30 June 2016

Interim Financial Report

The Nottingham

Bringing your finances closer to home

Contents

IFRS results

This Interim Financial Report for the six months ended 30 June 2016 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 & Accounts for the year ended 31 December 2015, 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 the results for the six months ended 30 June 2016. We have delivered another good financial performance in line with our plan, increasing our membership and heartland presence, whilst further investing in our Society for the future.

Key performance highlights include:

- Branch retail balances up by 11% to over £2.0 billion;
- 56 branch locations across 9 counties;
- Customer net promoter score of 76.5%;
- Gross mortgage lending of £409m and mortgage book growth of 4.6%;
- Total assets of £3.45 billion - an increase of 4%;
- Arrears levels remain low at 0.20% of total mortgage book;
- Net interest margin of 1.36%;
- Group pre-tax profit at £7.1m;
- Strong capital ratios with a common equity tier 1 ratio of 15.2% and leverage ratio at 4.8%;

We have also witnessed unprecedented events as a consequence of the UK voting to leave the EU, which will lead to market uncertainty in the coming months and possibly years, as both the UK and Europe adjust to changing structures of government and trading arrangements.

Your Society

A key feature of our strategy is to provide our members with access to first class building society services, whole-of-market mortgage and financial advice and estate agency services all under one roof from a source that they can trust; something that is increasingly hard to find on high streets across our heartland.

This unique proposition from a UK building society makes us increasingly relevant to a much broader proportion of our heartland population and has played a key part in increasing our heartland based membership. In the first half of 2016 we have added another new location, Belper, to our network and plans are well advanced for a further four new branches to be added by the end of the year. The branch network which is the core of our Society will have increased from 31 locations in 2013 to 60 by the end of this year – underscoring the popularity of our proposition and the success of our strategy.

In fact during the first half of this year, the level of branch based retail savings balances has increased by a further 11% and is now in excess of £2.0 billion; a record level for the Society – having only passed the £1.0 billion mark in May 2012. Our unique proposition and brand of service is valued by our customers and this is demonstrated not only by our rising savings balances, increased membership and activity levels but also in our independently run customer satisfaction programme which looks specifically at the levels of advocacy amongst our customers. This is best demonstrated by our net promoter score, which currently stands at 76.5%, moving towards double the average for the financial services sector overall at 42%[1].

Our performance

The Group continues to deliver our strategy to build the franchise and has grown its balance sheet to £3.45 billion at 30 June 2016. Overall gross lending is up at £409m (June 2015: £268 million), resulting in a 4.6% increase to mortgage assets, whilst we have also continued to support our savers and protect them from the low interest rate environment by offering products competitively positioned in the market. Our average rate paid to savers is 1.49%, almost three times the current bank base rate.

As anticipated in our 2015 Annual Report and in line with our plan, income and profit levels are lower than 2015, when we delivered a record level of profit before tax, as we have looked to finely balance the conflicting needs of our savings and mortgage customers.

In the first half of 2016, we have sought to maintain savings rates as best we can whilst the yields on new mortgage business and products offered to existing mortgage customers have fallen to record lows.

If we are to meet the increasing demands of our customers and attract further new members to the Group, it is essential that as we grow and expand we continue to invest in our systems, people and capability. In the first half of 2016 we have invested more than £1 million in our improvement programme, which is reflected in our continued above average depreciation charge, which represents 9% of our total expenditure for the year so far. In the second half of the year we expect to continue to develop and invest in our branches and infrastructure, as well as implement a number of staff development initiatives as we work hard to make The Nottingham an employer of choice in our heartland.

We are pleased therefore to report pre-tax profits of £7.1m in the first six months of this year. The Board has a strong focus on ensuring that our level of profitability enables us to strengthen our capital base as our balance sheet grows and to continue our investment programme of improvements for the benefit of our growing member base. Our level of profitability in 2016 will be more than sufficient to achieve both of these objectives.

Market and outlook

We are pleased with our strategic progress and are confident that our good performance in the first six months of 2016 will allow us to continue to grow and expand the business and deliver sustainable value to our customers.

The economic and political fallout from the EU referendum vote is causing uncertainty in the financial and housing markets, and it is still too early to ascertain the potential full impact. The Bank of England has indicated that an easing of monetary policy is likely in August and we shall await to see what form or forms of actions this takes. There has been a downturn in the housing market in recent weeks, which is expected to remain subdued in the coming months and may remain so until the terms of our exit from the EU become clear.

