.4
Other loans fully secured on land		67.1	69.6	69.0
		3,233.2	2,920.2	3,019.4
Provision for impairment losses on loans and advances	11	(4.5)	(4.4)	(4.5)
		3,228.7	2,915.8	3,014.9
Fair value adjustment for hedged risk		10.5	28.6	17.7
		3,239.2	**2,944.4**	**3,032.6**

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.

	30 June 2017 Unaudited £m	30 June 2016 Unaudited £m	31 December 2016 Audited £m
Impairment (credit)/charge for the period:			
Loans fully secured on residential property	0.5	0.1	0.4
Other loans fully secured on land	(0.5)	(0.2)	(0.4)
	-	**(0.1)**	**-**

	30 June 2017 Unaudited £m	30 June 2016 Unaudited £m	31 December 2016 Audited £m
Impairment provision at the end of the period:			
Loans fully secured on residential property	2.0	1.2	1.5
Other loans fully secured on land	2.5	3.2	3.0
	4.5	**4.4**	**4.5**

12 Provision for liabilities

	30 June 2017 Unaudited £m	30 June 2016 Unaudited £m	31 December 2016 Audited £m
At 1 January	0.9	1.4	1.4
Charge for the period	0.4	0.6	0.4
Provision utilised	(0.1)	(0.1)	(0.9)
	1.2	**1.9**	**0.9**

During the period, further provision was made in respect of FSCS totalling £0.4 million (30 June 2016: £0.6 million; 31 December 2016: £0.2 million). As at 30 June 2017, a provision of £0.8 million (30 June 2016: £1.5 million; 31 December 2016: £0.4 million) was held for amounts payable to the Financial Services Compensation Scheme (FSCS).

Included above are also other provisions totalling £0.4 million (30 June 2016: £0.4 million; 31 December 2016: £0.5 million) made in respect of circumstances that may give rise to various customer claims, including claims in relation to previous sales of payment protection insurance and endowment policies. It is expected that the liability will predominately crystallise over the next 12 to 24 months. No further charge has been raised by the Group during the period (30 June 2016: £nil; 31 December 2016: £0.2 million).

Notes to the interim financial report

13 Subscribed capital

	30 June 2017 Unaudited £m	30 June 2016 Unaudited £m	31 December 2016 Audited £m
7.875% sterling permanent interest bearing shares	23.9	23.9	23.9
Fair value adjustment for hedged risk	2.0	2.7	2.3
	25.9	**26.6**	**26.2**

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

14 Available-for-sale reserves

	30 June 2017 Unaudited £m	30 June 2016 Unaudited £m	31 December 2016 Audited £m
At 1 January	0.3	0.2	0.2
Net (loss)/gain from changes in fair value	(0.2)	0.2	0.1
	0.1	**0.4**	**0.3**

Amounts within the available-for-sale reserve are transferred to the income statement upon the disposal of debt securities.

15 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 2017 Unaudited	**Loans and receivables £m**	**Financial assets and liabilities at amortised cost £m**	**Available-for-sale £m**	**Derivatives designated as fair value hedges £m**	**Unmatched derivatives £m**	**Total £m**
Financial assets						
Cash in hand and balances with the Bank of England	-	398.5	-	-	-	398.5
Loans and advances to credit institutions	46.0	-	-	-	-	46.0
Debt securities	-	-	91.6	-	-	91.6
Derivative financial instruments	-	-	-	4.7	1.2	5.9
Loans and advances to customers	3,239.2	-	-	-	-	3,239.2
Other assets	-	29.5	-	-	-	29.5
	3,285.2	**428.0**	**91.6**	**4.7**	**1.2**	**3,810.7**
Financial liabilities						
Shares	-	2,608.3	-	-	-	2,608.3
Amounts owed to credit institutions	-	675.2	-	-	-	675.2
Amounts owed to other customers	-	183.3	-	-	-	183.3
Debt securities in issue	-	81.7	-	-	-	81.7
Derivative financial instruments	-	-	-	14.3	0.4	14.7
Subscribed capital	-	25.9	-	-	-	25.9
Other liabilities	-	16.0	-	-	-	16.0
	-	**3,590.4**	**-**	**14.3**	**0.4**	**3,605.1**

Notes to the interim financial report

15 Financial instruments (continued)

Classification & Measurement (continued)

Carrying values by category As at 30 June 2016 Unaudited	Held at amortised cost Loans and receivables £m	Financial assets and liabilities at amortised cost £m	Held at fair value Available-for-sale £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	-	323.5	-	-	-	323.5
Loans and advances to credit institutions	43.1	-	-	-	-	43.1
Debt securities	-	-	110.7	-	-	110.7
Derivative financial instruments	-	-	-	4.2	-	4.2
Loans and advances to customers	2,944.4	-	-	-	-	2,944.4
Other assets	-	25.7	-	-	-	25.7
	2,987.5	**349.2**	**110.7**	**4.2**	**-**	**3,451.6**
Financial liabilities						
Shares	-	2,568.4	-	-	-	2,568.4
Amounts owed to credit institutions	-	420.5	-	-	-	420.5
Amounts owed to other customers	-	188.2	-	-	-	188.2
Debt securities in issue	-	8.0	-	-	-	8.0
Derivative financial instruments	-	-	-	28.1	0.6	28.7
Subscribed capital	-	26.6	-	-	-	26.6
Other liabilities	-	13.0	-	-	-	13.0
	-	**3,224.7**	**-**	**28.1**	**0.6**	**3,253.4**

