

2015

Members' Newsletter

including our summary
financial statement



**The
Nottingham**

Bringing your finances closer to home

Contents

- 02 Summary financial statement
- 07 Independent auditor's statement
- 08 Summary directors' remuneration report
- 12 Notice of annual general meeting 2016
- 14 Your Board of directors

Executive summary

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

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

- Strong retail franchise – total branch balances up by 15% in the year and up over 90% in the last five years;
- The Society welcomed 24,000 new customers and opened five new branch locations;
- Net promoter score of 74%;
- Gross mortgage lending of £651m resulting in mortgage book growth of 3%;
- Total assets of £3.3 billion;
- Group pre-tax profit up 15% at £20.0m;
- Net interest margin at 1.46%;
- Strong capital ratios with Tier 1 ratio at 16.7% and leverage ratio of 4.8%; and
- Arrears levels remain very low at around a quarter of industry average.

Summary financial statement

We are pleased to present our summary financial statement for the year ended 31 December 2015

This financial statement is a summary of information in the audited annual accounts, the directors' report and annual business statement, all of which will be available to members and depositors free of charge on our website www.thenottingham.com from 1 March 2016.

Summary directors' report

Market and economic background

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

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

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

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

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

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

Your Society

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

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

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

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

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

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

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

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

Easier to do business with

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

In a world of increasing legislation and regulation surrounding anti-money laundering and know your customer requirements,

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

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

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

Our performance

We have continued to grow the assets of the Society, however as stated last year we have moderated this growth somewhat in 2015 reflecting increased mortgage competition, in a market where housing transactions and remortgage demand remained somewhat below the long term average, but appetite for lending from existing market players and new market entrants saw yields achievable on new mortgage lending fall by approximately 0.35% in the year¹. This meant that whilst higher growth would have been achievable, the Board determined that this would have had the undesirable impact of unacceptable reductions in savings rates to customers. It is always part of our challenge to strike the right balance between the competing needs of our savings and mortgage customers, particularly as mortgage rates continue to fall to new record lows.

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

It is crucial that we run the Society in an efficient and robust manner and naturally as the Society has grown markedly over recent years costs have risen too. It is particularly pleasing therefore to report in 2015 our total Group management expenses remained flat at £36.9m. In real terms they have actually reduced – this is particularly impressive when viewed in the context of a society increasing the number of branches it operates. This reflects our strong management focus and reward for our long term investment in the business to make us scalable

¹ Market Monitoring

Summary financial statement

at lower marginal cost. Our cost income ratios were broadly flat with the Group at 64.6% and the Society below the 60% mark at 59.8% - this compares favourably with the UK major banks despite our much smaller scale.

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

Quality and strength

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

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

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

Serving our growing membership

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

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

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

Board changes

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

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

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

Doing good together

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

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

During 2015 the Nottingham team has raised or donated over £100,000 for local causes who support our themes of homelessness, employability and raising financial awareness. Our staff have walked, run, jumped, painted, cleaned, baked and sung all in support of building stronger communities and the Board is proud to support all of these efforts and achievements.

Summary and outlook

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

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

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

We therefore expect to:

- Continue to increase the number of locations we offer our 'all under one roof' proposition across our heartland.
- Continue to focus on how we can be easier to deal with. For example, we are currently piloting the provision of advice by video conferencing. Initially this will enable us to provide greater availability of advice in more branches and locations than we are currently able to.
- Continue to develop our infrastructure and technology to support the efficient delivery of our unique proposition – this will include continuing work on how we can utilise the benefits of the digital age to make us more accessible to our members.
- Develop our advice proposition further. Encouraged by the enthusiastic response from customers for whole-of-market mortgage advice, we expect to increase our capacity to meet this demand.

- Continue to find different ways to raise the profile and awareness of the Society, making more local people aware of our unique offering and demonstrating how, as a successful local mutual organisation, we are committed to playing our part in strengthening the communities in which we operate.