We will continue to monitor the situation closely. However as we are a UK based organisation with no members' money invested in Eurozone countries and no direct currency exposure our focus will remain on the UK economy.

The low interest rate environment is likely to remain with us for some time yet, with an increasing likelihood that bank base rates could get even closer to 0% in the coming months. Inevitably this will continue to challenge us to strike the appropriate balance between our savers and borrowers in an extremely competitive market, with mortgage rates now at an all-time low. It will be essential therefore that an incentive to save for all UK consumers is maintained.

The Board continues to take its responsibility to operate the Group in a safe and secure manner, meeting all of our regulatory obligations and acting in line with our mutual ethos. We also believe that it is vital for the Society to continue to differentiate strongly from the big banks, through focusing on providing customers with expert advice on their financial affairs supported by a high customer service ethos – something which we are confident will always be in demand whatever the short term economic prospects.

David Marlow
Chief Executive
28 July 2016

[1] 2016 NPS® Benchmarks Survey Report

Interim business and financial review

for the period ended 30 June 2016

Income statement

Overall, the Group reported a pre-tax profit of £7.1m for the first six months of 2016 compared to £9.3m for the same period in 2015. As anticipated in the 2015 Annual Report and Accounts, 2015 profit levels were towards the top end of the Board's acceptable appetite and were expected to reduce over the coming years as interest margins become compressed following the initial mortgage market stimulus and increased competition, as well as the Society's wish to protect savers from low bank base rates as much as possible.

As expected the Group's net interest margin has fallen from 1.46% at December 2015 to 1.36% for the six months to June 2016 as the competitive nature of the mortgage market continues to reduce mortgage yields. The Group's net interest income fell by 5% to £23.1m against June 2015, with the reduction in mortgage asset yields partially offset by lower cost of funding.

Net fee income, including mortgage related product fees, estate agency and lettings fees, totalled £4.2m for the first six months of 2016 (June 2015: £4.4m). 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 remained broadly in line with the prior period. Continued growth and development of the mortgage advice service is offset by a market slowdown in the estate agency division since the buy-to-let bubble earlier in the year.

The Group's cost income ratio has increased to 71.5% and the management expense ratio has increased to 1.13% for the period to the 30 June 2016, compared to 1.12% for the 2015 full year. Total administrative expenses for the Group increased by 5% to £17.3m at June 2016, which includes the costs associated with investment in the opening, relocation and refurbishment of branches during the period as well as further continued strategic investment in marketing, risk management, our systems and people.

A small £0.1m release against the impairment provision for loans and advances to customers has been recognised for the first six months of the financial year (six months to 30 June 2015: £0.1m charge), reflecting the continued strong performance of the Society's mortgage book and an extremely low level of arrears recorded.

The provision for liabilities and charges reflects the £0.6m current year estimated charge for the FSCS levy (June 2015: £1.5m). The cost to the business to cover the FSCS levy has fallen significantly in 2016 as the capital element of the charge has come to an end as FSCS settles its loans with HM Treasury as planned.

Balance sheet

Overall, at £3.45 billion, the Group's total assets have grown by 4% from the position at the end of 2015.

Total mortgage balances have increased by 4.6% to £2.9 billion, with strong gross lending in the period totalling £409 million (June 2015: £268 million). Mortgage lending remains concentrated in prime high quality mortgage assets with residential mortgages accounting for 72% of the total mortgage book and residential lending primarily focused in the 60% - 80% LTV category. The Secured Business Lending (SBL) book reduced further in line with our plans to £69.6m.

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 have increased to £2.6 billion at 30 June 2016 driven by the Society's strong and growing branch franchise which continues to attract new customers.

In fact, branch balances have grown by 11% in the first half of 2016 and have exceeded £2.0 billion for the first time. The remainder of the Society's funding requirements is obtained from a combination of the traditional wholesale funding market and participation in the Funding for Lending Scheme. The wholesale funding ratio at 19.4% has reduced from 20.9% at December 2015.

The Group has continued to manage its liquidity position effectively with a liquid assets ratio of 15.0% (31 December 2015: 16.0%) and liquidity coverage ratio at 212% (31 December 2015: 159%). 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 0.20% compared to 0.22% at 31 December 2015. 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

Regulatory capital is measured on a Society only basis.