Carrying values by category As at 31 December 2016 Audited	Held at amortised cost Loans and receivables £m	Financial assets and liabilities at amortised cost £m	Held at fair value Available-for-sale £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	-	390.5	-	-	-	390.5
Loans and advances to credit institutions	39.1	-	-	-	-	39.1
Debt securities	-	-	97.4	-	-	97.4
Derivative financial instruments	-	-	-	4.7	-	4.7
Loans and advances to customers	3,032.6	-	-	-	-	3,032.6
Other assets	-	27.1	-	-	-	27.1
	3,071.7	**417.6**	**97.4**	**4.7**	**-**	**3,591.4**
Financial liabilities						
Shares	-	2,457.4	-	-	-	2,457.4
Amounts owed to credit institutions	-	557.6	-	-	-	557.6
Amounts owed to other customers	-	215.7	-	-	-	215.7
Debt securities in issue	-	98.7	-	-	-	98.7
Derivative financial instruments	-	-	-	19.1	0.6	19.7
Subscribed capital	-	26.2	-	-	-	26.2
Other liabilities	-	16.3	-	-	-	16.3
	-	**3,371.9**	**-**	**19.1**	**0.6**	**3,391.6**

Notes to the interim financial report

15 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 2017 Unaudited Book value £m	30 June 2017 Unaudited Fair value £m	30 June 2016 Unaudited Book value £m	30 June 2016 Unaudited Fair value £m	31 December 2016 Audited Book value £m	31 December 2016 Audited Fair value £m
Financial assets							
Cash in hand & balances with the Bank of England	a	398.5	398.5	323.5	323.5	390.5	390.5
Loans & advances to credit institutions	b	46.0	46.0	43.1	43.1	39.1	39.1
Loans & advances to customers	c	3,239.2	3,251.7	2,944.4	2,955.6	3,032.6	3,042.6
Financial liabilities							
Shares	d	2,608.3	2,611.0	2,568.4	2,567.4	2,457.4	2,455.0
Amounts owed to credit institutions	d	675.2	676.0	420.5	422.6	557.6	559.0
Amounts owed to other customers	d	183.3	183.6	188.2	188.7	215.7	216.1
Debt securities in issue	e	81.7	81.7	8.0	8.0	98.7	98.8
Subscribed capital	f	25.9	29.1	26.6	29.4	23.9	29.4

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

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

b) Loans and advances to credit institutions – Level 2
The fair value of overnight deposits is the amount repayable on demand. The estimated fair value of loans and advances to credit institutions is calculated based on 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 as required by IAS 39. 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

15 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 2017 Unaudited	Level 1 £m	Level 2 £m	Level 3 £m	Total Fair Value £m
Financial assets				
Available-for-sale - Debt securities	91.6	-	-	91.6
Derivative financial instruments - Interest rate swaps	-	5.9	-	5.9
	91.6	**5.9**	**-**	**97.5**
Financial liabilities				
Derivative financial instruments - Interest rate swaps	-	(14.7)	-	(14.7)
	-	**(14.7)**	**-**	**(14.7)**

30 June 2016 Unaudited	Level 1 £m	Level 2 £m	Level 3 £m	Total Fair Value £m
Financial assets				
Available-for-sale - Debt securities	105.7	5.0	-	110.7
Derivative financial instruments - Interest rate swaps	-	4.2	-	4.2
	105.7	**9.2**	**-**	**114.9**
Financial liabilities				
Derivative financial instruments - Interest rate swaps	-	(28.7)	-	(28.7)
	-	**(28.7)**	**-**	**(28.7)**

31 December 2016 Audited	Level 1 £m	Level 2 £m	Level 3 £m	Total Fair Value £m
Financial assets				
Available-for-sale - Debt securities	88.3	9.1	-	97.4
Derivative financial instruments - Interest rate swaps	-	4.7	-	4.7
	88.3	**13.8**	**-**	**102.1**
Financial liabilities				
Derivative financial instruments - Interest rate swaps	-	(19.7)	-	(19.7)
	-	**(19.7)**	**-**	**(19.7)**

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

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

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

The main valuation techniques employed by the Group to establish 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 LIBOR yield curves. The LIBOR yield curves are generally observable market data which is derived from quoted interest rates in similar time bandings which match the timings of the cash flows and maturities of the instruments.