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

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

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

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

John Edwards
Chairman

17 February 2016

Summary financial statement

Results for the year	2015 £m	2014 £m
Net interest receivable	48.0	48.9
Other income and charges	10.4	10.3
Administrative expenses	(36.9)	(36.9)
Impairment losses	(0.2)	(1.3)
Provisions	(1.4)	(3.0)
Profit/(loss) on disposal of fixed assets	0.1	(0.6)
Profit for the year before taxation	20.0	17.4
Taxation	(4.6)	(3.5)
PROFIT FOR THE YEAR	15.4	13.9

Financial position at end of year	2015 £m	2014 £m
ASSETS		
Liquid assets	491.6	510.7
Mortgages	2,796.5	2,718.3
Derivative financial instruments	3.8	9.9
Fixed and other assets	26.5	26.9
TOTAL ASSETS	3,318.4	3,265.8

LIABILITIES		
Shares	2,433.2	2,575.4
Borrowings	643.0	456.9
Derivative financial instruments	9.3	13.6
Other liabilities	14.2	16.2
Subscribed capital	26.2	26.6
Reserves	192.5	177.1
TOTAL LIABILITIES & EQUITY	3,318.4	3,265.8

Summary of key financial ratios	2015 %	2014 %
Gross capital as a percentage of shares & borrowings ^(Note 2)	7.11	6.72
Liquid assets as a percentage of shares & borrowings ^(Note 3)	15.98	16.84
Profit for the year as a percentage of mean total assets ^(Note 4)	0.47	0.44
Management expenses as a percentage of mean total assets ^(Note 5)	1.12	1.17
Management expenses as a percentage of mean total assets (Society only) ^(Note 5)	0.90	0.93

NOTES

- The summary financial statement is prepared on a Group basis.
- The gross capital ratio measures the proportion which the Group's capital bears to the Group's shares and borrowings. The Group's gross capital consists of subscribed capital plus reserves. Capital provides a financial cushion against difficulties which might arise in the Group's business and therefore protects investors.
- The liquid assets ratio measures the proportion which liquid assets held in the form of cash, short term deposits and investments bears to the Group's shares and borrowings. As liquid assets are by their nature readily realisable, this assists the Group in its cash management and enables the Group to meet requests by investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.
- The ratio of profit for the year as a percentage of mean total assets measures the proportion which the profit after taxation for the year bears to the average balance of the total assets during the year. The ratio is similar to a company's return on assets. The Group needs to generate a reasonable level of profit each year in order to maintain its capital ratios at a suitable level to protect investors.
- The ratio of management expenses as a percentage of mean total assets measures the proportion which administrative expenses as reported in this document (which includes depreciation and amortisation) bear to the mean of total assets in accordance with the Accounts Regulations.

Approved by the Board of directors on 17 February 2016 and signed on its behalf by:

John Edwards
Chairman

David Marlow
Chief Executive

Ashraf Piranie
Deputy Chief Executive and Finance Director

Independent auditor's statement

Statement of the Auditors to the Members and Depositors of Nottingham Building Society

We have examined the Summary financial statement of Nottingham Building Society for the year ended 31 December 2015 which comprises the 'Results for the year', 'Financial position at end of year' and 'Key financial ratios', comprising page 6, and the directors' emoluments disclosures on pages 10 and 11.

This statement is made solely to the Society's members and depositors of Nottingham Building Society, as a body, in accordance with Section 76 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members and depositors those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members and depositors as a body, for our audit work, for this statement, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the summary financial statement, within the Members' Newsletter, in accordance with the Building Societies Act 1986, which includes information extracted from the Annual Report & Accounts and the auditable part of the Directors' Remuneration Report of Nottingham Building Society for the year ended 31 December 2015. Our responsibility is to report to you our opinion on the consistency of the Summary financial statement within the Members' Newsletter with the full Annual Report & Accounts, the Directors' Remuneration Report and the Directors' Report, and its compliance with the relevant requirements of Section 76 of the Building Societies Act 1986 and the regulations made thereunder.

Basis of opinion

Our examination involved agreeing the balances disclosed in the Summary financial statement to the Annual Report & Accounts. Our audit report on the Society's Annual Report & Accounts and the auditable part of the Directors' Remuneration Report describes the basis of our opinion on those financial statements and the auditable part of that report.