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 Common Equity Tier 1 capital ratio as at 30 June 2016 of 15.2% (31 December 2015: 15.3%) and a leverage ratio under the final rules of 4.8% (31 December 2015: 4.8%).

Outlook

Although market volatility is expected to be a feature of the next six months, it is very much business as usual for the Society. In fact, despite this volatility, the Society has, as planned, successfully completed its first wholesale secured funding facility with a counterparty bank subsequent to the period end.

Easing of monetary policy, weakening of the housing market and subdued activity levels are expected in the next six months as well as the continued low interest rate environment. There is a strong prospect that we may enter new territory and can no longer rule out bank base rates reaching zero. 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 placed 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 9 to 10 of the Annual Report and Accounts for the year ended 31 December 2015. 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 continue to be applicable to the Group as at 30 June 2016 and there have been no material changes to the Group's approach to risk management during the first half of the year.

The improvements seen in the UK economy through 2014 and 2015 have continued into 2016 with GDP above pre-crisis levels. Notwithstanding this improvement, some of the risks previously identified remain evident and these risks and uncertainties, and how the Group is looking to mitigate them, are summarised below.

EU referendum result

The result of the recent referendum on EU membership has caused significant uncertainty across financial markets and has inevitably impacted business and consumer confidence across all sectors. As has been seen over the days and weeks since the vote, there is ongoing uncertainty about the impacts of the result on the UK economy, UK base rates and the Bank of England's willingness and ability to provide further monetary stimulus measures or other support. In fact the rating agencies have downgraded the UK's credit rating and due to macro-economic factors, Moody's have 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 reduced availability of and higher cost of capital, 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.

Funding for Lending

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. A further extension of FLS by HM Treasury in 2015 has lengthened the period this stimulus is available and therefore the impact it will have on both these markets. However, there are forward looking risks in terms of how the market will adjust as this stimulus is removed.

The continuing uncertainty surrounding these risks and impacts will need to be managed closely 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 with the pace of future increases in interest rates potentially putting 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 and there has been further investment in this area in the first six months of the financial year to improve protection.

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. Following the Chancellor's summer 2015 budget where a number of changes to the reliefs available to buy-to-let investors were proposed, the autumn budget that followed included changes to stamp duty which will have an impact in the same area. These changes will result in uncertainty in the buy-to-let sector of the market and potential knock-on impacts to the overall housing market. The Society has already reduced its appetite for lending in the buy-to-let market in response to these uncertainties.

The Board remains vigilant to monitoring trends in the housing market as uncertainty in the market fuelled by the EU referendum result prevails.

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 2016

	Notes	Period to 30 June 2016 Unaudited £m	Period to 30 June 2015 Unaudited £m	Year ended 31 December 2015 Audited £m
Interest receivable and similar income	4	46.2	47.9	94.6
Interest payable and similar charges	5	(23.1)	(23.6)	(46.6)
Net interest income		**23.1**	**24.3**	**48.0**
Fees and commissions receivable		4.8	4.5	9.9
Fees and commissions payable		(0.6)	(0.1)	(0.5)
Net gains from derivative financial instruments		(0.6)	0.2	1.2
Total net income		**26.7**	**28.9**	**58.6**
Administrative expenses	6	(17.3)	(16.4)	(33.6)
Depreciation and amortisation		(1.8)	(1.6)	(3.3)
Finance cost		-	-	(0.2)
Impairment losses on loans and advances	10	0.1	(0.1)	(0.2)
Provisions for liabilities – FSCS levy	11	(0.6)	(1.5)	(1.4)
Profit on disposal of property, plant and equipment and intangible assets		-	-	0.1
Profit before tax		**7.1**	**9.3**	**20.0**
Tax expense		(1.6)	(2.8)	(4.6)
Profit after tax for the financial period		**5.5**	**6.5**	**15.4**

