
Summary Financial Statement



**The
Nottingham**

Bringing your finances closer to home

Summary financial statement 2012

We are pleased to present our summary financial statement for the year ended 31 December 2012

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 demand at every office of Nottingham Building Society, or on our website www.thenottingham.com, from 5 April 2013.

Summary directors' report

2012 will be remembered as a memorable year. The achievements of our Olympians in a home based Olympics and the historic events of the Queen's Diamond Jubilee will live long in the memory.

Amongst these medal winning performances it is very pleasing to report that your Society had many achievements of its own and has returned a strong performance, building on our recent progress, despite continued challenges and uncertainty in the economy at large.

Market and economic background

The UK economy remains fragile and three out of the last four quarters saw negative GDP growth. It was only in the third quarter of the year that positive GDP growth of 0.9% was recorded boosted by the Olympics and the Diamond Jubilee. So growth over the full year was flat, but there are signs we shall hopefully see some modest growth in 2013. The long term outlook for the euro and the Eurozone remains in the balance. In December we saw the announcement that Greece was to receive the latest tranche of bailout funds needed to keep the country going. Italy, Spain, Ireland and Portugal continue to face serious challenges to their economic recovery and latterly we have seen France drawn into the spotlight.

Here at home, the banking industry continues to be plagued by controversy, with the Libor scandal being the latest major challenge to the industry's credibility. In June Barclays Bank were fined by both UK and US regulators for significant fraud and collusion connected to Libor rate submission rigging. Since then, multi-million pound fines have also been imposed on UBS and RBS.

Over the course of recent months we have seen the implementation of the Retail Distribution Review and we now know what changes we must put in place as a result of the Mortgage Market Review. In both instances we are very confident that the Society is well placed to meet these new requirements.

In July 2012, The Bank of England and HM Treasury announced the launch of the Funding for Lending Scheme (FLS) which is designed to boost lending to the real economy. Banks and building societies that increase lending to UK households and businesses are able to borrow more under the scheme, and do so at lower cost than those that scale back lending. This has led to a fall in the cost of mortgages as lenders are able to pass on the benefit of the cheaper funding. However, it has been to the detriment of savings rates as the requirement for lenders to raise funding from the retail market has fallen. Our challenge, as ever, will be to continue to balance the interests of both our savers and mortgage customers through this period.

Our performance

After a number of years hard work to ensure the Society was well placed to meet the increasingly complex needs of our members and exceed the standards of the new regulatory environment, in 2012 the Society saw a good return on its hard work and investment.

Our efforts to ensure that we balance the conflicting needs of our savings and mortgage customers were recognised by strong growth on both sides of our balance sheet, with retail savings deposits increasing by 14% and our balance sheet overall growing by 10%, driven by a 28% increase in gross mortgage lending to £559m. This strong growth is compelling evidence that we are supporting households and making finance available for home purchase across the lending spectrum but especially to first time buyers. In fact in 2012, 50% of our lending was for LTVs greater than 80%.

“Retail savings deposits increasing by 14% and our balance sheet overall growing by 10%, driven by a 28% increase in gross mortgage lending to £559m”.

This strong performance in our core activity underpinned a good all-round financial performance highlighted by the following:

- We have consistently stressed the importance of achieving a sustainable interest margin. Throughout 2012, by very careful management of our product mix and pricing the interest margin has been stable at 1.17%;
- We have also been careful to closely manage our costs whilst continuing to invest in the Society and it is pleasing to report a reduction in both

Profit analysis	Group	
	2012 £m	2011 £m
Underlying profit before tax	10.5	8.6
FSCS costs	(2.0)	(1.4)
Reported profit before tax	8.5	7.2

our management expense ratio to 0.81% and the cost income ratio – an important measure of our efficiency to 64.7% – this compares favourably with 90.1% only 3 years ago;

- Both of the Society’s subsidiaries continue to contribute well and despite their dependence upon a tentative housing market, delivered a steady performance maintaining their income levels and delivering 25% of the mortgages written by Society staff. This ability to widen our distribution and provide advice to a broader spectrum of customers will be increasingly important in the years ahead;
- We have also seen the increasing popularity of our broader product range, including our unique offering of planning and protection products which supported an increase in our non-interest income of 14%;
- In total this strong overall performance delivered an improved level of profitability; with underlying profit before tax up 22% to £10.5m;
- Profit before tax, which takes account of deductions for ongoing FSCS costs (£2m in 2012) and fair value movements on the derivatives we hold to manage the interest rate risk of our fixed rate savings and mortgage products, increased by 18% to £8.5m.
- We continue to remain one of the most strongly capitalised Societies in the UK with a Tier 1 Capital Ratio of 16.9%, well in excess of the regulatory requirements;
- Our arrears performance in 2012 has been exceptional with only 0.64% of our total account base 3 months or more in arrears, a reduction of 0.09% over 2011. In fact this means that at the end of 2012 we only have 135 accounts 3 months or more in arrears out of a total of over 21,000. This is down from 153 in 2011. This places us at just above a third of the CML industry average;
- Despite the uncertain market conditions we have seen our repossession levels remain very low at 23 cases (21 in 2011);
- We acknowledge that the outlook remains uncertain and have decided to prudently make a provision charge against potential mortgage losses of £1.4m.