Opinion

In our opinion the Summary financial statement is consistent with the full annual financial statements, the Directors' Report and the Directors' Remuneration Report in the Annual Report & Accounts of Nottingham Building Society for the year ended 31 December 2015 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986, and the regulations made thereunder.

Ernst & Young LLP

Registered Auditors
Leeds

17 February 2016

Summary directors' remuneration report

Nottingham Building Society is committed to best practice in its remuneration of directors. This report summarises the pay, benefits, bonuses and incentive plans for the directors for 2015.

There are three sections to the report – a statement by the Chairman of the Remuneration Committee, a remuneration policy report, which explains the Society's approach to pay and reward and the annual remuneration report, which outlines how the policy was implemented during 2015.

A full version of the directors' remuneration report is contained in the 2015 annual report and accounts.

Statement by the Chairman of the Remuneration Committee

Context for remuneration in 2015

The summary financial statement on pages 2 to 6 describes 2015 as another very successful year for the Society in all aspects of its activities. It is in this context and the Executive Directors' Remuneration Review carried out during 2015 that the payments to Executive Directors have been determined and are detailed in this report.

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

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

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

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

- Changes to overall executive remuneration arrangements incorporating a rebalancing of fixed versus variable pay opportunity resulting in a lower percentage of variable pay available overall;
- The replacement of the existing variable pay plans with a single executive bonus plan, with transitional provisions to facilitate the introduction of a significant deferral element, which incorporate malus¹ and clawback rules;
- An increase to Executive Directors' base salaries to take account of both the reduction in variable remuneration potential, up to date external market data and benchmarking, as well as the significant change in the scale and complexity of the Society; and
- An increase to Executive Directors pension contributions to take account of market data, benchmarking and the change in scale and complexity of the Society.

Remuneration policy

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

- Remuneration should be sufficient to attract, retain and motivate directors to run the Society successfully, whilst avoiding paying more than is necessary for this purpose in line with our mutual ethos; and
- Incentives are structured to strike the right balance between fixed and variable pay. To incentivise appropriate behaviour, aligned with the Society's position on risk, rewards are only attributed to the delivery of success.

The Chairman and other non-executive directors each receive an annual fee, reflective of the time commitment and responsibilities of the role. Executive Directors' emoluments comprise a basic salary, variable pay, pension entitlement and other taxable benefits as outlined on page 9.

¹ Malus: Where issues associated with executive conduct are evident, or where the Group suffers a material downturn, a material failure of risk management, or a misstatement of the Group's audited results, the Remuneration Committee may reduce whole or part of a bonus.

Payment for loss of office of Executive Directors

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

Recruitment policy for Executive Directors

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

Service contracts

All Executive Directors, in line with best practice, have contracts on a 12 months 'rolling' basis requiring 12 months' notice by the Society to terminate and 6 months' notice by the individual.

Non-executive directors are appointed for an initial term of three years. They will generally be expected to serve more than one three year term.

Other directorships

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

Executive Director's total remuneration

The total remuneration received by Executive Directors is detailed on page 10. The information has been audited and shows remuneration for the years ending 31 December 2014 and 31 December 2015 as required under the Building Society's (Accounts and Related Provisions) Regulations 1998.

The remuneration of Executive Directors is considered annually by the Remuneration Committee attended by the Society's Chief Executive, who (except in respect of his own remuneration) makes recommendations regarding executive pay. All agreed recommendations are referred to the Board.

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

Full details of the different components of Executive Director remuneration are outlined in the directors' remuneration report in the annual report and accounts. The main elements of remuneration for Executive Directors are as follows:

- **Base salary** – Fixed remuneration set to attract and retain executives of appropriate calibre and experience. Basic salary is assessed by reference to roles carrying similar responsibilities in comparable organisations. A comparator group is used that consists of executive director positions within building societies of a similar size and complexity.
- **Benefits and pension** – In line with market practice and includes a car allowance and private medical insurance. Executive Directors are invited to join the Society's defined contribution pension plan, or, as an alternative be provided with an equivalent cash allowance. The individuals receive a pension contribution of 15% of basic salary.
- **Variable pay – Executive Bonus Plan**. A new scheme introduced in 2015 linked to the delivery of Society and personal objectives. On target rewards 30% of basic salary with up to a maximum of 50% payable. 60% of the award is deferred over a three year period and payment is subject to meeting future Society and individual performance threshold criteria.
- **Variable pay – Legacy Long Term Incentive (LTI)**. The legacy LTI schemes, linked to the delivery of Society and personal objectives, are payable in 2016, 2017 and 2018. On target rewards between 16% and 22% of basic salary up to a maximum of 40% (reducing to 30% in the scheme payable in 2018).

Non-executive directors

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

The fees are reviewed by the Chairman together with the Executive Directors before recommendations are referred to the Board. Remuneration of the Chairman is considered by the Remuneration Committee together with the Society's Chief Executive without the Chairman being present, with a recommendation being referred to the Board.

There are no bonus schemes or incentive schemes for any non-executive director including the Chairman. Similarly, non-executive directors have no pension scheme entitlements or other benefits.

Summary directors' remuneration report

Annual report on remuneration

Executive Director remuneration

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

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

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

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

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

Non-executive director remuneration

Audited Society		2015 £000	2014 £000
J. Edwards (Chairman)		66	59
R. W. Fiddis	(resigned 30 September 2014)	-	26
J. C. Kibbey		39	34
A. F. J. Neden	(appointed 17 September 2014)	43	10
M. C. Phibbs		37	44
W. G. Thomas	(appointed 01 December 2014)	37	3
D. A. R. Thompson	(retired 30 April 2014)	-	21
K. R. Whitesides (Vice-Chairman)		42	43
Total emoluments for services as directors		264	240

On behalf of the Board of directors,

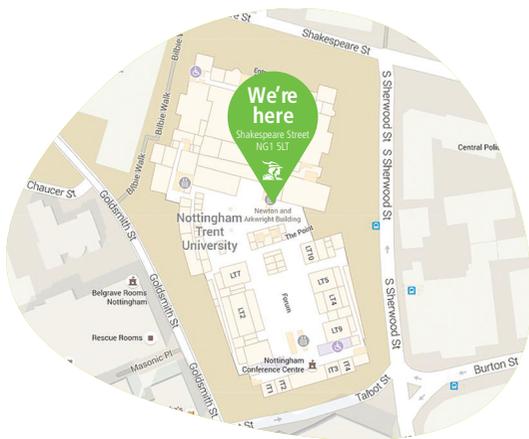
Jane Kibbey

Chairman of the Remuneration Committee

17 February 2016

Notice of annual general meeting 2016

The annual general meeting of Nottingham Building Society will be held at The Old Chemistry Theatre, Arkwright Building, Nottingham Trent University city site, Shakespeare Street, Nottingham, NG1 5LT on Tuesday, 22 March 2016 at 6.30 p.m. for the following purposes:



1. To receive the auditor's report.

Ordinary Resolutions

2. To receive the directors' report, annual accounts and annual business statement for the year ended 31 December 2015.
3. To consider and, if thought fit, pass an ordinary resolution to re-appoint Ernst & Young LLP as auditors until the conclusion of the next annual general meeting.
4. To consider and, if thought fit, approve the directors' remuneration report.

Election of Directors

5. To consider and if thought fit:
 - a. to re-elect John Stephen Edwards
 - b. to re-elect Jane Celia Kibbey
 - c. to re-elect David John Marlow
 - d. to re-elect Simon James Taylor
 - e. to re-elect Keith Robert Whitesides

as directors of the Society.

By order of the Board

D R Watts, Secretary

17 February 2016

Notes

1. These notes form part of the notice of meeting.

2. Re-election of Directors

The Board is committed to complying with best practice in corporate governance but where it believes that there is a justifiable reason to depart from the UK Corporate Governance Code then it will do so. The key consideration being that such a departure is believed to be in the best interests of members and that the governance of the Society is not compromised. The Board does not comply with the Code provision that all directors should be subject to annual election by shareholders (i.e. the Society's members). The Board is concerned that in extreme circumstances that requirement could have implications for the financial stability of the Society which would not be in the best interests of members.