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 2016

	Period to 30 June 2016 Unaudited £m	Period to 30 June 2015 Unaudited £m	Year ended 31 December 2015 Audited £m
Profit for the financial period	5.5	6.5	15.4
Items that will not be re-classified to the income statement			
Remeasurement of defined benefit obligation	-	-	0.3
Tax on items that will not be re-classified	-	-	(0.1)
Items that may subsequently be re-classified to the income statement			
Available-for-sale reserve			
Valuation gains/(losses) taken to reserves	0.2	(0.2)	(0.2)
Tax on items that may subsequently be re-classified	-	-	-
Other comprehensive income/(expense) for the period net of income tax	**0.2**	**(0.2)**	**-**
Total comprehensive income for the period	**5.7**	**6.3**	**15.4**

Condensed consolidated statement of financial position

as at 30 June 2016

	Notes	30 June 2016 Unaudited £m	30 June 2015 Unaudited £m	31 December 2015 Audited £m
Assets				
Cash in hand		2.4	1.0	1.3
Loans and advances to credit institutions	7	364.2	369.7	388.0
Debt securities	8	110.7	143.2	102.3
Derivative financial instruments		4.2	8.1	3.8
Loans and advances to customers	9	2,944.4	2,699.2	2,796.5
Other assets		3.6	3.6	3.2
Property, plant and equipment		12.8	13.0	13.1
Intangible assets		7.8	8.6	8.2
Deferred tax assets		1.5	1.7	1.6
Total assets		**3,451.6**	**3,248.1**	**3,318.0**
Liabilities				
Shares		2,568.4	2,511.2	2,433.2
Amounts owed to credit institutions		420.5	280.1	410.4
Amounts owed to other customers		188.2	209.0	223.6
Debt securities in issue		8.0	12.5	9.0
Derivative financial instruments		28.7	9.7	9.3
Other liabilities and accruals		4.2	4.3	4.8
Current tax liabilities		1.7	2.5	2.1
Provisions for liabilities	11	1.9	3.2	1.4
Retirement benefit obligations		5.2	5.9	5.5
Subscribed capital	12	26.6	26.3	26.2
Total liabilities		**3,253.4**	**3,064.7**	**3,125.5**
Reserves				
General reserves		197.8	183.2	192.3
Available-for-sale reserves	13	0.4	0.2	0.2
Total reserves attributable to members of the Society		**198.2**	**183.4**	**192.5**
Total reserves and liabilities		**3,451.6**	**3,248.1**	**3,318.0**

Condensed consolidated statement of changes in members’ interests

for the period ended 30 June 2016

	General reserve £m	Available-for-sale reserves £m	Total £m
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 2015 (Audited)	176.7	0.4	177.1
Profit for the period	6.5	-	6.5
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	6.5	(0.2)	6.3
Balance as at 30 June 2015 (Unaudited)	**183.2**	**0.2**	**183.4**
Balance as at 1 January 2015 (Audited)	176.7	0.4	177.1
Profit for the year	15.4	-	15.4
Other comprehensive income/(expense) for the period (net of tax)			
Net losses from changes in fair value	-	(0.2)	(0.2)
Remeasurement of defined benefit obligation	0.2	-	0.2
Total other comprehensive income/(expense)	0.2	(0.2)	-
Total comprehensive income/(expense) for the period	15.6	(0.2)	15.4
Balance as at 31 December 2015 (Audited)	**192.3**	**0.2**	**192.5**

Condensed consolidated cash flow statement
for the period ended 30 June 2016

	Period to 30 June 2016 Unaudited £m	Period to 30 June 2015 Unaudited £m	Year ended 31 December 2015 Audited £m
Cash flows from operating activities			
Profit before tax	7.1	9.3	20.0
Depreciation and amortisation	1.8	1.6	3.3
Profit 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	(0.4)	(0.3)	(0.6)
(Decrease)/increase in impairment of loans and advances	(0.1)	0.1	0.2
Total	9.4	11.7	24.8
Changes in operating assets and liabilities			
(Increase)/decrease in prepayments, accrued income and other assets	(0.8)	0.7	5.4
Increase/(decrease) in accruals, deferred income and other liabilities	20.1	(4.0)	(5.9)
(Increase)/decrease in loans and advances to customers	(147.8)	19.0	(78.4)
Increase/(decrease) in shares	135.2	(64.2)	(142.2)
(Decrease)/increase in amounts owed to other credit institutions and other customers	(25.3)	35.7	180.6
(Increase)/decrease in loans and advances to credit institutions	(20.7)	12.1	6.2
(Decrease)/increase in debt securities in issue	(1.0)	9.0	5.5
(Decrease) in retirement benefit obligation	(0.3)	(0.7)	(1.1)
Taxation paid	(2.1)	(1.5)	(3.6)
Net cash (used in)/generated by operating activities	**(33.3)**	**17.8**	**(8.7)**
Cash flows from investing activities			
Purchase of debt securities	(33.8)	(78.6)	(124.3)
Disposal of debt securities	25.8	101.4	188.4
Purchase of property, plant and equipment	(0.7)	(1.5)	(2.5)
Disposal of property, plant and equipment	-	-	0.1
Purchase of intangible assets	(0.4)	(0.2)	(0.5)
Net cash (used in)/generated by investing activities	**(9.1)**	**21.1**	**61.2**
Cash flows from financing activities			
Interest paid on subscribed capital	(1.0)	(1.0)	(1.9)
Net (decrease)/increase in cash and cash equivalents	**(43.4)**	**37.9**	**50.6**
Cash and cash equivalents at start of period	369.2	318.6	318.6
Cash and cash equivalents at end of period	**325.8**	**356.5**	**369.2**