Quality and strength

The foundations of the Society’s strength are based on an excellent capital position and an acute focus on a lending policy that ensures we lend our members’ money appropriately; 2012 has seen this long term trend continue.

Your Society

It is important in these times to continue to invest in the Society to improve our products and service offering to our members, as well as to further improve the efficiency with which we operate the Society in the members’ interest.

In 2012 we moved to a new head office building bringing three disparate central operations together in one modern efficient head office building, which has reduced the overall running costs of our head office function; whilst also improving the way we conduct our business, with quicker, more effective communication and decision making.

We have invested in our branches too with the complete refurbishment or relocation of three of our largest branches; Arnold, Sheffield and our flagship office on Upper Parliament Street in Nottingham. The response to our new look and feel from members and new customers has been instant with business levels markedly up. In fact, in the first 10 months, activity levels at Sheffield are up 20%.

We have also continued to improve the infrastructure of the Society with the goal of making us easier to deal with. We have installed a new state of the art telephony network across the Society replacing a system which was over 20 years old. This new system enables us to seamlessly move call traffic around the Society. Previously, we were unable to transfer calls into or out of our central service team or head office.

We have also completely updated our savings system; meaning that for the first time all of our customers are on one single system platform for mortgage and savings; with further added links to our partners' systems to give us a complete single picture of our members dealings with us. This will be essential to our future developments focused on building meaningful and valuable relationships with our customers.

We also continue to invest in the development of our team members ensuring that they have the right skills and knowledge to meet our customers' needs. In fact the work we have carried out in this area during 2012 has received accredited status from the Institute of Leadership and Management, as well as The National Skills Academy.

Customer relationships

"Building long lasting relationships with our customers" remains our overriding objective, with many of our new initiatives focused on improving the products, service and efficiency with which we operate the Society.

Our customer satisfaction survey is central to assessing how well we are

delivering against this, focused as it is on customers' responses to actual transactions and activity with the Society. In 2012 we have maintained our industry leading levels of satisfaction, with 96.7% of our customers rating us as excellent or good.

Our customer net promoter score which enables us to accurately compare our performance against businesses from all sectors was 79%, which places us firmly in the top 10% of all firms and even ahead of Apple, who are world renowned for their advocacy. We have set the bar at a high standard and aim to keep it there.

This satisfaction level is now manifesting itself in our customer retention rates on both sides of the balance sheet – which during 2012 increased markedly to new highs. This is a clear demonstration that we are establishing relationships that last longer than one product cycle.

We do believe that as the Retail Distribution Review regulation takes effect and people increasingly become aware of the need to plan for their own independent financial future – as the state becomes unable to maintain current levels of welfare benefits and pension payments – that providing broad financial planning advice will be an important role for a building society. We have worked hard in recent years to offer our members this style of service supported by a number of expert partners. During 2012 we have seen strong demand for this, especially from members who use our branches and expect this to increase further in the coming years, as larger banks continue to withdraw this service to the majority of their customers.

Further endorsement of our service credentials were provided through the readers of "What Mortgage?" who voted us as the Best Regional Building Society for the second year running and our strong performance in the Financial Adviser Service Awards where we were the top scoring recipient of a 4* award.

Board changes

I am pleased to announce the appointment of a further non-executive director to the Board.

Mary Phibbs, who joined the Board on 1 February 2013, has over 30 years' experience in audit, advisory, finance and insurance both here and in Australia. Mary has held key executive roles at Standard Chartered Bank, ANZ Banking Group, KPMG, National Australia Bank and Bankers Trust. Mary has a strong commitment to mutuality and currently holds non-executive directorship posts at The Charity Bank Limited, Friends Life Group plc, Stewart Title Limited and Novae Group plc. We welcome Mary to the Board and look forward to working with her in the years to come.

Supporting local communities

During 2012 the Society continued to support local communities through a wide range of activities aimed at supporting causes and groups that improve financial literacy, assist with employability and support the battle against homelessness. Our community investment programme, 'Doing Good Together' completed a second and highly successful year.

Through our partnerships with Nottinghamshire Community Foundation, Nottingham Post, regional radio station Gem 106, and our chosen partner charity Framework, we have undertaken a variety of fundraising and support activities. In 2012 I am delighted to report we have increased our fundraising by 55% with more than £78,000 being distributed.