All directors are submitted for election at an annual general meeting (the AGM) in accordance with the Society's rules. The rules require re-election at three-yearly intervals. The Board has decided that from the 2016 AGM onwards the Chairman and the Chief Executive will each stand for re-election annually. Subject to this, the Board consider that the current voting arrangements are satisfactory and provide for a continuity of experience and knowledge. However, the issue will continue to be kept under review.

Non-executive directors can serve up to a maximum of three three-year terms. Any extension must be approved annually, and be explained giving due consideration to the continuing independence and objectivity of the non-executive director.

Five of the nine directors of the Society are therefore seeking re-election at the AGM. Simon Taylor retires by rotation having last been re-elected at the 2013 AGM. Keith Whitesides has reached the age of 70 and has been approved as eligible for re-election by resolution of the Board. The Board has taken into account his vast experience and continued contribution as a non-executive director in coming to that decision. In accordance with the Society's overall non-executive director succession planning it is his intention to stand down at the Society's 2017 AGM. Jane Kibbey has completed nine years as a non-executive director and in line with corporate governance practice will now seek annual re-election. The Board considers that her experience and contribution continues to be extremely valuable and recommends her re-election to members. John Edwards (Chairman) and David Marlow (Chief Executive) are also seeking re-election at the AGM.

The Board has considered (in the absence of each relevant director) that the performance of the five directors seeking re-election at the AGM continues to be effective and they demonstrate the necessary commitment to the role.

Mary Phibbs, a non-executive director, is retiring at the end of the AGM and is not seeking re-election.

3. Rules

Copies of the Society's Rules may be obtained from the principal office.

4. Proxies

If you are unable to attend and vote at the meeting, you may appoint a proxy to attend and vote for you either by using the enclosed proxy voting form or by completing it online. You may appoint the Chairman of the meeting or anyone else as your proxy. Your proxy does not have to be a member of the Society. Your proxy may vote for you at the meeting but only on a poll. A poll is a formal vote that may take place after an initial vote by a show of hands, or otherwise as provided in the Society's Rules; for example, the special resolution to update the Society's Memorandum and the election of directors will be by poll. Your proxy may speak at the meeting and may demand or to join in demanding a poll.

You may instruct your proxy how to vote at the meeting. Please read the instructions on the proxy voting form.

To be valid, proxy voting forms must be signed and returned (or submitted electronically) so as to reach Communisis no later than midnight on 20 March 2016.

5. Voting qualifications

You can vote if you:

- a) are at least 18 years old on 22 March 2016; and
- b) (i) held shares to the value of not less than £100 in the Society on 31 December 2015 and have continued to hold shares at all times between 31 December 2015 and the voting date; or
(ii) owed the Society not less than £100 in respect of a mortgage debt on 31 December 2015 and owe the Society not less than £100 in respect of a mortgage debt on the voting date; and
- c) are the only or the first named account holder in our records for the relevant share or mortgage account.

The 'voting date' referred to above is:

- a) 18 March 2016 if you are voting by proxy (whether using the enclosed form or completing it online); or
- b) 22 March 2016 if voting in person at the meeting.

6. In addition, **you can vote only once** as a member, irrespective of the number of mortgage and savings accounts you hold and whether you hold accounts in different capacities (for example, on your own behalf and as a trustee).

7. Identification

- a) We ask shareholding members attending the meeting to produce their passbooks as evidence of membership.
- b) We ask borrowing members attending the meeting to have their account number available as evidence of membership.
- c) If you are appointing a proxy, other than the Chairman of the meeting, to attend the meeting and vote on your behalf, please make sure that your proxy brings an appropriate form of identification to the meeting.

Your Board of directors at 31 December 2015



Andrew Neden MA, FCA

Age 54 Date of appointment 17.09.14

Andrew joined the Board in 2014. He is a Chartered Accountant with over 30 years' experience in financial services in the UK and overseas. After a number of years running KPMG's UK financial sector transaction services team, he was the global Chief Operating Officer for KPMG's financial services business. Current directorships include the Wesleyan Assurance Society and Youth Business International; he chairs the Audit Committee for both organisations.