Notes to the interim financial report

1 Reporting period

These results have been prepared as at 30 June 2016 and show the financial performance for the period from, and including, 1 January 2016 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 2016 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 & Accounts for the year ended 31 December 2015, 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 2016 Interim Financial Report are consistent with those disclosed in the Annual Report & Accounts for the year ended 31 December 2015. There were no new accounting policies and new standards or interpretations effective as of 1 January 2016 which were not previously adopted.

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 2015 Annual Report and Accounts. The Group's assessment of going concern and longer term viability are contained on pages 21 and 22 of the 2015 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 2015, and details are provided on page 51 of the 2015 Annual Report and Accounts.

3 Segmental reporting

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

- **Building Society** – provides mortgages, savings, third party insurance and investments. Includes all income and costs associated with Nottingham Building Society.
- **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 2016 **Unaudited**	**Building Society £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

Six months to 30 June 2015 **Unaudited**	**Building Society £m**	**Estate Agency £m**	**Mortgage broking £m**	**Consolidation adjustments £m**	**Total £m**
Net interest income	24.3	-	-	-	24.3
Total net income	25.7	2.8	0.4	-	28.9
Profit/(loss) before tax	9.6	(0.3)	-	-	9.3

Notes to the interim financial report

3 Segmental reporting (continued)

Year to 31 December 2015 Audited	Building Society £m	Estate Agency £m	Mortgage broking £m	Consolidation adjustments £m	Total £m
Net interest income	48.0	-	-	-	48.0
Total net income	51.4	6.2	1.0	-	58.6
Profit/(loss) before tax	19.9	0.1	0.1	(0.1)	20.0

4 Interest receivable and similar income

	Period to 30 June 2016 Unaudited £m	Period to 30 June 2015 Unaudited £m	Year ended 31 December 2015 Audited £m
On loans fully secured on residential property	48.1	50.1	99.1
On other loans	1.3	1.3	2.6
On liquid assets	0.7	0.9	1.8
On instruments held at amortised cost	50.1	52.3	103.5
On debt securities	0.5	0.6	1.3
On derivatives hedging of financial assets	(4.4)	(5.0)	(10.2)
	46.2	**47.9**	**94.6**

5 Interest payable and similar charges

	Period to 30 June 2016 Unaudited £m	Period to 30 June 2015 Unaudited £m	Year ended 31 December 2015 Audited £m
On shares held by individuals	18.9	20.4	40.0
On deposits and other borrowings	3.5	2.7	5.7
On subscribed capital	1.0	1.0	2.0
On derivatives hedging of financial liabilities	(0.3)	(0.5)	(1.1)
	23.1	**23.6**	**46.6**

6 Administrative expenses

	Period to 30 June 2016 Unaudited £m	Period to 30 June 2015 Unaudited £m	Year ended 31 December 2015 Audited £m
Wages and salaries	9.3	9.0	18.5
Social security costs	0.7	0.7	1.4
Other pension costs	0.4	0.4	0.8
Total staff costs	10.4	10.1	20.7
Operating lease rentals	0.5	0.5	0.1
Other administrative costs	6.4	5.8	12.8
	17.3	**16.4**	**33.6**