We have gained immense satisfaction from working closely with so many groups and are so grateful for the enthusiastic commitment of our staff who have made this possible.

Plans for the year ahead

The Society is well positioned to move forward, despite continued uncertainty in the economy, supported by its strong capital position and robust financial performance.

Our plans for the year ahead are focused on extending the reach of the Society beyond its current locations and continuing to develop and improve the products and services that we offer to members.

Throughout 2013 we aim to introduce new forms of communication with members which should help us improve our insight to their needs

- We were pleased to announce the proposed merger with the Shepshed Building Society and look forward to welcoming their members to The Nottingham following their members vote in April. We are currently planning the work required to effect a smooth transition;
- We were also pleased to announce the acquisition of East Midlands estate agency Harrison Murray early in 2013. This acquisition not only strengthens our estate agency offering through the expertise and strong track record that Harrison Murray brings but also provides us with a number of potential high street locations to add building society services to, giving members, especially in Leicestershire, more choice on where to conduct their business with the Society and also a good opportunity to acquire new members to the Society;

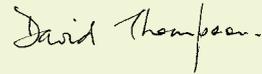
- In terms of improving our products and service, consistent customer feedback has been that we should seek to communicate relevant information to customers more frequently. Throughout 2013 we aim to introduce new forms of communication with members which should help us improve our insight to their needs and allow us to better understand what you want from your Society;
- We will also be looking at how we can develop our increasingly popular and unique planning and protection offering – ensuring that more members are aware of its availability and how favourably it compares to almost all High Street advice offerings in the new post Retail Distribution Review environment;
- We also aim to continue to strengthen and develop our infrastructure with system enhancements planned for our estate agency branches, our risk decisioning systems and further refurbishments of our branches; and
- We shall adjust to the new regulatory regime where our regulatory supervision will be split into two distinct elements, with the PRA focusing on prudential matters such as capital adequacy, liquidity requirements, business model sustainability and financial stability. Whereas the FCA will focus solely on conduct matters and ensuring that we are treating our customers fairly and achieving the right outcomes for them.

Thank you

I would like to thank all the members of the team at The Nottingham and my colleagues on the Board. They have delivered a performance to be proud of.

Finally, I would also like to thank our business partners, intermediaries and suppliers, who have equally shared our commitment to deliver value and security to our members and to express my personal thanks to our members for trusting us with their financial ambitions. This is a trust that we do not take lightly.

On behalf of the board of directors



David Thompson
Chairman

Approved by the board of directors on 20 February 2013 and signed on its behalf by:



David Thompson
Chairman



David Marlow
Chief Executive



Ashraf Piranie
Deputy Chief Executive
and Finance Director

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 make 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.

Results for the year	2012	2011
	£m	£m
Net interest receivable	30.6	28.6
Other income and charges	4.3	4.0
Administrative expenses	(22.6)	(21.8)
Impairment losses	(1.4)	(1.8)
Provisions	(2.4)	(1.6)
Loss on disposal of fixed assets	-	(0.2)
Profit for the year before taxation	8.5	7.2
Taxation	(1.7)	(1.9)
PROFIT FOR THE YEAR	6.8	5.3

Financial position at end of year	2012	2011
	£m	£m
ASSETS		
Liquid assets	556.3	516.1
Mortgages	2,129.9	1,927.8
Derivative financial instruments	23.3	13.3
Fixed and other assets	22.4	21.0
TOTAL ASSETS	2,731.9	2,478.2
LIABILITIES		
Shares	2,268.0	1,989.8
Borrowings	251.5	285.9
Derivative financial instruments	21.8	17.4
Other liabilities	13.7	13.4
Subscribed capital	27.4	27.0
Reserves	149.5	144.7
TOTAL LIABILITIES	2,731.9	2,478.2

Summary of key financial ratios	2012	2011
	%	%
Gross capital as a percentage of shares and borrowings (Note 2)	7.02	7.54
Liquid assets as a percentage of shares and borrowings (Note 3)	22.08	22.68
Profit for the year as a percentage of mean total assets (Note 4)	0.26	0.22
Management expenses as a percentage of mean total assets (Note 5)	0.87	0.89
Management expenses as a percentage of mean total assets (Society only)	0.81	0.84

Independent auditor's statement

Independent auditor's statement 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 2012 set out on pages 1 to 5.

This auditor's statement is made solely to the society's members, as a body, and to the society's depositors, as a body, in accordance with section 76 of the Building Societies Act 1986. Our 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 such a 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 as a body and the society's depositors as a body, for our 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 Member's Newsletter, in accordance with applicable United Kingdom law.