Mary Phibbs BSc (Hons), FCA

Age 58 Date of appointment 01.02.13

Mary joined the Board in 2013. She is a Chartered Accountant with over 30 years' experience in financial services in the UK and overseas. Mary has held senior roles in a number of leading institutions such as Standard Chartered where she was Deputy Group Credit Officer. Previously serving as a director of companies such as Northern Rock Plc through its public ownership and Friends Life Group Plc, her current directorships include Morgan Stanley International Ltd, New Day Cards Ltd where she chairs the Board Risk Committee and Novae Group Plc where she chairs the Board Audit Committee.



Mahomed Ashraf Piranie* FCCA, MBA

Finance Director and Deputy CEO

Age 52 Date of appointment 16.04.07

Ashraf joined the Board in 2007 and is responsible for Finance, Treasury and Risk. Previously, he held the positions of Finance Director and Joint Managing Director at the Islamic Bank of Britain and Director of Finance at Alliance & Leicester Plc. He is a director of Nottingham Property Services Ltd, Nottingham Mortgage Services Ltd, The Mortgage Advice Centre (East Midlands) Ltd, Harrison Murray Ltd and HM Lettings Ltd. Ashraf is also a member of the PRA Practitioner Panel.



Guy Thomas BSc (Hons), ACA, FCT, C.Dir, FloD

Age 60 Date of appointment 01.12.14

Guy joined the Board in 2014. He is a qualified accountant with nearly 30 years in the financial services industry with specific experience in Finance, Treasury, Risk and General Management. Guy has an excellent building society pedigree with more recent experience in market operations, mergers and acquisitions and disposals. Guy recently retired from his position as Chief Operating Officer of The Principality Building Society. Prior to that he was Finance Director at three different building societies.

*Executive Director

Directors up for election/re-election

John Edwards

Chairman

Age 60 Date of appointment 01.02.12

John joined the Board in February 2012 and was appointed Chairman in May 2014. He has spent his entire executive career in the insurance and investment industry. His former senior executive roles include CEO of Clerical Medical Investment Group, CEO of HBOS Insurance and Investment Division and CEO of International Financial Services within Lloyds Banking Group, from which he retired in June 2009. He was the senior independent non-executive director of the LV Group and Chairman of their Investment Committee until September 2015.

"It is a privilege to serve as Chairman of such a strong, prudent and successful Society, especially so because of its deeply rooted customer-focused culture. If re-elected I look forward to contributing to The Nottingham's future success across its expanded heartland and ensuring that its products and services continue to develop to meet the needs of members and customers."



Jane Kibbey BSc, MCIPD

Age 65 Date of appointment 01.05.06

Jane joined the Board in 2006. She has a wealth of experience gained in financial services and human resources. Jane has worked in a range of high profile companies, retiring as Group Human Resources Director for Prudential Plc, a role she held for nine years.

"I am proud to be a director of The Nottingham; we are a successful mutual with strong roots in our heartland and we have consistently delivered high levels of individual attention and service to our members. If re-elected I look forward to continuing this focus and ensuring our members' interests are at the heart of everything we do."



David Marlow* ACIB

Chief Executive

Age 50 Date of appointment 16.01.06

David joined the Board in 2006 and became Chief Executive in March 2011. Prior to his appointment as Chief Executive, David held the post of Retail Director. He has over 25 years' experience in a variety of roles, mainly in the financial services industry. Before joining The Nottingham, David held a number of senior posts in retail banking at Alliance & Leicester Plc, including Director of Current Accounts & Savings and Managing Director Alliance & Leicester Direct. He is a director of Nottingham Property Services Ltd, Nottingham Mortgage Services Ltd, The Mortgage Advice Centre (East Midlands) Ltd, Harrison Murray Ltd and HM Lettings Ltd.

"I have been proud to lead the Society over the past five years as we have continued to develop our unique mutual brand of service, advice, value and choice. It has also been very satisfying to see us taking our proposition to more and more high streets across our heartland. If I am re-elected I will continue to work hard to lead our great team at The Nottingham to further develop our offering to the benefit of all our members, helping them to plan for and secure their financial futures."