Notes to the interim financial report

7 Loans and advances to credit institutions

	30 June 2016 Unaudited £m	30 June 2015 Unaudited £m	31 December 2015 Audited £m
Repayable on call and short notice	323.4	347.5	367.9
Placements with credit institutions	-	8.0	-
Included within cash and cash equivalents	323.4	355.5	367.9
Other loans and advances to credit institutions	40.8	14.2	20.1
	364.2	**369.7**	**388.0**

8 Debt securities

	30 June 2016 Unaudited £m	30 June 2015 Unaudited £m	31 December 2015 Audited £m
Movement on debt securities during the year may be analysed as follows:			
At 1 January	102.3	165.8	165.8
Additions	34.2	79.0	124.9
Disposals and maturities	(26.0)	(101.4)	(188.2)
Net gains/(losses) from changes in fair value recognised in other comprehensive income	0.2	(0.2)	(0.2)
	110.7	**143.2**	**102.3**

9 Loans and advances to customers

	Note	30 June 2016 Unaudited £m	30 June 2015 Unaudited £m	31 December 2015 Audited £m
Loans fully secured on residential property		2,850.6	2,622.2	2,719.7
Other loans fully secured on land		69.6	73.9	72.5
		2,920.2	2,696.1	2,792.2
Provision for impairment losses on loans and advances	10	(4.4)	(4.9)	(4.5)
		2,915.8	2,691.2	2,787.7
Fair value adjustment for hedged risk		28.6	8.0	8.8
		2,944.4	**2,699.2**	**2,796.5**

Notes to the interim financial report

10 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 2016 Unaudited £m	30 June 2015 Unaudited £m	31 December 2015 Audited £m
Impairment (credit)/charge for the period:			
Loans fully secured on residential property	0.1	0.1	0.1
Other loans fully secured on land	(0.2)	-	0.1
	(0.1)	**0.1**	**0.2**

	30 June 2016 Unaudited £m	30 June 2015 Unaudited £m	31 December 2015 Audited £m
Impairment provision at the end of the period:			
Loans fully secured on residential property	1.2	1.0	1.1
Other loans fully secured on land	3.2	3.9	3.4
	4.4	**4.9**	**4.5**

11 Provision for liabilities

	30 June 2016 Unaudited £m	30 June 2015 Unaudited £m	31 December 2015 Audited £m
At 1 January	1.4	1.8	1.8
Charge for the period	0.6	1.5	1.4
Provision utilised	(0.1)	(0.1)	(1.8)
	1.9	**3.2**	**1.4**

During the period, further provision was made in respect of FSCS totalling £0.6 million (30 June 2015: £1.5 million; 31 December 2015 £1.4 million). As at 30 June 2016, a provision of £1.5 million (30 June 2015: £2.7 million; 31 December 2015: £1.0 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 2015: £0.5 million; 31 December 2015: £0.4 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, or in the comparative periods.

12 Subscribed capital

	30 June 2016 Unaudited £m	30 June 2015 Unaudited £m	31 December 2015 Audited £m
7.875% sterling permanent interest bearing shares	23.9	23.9	23.9
Fair value adjustment for hedged risk	2.7	2.4	2.3
	26.6	**26.3**	**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. PIBS holders do not have any right to a residual interest in the Society.

Notes to the interim financial report

13 Available-for-sale reserves

	30 June 2016 Unaudited £m	30 June 2015 Unaudited £m	31 December 2015 Audited £m
At 1 January	0.2	0.4	0.4
Net gain/(loss) from changes in fair value	0.2	(0.2)	(0.2)
	0.4	**0.2**	**0.2**

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

14 Financial instruments

Classification & Measurement

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

Financial assets and liabilities are measured on an on-going 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 2016 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	-	2.4	-	-	-	2.4
Loans and advances to credit institutions	364.2	-	-	-	-	364.2
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
	3,308.6	**28.1**	**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**

Notes to the interim financial report

14 Financial instruments (continued)

Classification & Measurement (continued)