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 accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

We also read the other information contained in the Members' Newsletter and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of opinion

We conducted our work in accordance with Bulletin 2008/3 *The auditor's statement on the summary financial statement in the United Kingdom* issued by the Auditing Practices Board. Our report on the group's full annual accounts describes the basis of our opinions on those annual accounts, the Annual Business Statement and Directors' Report.

Opinion on summary financial statement

In our opinion the summary financial statement is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of Nottingham Building Society for the year ended 31 December 2012 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

**Simon Clark
for and on behalf of
KPMG Audit Plc, Statutory Auditor**

Chartered Accountants
One Snowhill,
Snow Hill Queensway,
Birmingham, B4 6GH

20 February 2013

Your board of directors – as of 31 December 2012



David Marlow* ACIB

Chief Executive

Age 47 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. He is a director of Nottingham Property Services Ltd, Nottingham Mortgage Services Ltd, The Mortgage Advice Centre (East Midlands) Limited, TMAC (East Midlands) Ltd and HM Lettings Ltd.



John Edwards

Age 57 Date of appointment 01.02.12

John joined the board in 2012. He has spent his entire 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 is currently a non-executive director of the LV Group and is also Chairman of their Investment Committee.



Richard Fiddis BSc (Hons), PhD

Age 60 Date of appointment 24.09.07

Richard joined the board in 2007. Richard has worked in the IT services sector for over 20 years and currently holds the position of Managing Director, Strategic Markets at Experian Plc. Prior to this he was Experian's Managing Director for the UK, Ireland and Northern Europe. Previously Richard held a number of general management positions with IBM.



Jane Kibbey BSc, MCIPD

Age 62 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.



Mahomed Ashraf Piranie* FCCA, MBA

Deputy CEO and Finance Director

Age 49 Date of appointment 16.04.07

Ashraf joined the board in 2007 and is responsible for finance, treasury and credit 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) Limited, TMAC (East Midlands) Ltd and HM Lettings Ltd.



Keith Whitesides MBE, LLB, MPhil

Age 69 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 in 2001, 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 and as a national Commissioner for Racial Equality.

Directors up for re-election



David Thompson FCA

Chairman

Age 70 Date of appointment 22.05.02

David joined the board in 2002 and was appointed Chairman in 2004. David is a chartered accountant and retired from The Boots Company Plc as Deputy Chief Executive and Finance Director in 2002, after 36 years with the business. He served as a director of Cadbury Schweppes Plc from 1998 to 2008. Today he is chairman of a charity supporting adults with learning difficulties.

"It is always a privilege to be Chairman of a strong and successful organisation, especially one with high standards, sound values and a clear strategy. If re-elected, I look forward to helping to guide The Nottingham as it brings its brand of customer centred services to an expanded heartland."



Robert Marchant BSc (Social Sciences), FCA

Vice Chairman

Age 66 Date of appointment 31.12.03

Bob joined the board in 2003 and was appointed Vice-Chairman in 2008. His previous roles include senior client partner and Head of Sales at the Midlands practice of KPMG. He has over 30 years' experience in accountancy and in business advisory roles.

"It is an honour to serve on the board of a mutual with such a strong record of customer service and a prudent, but innovative, management team. If re-elected, I look forward to the continuing role in governance of The Nottingham and contributing to its ongoing strategic development initiatives."



Simon Taylor* ACIB, MBA

Chief Operating Officer

Age 42 Date of appointment 01.02.11

Simon joined the board in 2011 and has responsibility for IT, the branch network, marketing, distribution and customer service. Before joining the Society he was Regional Director for the North of England with Lloyds Banking Group. Previous career experience includes roles with Barclays Bank and management consultancy with Unisys. Simon is also a Director of Nottingham Property Services Ltd, Nottingham Mortgages Services Ltd, The Mortgage Advice Centre (East Midlands) Limited, TMAC (East Midlands) Ltd and HM Lettings Ltd.

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

Director up for election



Mary Phibbs BSc (Hons), FCA

Age 55 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 and risk management in the UK and overseas. She has held senior roles in a number of leading institutions such as Standard Chartered Bank and the ANZ Bank where she was Chief Retail Credit Officer. She served as a director of Northern Rock plc through its public ownership and current directorships include the Charity Bank Limited where she chairs the Nominations and Remuneration committee.

"The Nottingham is an impressive organisation with a strong culture and high standards that puts its customers' needs first. If elected I would be proud to serve as one of its non-executive directors and contribute to the on-going provision of great value products and services to its members and customers as a mutual society."

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Nottingham Building Society is a member of the Building Societies Association, Financial Ombudsman Service and is a participant in the Financial Services Compensation Scheme. Authorised and regulated by the Financial Services Authority and entered in its Register under number 200785.



INVESTOR IN PEOPLE

LIT1836/0313

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