*Executive Director

Directors up for election/re-election

Simon Taylor* ACIB, MBA

Chief Operating Officer



Age 45 Date of appointment 01.02.11

Simon joined the Board in February 2011 and is responsible for Customer Service, Distribution, the Branch Network Estate Agency, Marketing and I.T. He is also the Chairman of Nottingham Mortgage Services Ltd and Nottingham Property Services Ltd, Harrison Murray Ltd, HM Lettings Ltd and The Mortgage Advice Centre (East Midlands) Ltd. Simon joined the Society from Lloyds Banking Group where he was Regional Director for the North of England. Prior to this he had a number of senior roles within Lloyds Banking Group.

"I believe passionately in continuing to develop The Nottingham as a thriving, forward looking regional mutual. One that delivers excellent value and great service to its members and communities through the execution of a clear plan and strategy. If I am re-elected I will ensure we continuously strive to put the long term interests of our members at the heart of every decision we make."

Keith Whitesides MBE, LLB, MPhil



Age 72 Date of appointment 18.08.04

Keith joined the Board in 2004. He retired from his position as Director of Investor Relations at The Boots Company Plc, after working for the company for 27 years. He was awarded an MBE in 1996 for services to the community in the East Midlands. Keith, a barrister, also served as Justice of the Peace in Nottinghamshire, was a national Commissioner for Racial Equality and a Council member of The University of Nottingham. He is Chairman of the Society's Pension Scheme Trustees.

"I continue to consider it a privilege to serve as Vice-Chairman of The Nottingham; a trusted mutual, firmly rooted within its expanding heartland. If I am re-elected I will remain committed to working with the Society to maintain proven traditional values promoting prudent financial strength."

*Executive Director



'Like' us on Facebook

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

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

Nottingham Building Society is a member of the Building Societies Association, the Council of Mortgage Lenders and Financial Ombudsman Service and is a participant in the Financial Services Compensation Scheme. Nottingham Building Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered under number 200785.

Financial planning is provided by Wren Sterling. Nottingham Building Society and Nottingham Property Services Limited are introducers to Wren Sterling for investments, pensions and protection. Wren Sterling is a trading name of Wren Sterling Financial Planning Limited, which is authorised and regulated by the Financial Conduct Authority. The Financial Services Register number is 665653. Registered office: 5th Floor, Cutlers Exchange, 123 Houndsditch, London, EC3A 7BU. Registered in England No 09157918.

Nottingham Property Services Limited, registered in England and Wales number 2272731. Harrison Murray Limited, registered in England and Wales number 3190376.

HM Lettings Limited, registered in England and Wales number 8333273. A wholly owned subsidiary of Nottingham Property Services.

Nottingham Building Society's home insurance is underwritten by Royal & Sun Alliance Insurance plc (no 93792). Registered in England and Wales at St Mark's Court, Chart Way, Horsham, West Sussex RH12 1XL. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Whole of market mortgage advice is provided by Nottingham Mortgage Services, an appointed representative of Intrinsic Mortgage Planning Limited, which is authorised and regulated by the Financial Conduct Authority. Registered in England and Wales No. 3089887. A wholly owned subsidiary of Nottingham Building Society.

Nottingham Building Society is an introducer to Dignity Pre Arrangement Limited who provide the Prepaid Funeral Plan. A company registered in England No. 1862158. VAT Reg. No. 486 6081 14. Registered Office: 4 King Edwards Court, King Edwards Square, Sutton Coldfield, West Midlands, B73 6AP. Telephone No. 0121 354 1557. Fax No. 0121 355 8081. Part of Dignity plc. A British company. Dignity Pre Arrangement Limited is regulated by the Funeral Planning Authority.

Nottingham Building Society is an introducer to The Will Writing Company, part of The Estate Planning Group (Holdings) Ltd, for estate planning services. The Will Writing Company adheres to the Institute of Professional Willwriters Code of Practice which is approved by the Chartered Trading Standards Institute.

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



INVESTOR IN PEOPLE

LIT2466/0216