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

Notes to the interim financial report

15 Financial instruments (continued)

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

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 2017 Unaudited £m	30 June 2016 Unaudited £m	31 December 2016 Audited £m
Credit risk exposure			
Cash in hand and balances with the Bank of England	398.5	323.5	390.5
Loans and advances to credit institutions	46.0	43.1	39.1
Debt securities	91.8	186.0	96.9
Derivative financial instruments	5.9	4.2	4.7
Loans and advances to customers	3,239.2	2,944.4	3,032.6
Total statement of financial position exposure	**3,781.4**	**3,501.2**	**3,563.8**
Off balance sheet exposure – mortgage commitments	195.5	94.6	182.2
	3,976.9	**3,595.8**	**3,746.0**

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 2017 is 99% (30 June 2016: 98%; 31 December 2016: 98%). The remaining balances relate to investments in unrated building societies.

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

There are no impairment charges against any of the Group's treasury assets at 30 June 2017 (30 June 2016: £nil; 31 December 2016: £nil).

b) Loans and advances to customers

Loans and advances to customers are predominately made up of retail loans fully secured against UK residential property of £3,166.1 million, split between residential and buy-to-let loans with the remaining £67.1 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 2017, the average LTV of retail mortgages is 55% (30 June 2016: 53%; 31 December 2016: 53%). The table below provides information on retail loans by payment due status:

Arrears analysis	30 June 2017 Unaudited £m	30 June 2017 Unaudited %	30 June 2016 Unaudited £m	30 June 2016 Unaudited %	31 December 2016 Audited £m	31 December 2016 Audited %
Not impaired:	3,164.9	99.96	2,848.8	99.94	2,948.7	99.94
Impaired:						
Not past due	0.1	-	0.8	0.03	0.2	-
Past due up to 3 months	-	-	0.3	0.01	0.5	0.02
Past due over 3 months	0.6	0.02	0.7	0.02	1.0	0.04
Possessions	0.5	0.02	-	-	-	-
	3,166.1		**2,850.6**		**2,950.4**	

Notes to the interim financial report

15 Financial instruments (continued)

Credit risk (continued)

Secured Business Loans

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

The average LTV of secured business loans is 61.2% (30 June 2016: 62.2%; 31 December 2016: 61.3%).

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

Arrears analysis	30 June 2017 Unaudited £m	30 June 2017 Unaudited %	30 June 2016 Unaudited £m	30 June 2016 Unaudited %	31 December 2016 Audited £m	31 December 2016 Audited %
Not impaired:	63.4	94.48	65.6	94.26	65.2	94.49
Impaired:						
Not past due	3.2	4.77	3.5	5.03	3.5	5.07
Past due up to 3 months	0.3	0.45	0.1	0.14	0.1	0.15
Past due over 3 months	0.2	0.30	0.4	0.57	0.2	0.29
Possessions	-	-	-	-	-	-
	67.1		**69.6**		**69.0**	

Forbearance

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

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

At 30 June 2017, there were 123 forbearance cases within the "Not impaired" category of retail loans (30 June 2016: 137; 31 December 2016: 123) and 3 cases within the "Not impaired" category of SBL loans (30 June 2016: 5; 31 December 2016: 4).

Responsibility statement

The directors confirm that this Interim Financial Report has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The interim management report includes a fair review of the important events that have occurred during the first six months of the financial year and their impact on the Interim Financial Report, as required by the Disclosure and Transparency Rules (DTR 4.2.7). The principal risks and uncertainties continue to be those reported within the Risk Management Report starting on page 23 of the 2016 Annual Report and Accounts and those detailed on page 5 of this Interim Financial Report.

A full list of the Board of directors can be found in the 2016 Annual Reports and Accounts, with the following updates in respect of changes that have occurred during the period to 30 June 2017.

- Kavita Patel was appointed to the Board as a Non-executive Director on 1 January 2017.
- Ashraf Piranie resigned from the Board on 23 February 2017.
- Keith Whitesides retired from the Board on 28 March 2017.
- Daniel Mundy was appointed to the Board as Finance Director on 19 April 2017.
- Guy Thomas resigned from the Board on 21 June 2017.

Signed on behalf of the Board by

David Marlow
Chief Executive

Daniel Mundy
Finance Director

26 July 2017

Independent review report to Nottingham Building Society

Introduction

We have been engaged by the Society to review the set of condensed consolidated financial statements in the Interim Financial Report for the six months ended 30 June 2017, 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 15. 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 consolidated financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

Our responsibility is to express to the Society a conclusion on the set of condensed consolidated financial statements in the Interim Financial Report based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the set of condensed consolidated financial statements in the Interim Financial Report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
Leeds

26 July 2017

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 2016 has been extracted from the Annual Report and Accounts for that year. The Annual Report and Accounts for the year ended 31 December 2016 have been filed with the Financial Conduct Authority. The Auditors' report on these Annual Report and Accounts was unqualified.

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

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

The Nottingham

LIT2701/0617