Carrying values by category

As at 30 June 2015 Unaudited	Held at amortised cost: Loans and receivables £m	Held at amortised cost: Financial assets and liabilities at amortised cost £m	Held at fair value: Available-for-sale £m	Held at fair value: Derivatives designated as fair value hedges £m	Held at fair value: Unmatched derivatives £m	Total £m
Financial assets						
Cash in hand	-	1.0	-	-	-	1.0
Loans and advances to credit institutions	369.7	-	-	-	-	369.7
Debt securities	-	-	143.2	-	-	143.2
Derivative financial instruments	-	-	-	8.0	0.1	8.1
Loans and advances to customers	2,699.2	-	-	-	-	2,699.2
Other assets	-	26.9	-	-	-	26.9
	3,068.9	**27.9**	**143.2**	**8.0**	**0.1**	**3,248.1**
Financial liabilities						
Shares	-	2,511.2	-	-	-	2,511.2
Amounts owed to credit institutions	-	280.1	-	-	-	280.1
Amounts owed to other customers	-	209.0	-	-	-	209.0
Debt securities in issue	-	12.5	-	-	-	12.5
Derivative financial instruments	-	-	-	9.6	0.1	9.7
Subscribed capital	-	26.3	-	-	-	26.3
Other liabilities	-	15.9	-	-	-	15.9
	-	**3,055.0**	**-**	**9.6**	**0.1**	**3,064.7**

Carrying values by category

31 December 2015 Audited	Held at amortised cost: Loans and receivables £m	Held at amortised cost: Financial assets and liabilities at amortised cost £m	Held at fair value: Available-for-sale £m	Held at fair value: Derivatives designated as fair value hedges £m	Held at fair value: Unmatched derivatives £m	Total £m
Financial assets						
Cash in hand	-	1.3	-	-	-	1.3
Loans and advances to credit institutions	388.0	-	-	-	-	388.0
Debt securities	-	-	102.3	-	-	102.3
Derivative financial instruments	-	-	-	3.7	0.1	3.8
Loans and advances to customers	2,796.5	-	-	-	-	2,796.5
Other assets	-	26.1	-	-	-	26.1
	3,184.5	**27.4**	**102.3**	**3.7**	**0.1**	**3,318.0**
Financial liabilities						
Shares	-	2,433.2	-	-	-	2,433.2
Amounts owed to credit institutions	-	410.4	-	-	-	410.4
Amounts owed to other customers	-	223.6	-	-	-	223.6
Debt securities in issue	-	9.0	-	-	-	9.0
Derivative financial instruments	-	-	-	9.1	0.2	9.3
Subscribed capital	-	26.2	-	-	-	26.2
Other liabilities	-	13.8	-	-	-	13.8
	-	**3,116.2**	**-**	**9.1**	**0.2**	**3,125.5**

Notes to the interim financial report

14 Financial instruments (continued)

Fair values of financial assets and liabilities carried at amortised cost

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

		30 June 2016 Unaudited Book value £m	30 June 2016 Unaudited Fair value £m	30 June 2015 Unaudited Book value £m	30 June 2015 Unaudited Fair value £m	31 December 2015 Audited Book value £m	31 December 2015 Audited Fair value £m
Financial assets							
Cash in hand	a	2.4	2.4	1.0	1.0	1.3	1.3
Loans & advances to credit institutions	b	364.2	364.2	369.7	369.7	388.0	388.0
Loans & advances to customers	c	2,944.4	2,955.6	2,699.2	2,728.7	2,796.5	2,804.6
Other assets		25.7	25.7	26.9	26.9	26.1	26.1
Financial liabilities							
Shares	d	2,568.4	2,567.4	2,511.2	2,511.1	2,433.2	2,436.4
Amounts owed to credit institutions	d	420.5	422.6	280.1	280.5	410.4	411.2
Amounts owed to other customers	d	188.2	188.7	209.0	209.6	223.6	224.2
Debt securities in issue	e	8.0	8.0	12.5	12.5	9.0	9.1
Subscribed capital	f	26.6	29.4	23.9	32.2	23.9	30.2
Other liabilities		13.0	13.0	15.9	15.9	13.8	13.8

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 discounted expected future cash flows.

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.

14 Financial instruments (continued)

Fair values of financial assets and liabilities carried at fair value

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

30 June 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)**

30 June 2015 Unaudited	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total Fair Value £m**
Financial assets				
Available-for-sale - Debt securities	125.1	18.1	-	143.2
Derivative financial instruments - Interest rate swaps	-	8.1	-	8.1
	125.1	**26.2**	**-**	**151.3**
Financial liabilities				
Derivative financial instruments - Interest rate swaps	-	(9.7)	-	(9.7)
	-	**(9.7)**	**-**	**(9.7)**

31 December 2015 Audited	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total Fair Value £m**
Financial assets				
Available-for-sale - Debt securities	87.2	15.1	-	102.3
Derivative financial instruments - Interest rate swaps	-	3.8	-	3.8
	87.2	**18.9**	**-**	**106.1**
Financial liabilities				
Derivative financial instruments - Interest rate swaps	-	(9.3)	-	(9.3)
	-	**(9.3)**	**-**	**(9.3)**

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

14 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 2016 Unaudited £m	30 June 2015 Unaudited £m	31 December 2015 Audited £m
Credit risk exposure			
Cash in hand	2.4	1.0	1.3
Loans and advances to credit institutions	364.2	369.7	388.0
Debt securities	186.0	143.5	102.0
Derivative financial instruments	4.2	8.1	3.8
Loans and advances to customers	2,915.8	2,691.2	2,787.7
Total statement of financial position exposure	**3,472.6**	**3,213.5**	**3,282.8**
Off balance sheet exposure – mortgage commitments	94.6	92.0	157.7
	3,567.2	**3,305.5**	**3,440.5**

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 2016 is 98% (30 June 2015: 98%; 31 December 2015: 99%%). 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 2016 (30 June 2015: £nil; 31 December 2015: £nil).

b) Loans and advances to customers

Loans and advances to customers are predominately made up of retail loans fully secured against UK residential property of £2,850.6 million, split between residential and buy-to-let loans with the remaining £69.6 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 2016, the average LTV of retail mortgages is 53% (30 June 2015: 54%; 31 December 2015: 52%). The table below provides information on retail loans by payment due status:

Arrears analysis	30 June 2016 Unaudited £m	30 June 2016 Unaudited %	30 June 2015 Unaudited £m	30 June 2015 Unaudited %	31 December 2015 Audited £m	31 December 2015 Audited %
Not impaired:	2,848.8	99.94	2,618.7	99.87	2,718.5	99.96
Impaired:						
Not past due	0.8	0.03	0.6	0.02	0.7	0.03
Past due up to 3 months	0.3	0.01	1.2	0.05	-	-
Past due over 3 months	0.7	0.02	1.5	0.05	0.4	0.01
Possessions	-	-	0.2	0.01	0.1	-
	2,850.6		**2,622.2**		**2,719.7**	

14 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 62% (30 June 2015: 63%; 31 December 2015: 63%).

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

Arrears analysis	30 June 2016 Unaudited £m	30 June 2016 Unaudited %	30 June 2015 Unaudited £m	30 June 2015 Unaudited %	31 December 2015 Audited £m	31 December 2015 Audited %
Not impaired:	65.6	94.26	68.2	92.29	68.0	93.79
Impaired:						
Not past due	3.5	5.03	3.7	5.01	3.5	4.83
Past due up to 3 months	0.1	0.14	0.2	0.27	0.5	0.69
Past due over 3 months	0.4	0.57	0.6	0.81	0.5	0.69
Possessions	-	-	1.2	1.62	-	-
	69.6		**73.9**		**72.5**	

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 2016, there were 137 forbearance cases within the "Not impaired" category of retail loans (30 June 2015: 151; 31 December 2015: 158) and 5 cases within the "Not impaired" category of SBL loans (30 June 2015: 4; 31 December 2015: 4).

15 Post balance sheet events

On 15 July 2016, subsequent to the period end, the Group successfully completed its first secured bilateral funding facility, raising £100 million of new funding.

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 Statements, 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 2015 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 2015 Annual Reports and Accounts. On 22 March 2016, subsequent to the publication of those Accounts, Mary Phibbs resigned from the Board when her term of office came to an end.

Signed on behalf of the Board by

David Marlow
Chief Executive

Ashraf Piranie
Deputy CEO and Finance Director

28 July 2016

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 2016, 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 2016 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

28 July 2016

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 2015 has been extracted from the Annual Report and Accounts for that year. The Annual Report and Accounts for the year ended 31 December 2015 have been filed with the Financial Conduct Authority (formerly the Financial Services Authority). The Auditors' report on these Annual Report and Accounts was unqualified.

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

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

INVESTOR IN PEOPLE

LIT2511/0416