INTERIM FINANCIAL REPORT

30 JUNE 2018

The Nottingham

Contents

IFRS results

This Interim Financial Report for the six months ended 30 June 2018 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) and with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union (EU). The Interim Financial Report should be read in conjunction with the Annual Report and Accounts for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Forward looking statements

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

Chief Executive introduction

I am pleased to present our results for the six months ended 30 June 2018, in what was another period of good progress and performance in the development of our unique 'all under one roof' advice and service proposition for members.

Key performance highlights include:

- Total assets of almost £4.0 billion - a new milestone for the Society;
- Gross lending of £465m and mortgage book growth of 3.7%;
- Strong retail franchise – 7.4% increase in branch balances;
- Strong customer advocacy with a net promoter score of 79.1% and 13,000 new customers welcomed;
- Group pre-tax profit of £6.0m;
- Arrears levels remain at a historic low level; and
- Strong capital ratios with Common Equity Tier 1 ratio of 14.7% and leverage ratio of 5.2%.

Despite the uncertainty facing the UK economy due to a continued lack of clarity on what Brexit will mean for us all and the historic low interest rate environment, we have continued to focus on building our franchise and membership through helping and rewarding our members for doing the right thing to plan for and protect their financial futures.

Your Society

At the beginning of the year we undertook to move forward from our firm foundations, focusing on the four key pillars of growing and rewarding membership; strong financial adequacy; operational excellence and people, culture and community.

At the half year point we are pleased to report good progress. In terms of growing and rewarding membership we have welcomed over 13,000 new members to the Society. The seven new branches, which we added to our network at the end of 2017, have performed ahead of expectations and are now fully embedded into our 67 branch network. The growth in popularity of our proposition and franchise is further evidenced in our branch savings balances which have continued their strong growth, rising 7.4% in the period. We were also pleased to celebrate the first birthday of the launch of our innovative members rewards scheme which has been designed to deliver our strategy and reward our members for planning for, and protecting, their financial futures. So far we have rewarded over 7,000 members who have been rewarded with discounts and cashbacks totalling almost £400,000, further highlighting the benefits of membership of The Nottingham.

Whilst branches remain key to our strategy, we are acutely aware of the significant societal changes taking place around us which is reshaping the way in which customers and potential members expect to receive their advice and service. This has been underscored by the well-chronicled challenges being faced in 2018 by retail businesses of all shapes, sizes and reputation. We expect this shift to be fully reflected in financial services in the months and years ahead and that is why it is essential for us to continue to invest heavily in the Society's capability, both for today and for the future.

In 2017, we announced our commitment to a multi-million pound investment to develop our digital capability to complement our growing physical presence. During 2018, we have been working hard and investing to develop a digital platform capable of delivering our unique advice and service proposition, which will combine the best of face-to-face and digital service. Customers and members will see the first step in this journey in the second half of 2018 as we replace our current web portals for online savings and intermediary mortgage business with significantly improved functionality. The Society will launch a cash Lifetime ISA later this summer, as one element of the development of our savings proposition using our new capability. Launching initially in branch, an online offering will be added later in the year opening up The Nottingham to a large and important group of potential new members. Furthermore, we continue to deliver world class service to our members, which is reflected in our Net Promoter Score which has now increased to 79.1%.

Our performance

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

We have continued to grow the balance sheet delivering £465m of gross lending which has contributed to mortgage asset growth of 3.7% in the first six months of the year. As the eighth largest Society, our total asset position at just shy of £4.0 billion is a new milestone for the Society.

One of our principal responsibilities is to balance effectively the conflicting needs of our savers and borrowers, whilst maintaining sufficient surplus to run the Society, meet our regulatory capital requirements and continue our investment for the future. This continues to be a challenge, particularly in the face of the ultra-competitive low mortgage rate environment, where we have seen average rates for 2 year fixed business below 75% LTV at 1.70% in the first half of the year. We have focused particularly hard on this and are encouraged that the growth in both mortgage and savings balances we are reporting demonstrates that we are striking that balance for members, whilst broadly maintaining our net interest margin at the same level as 2017 at 1.27% (2017:1.29%). This has enabled us to increase net interest income by 4.6% compared to the same period last year.

A key element of delivering our strategic plan successfully is to execute our spending plans carefully. This presents a number of challenges to tackle as we grow both the operations of the Society for members today and undertake one of the most significant investments in the Society's history for the future. This has inevitably resulted in increased operating and strategic investment costs, which has resulted in a three basis point increase in cost income ratio to 78.1% and our management expense ratio remaining flat at 1.10% at June 2018.

Overall we have delivered a surplus before tax of £6.0m. Whilst a decrease in our performance of £1.6m over the same period last year, it reflects not only a growing interest income profile but significant investment in our operations today and for the future and the fact that we are now rewarding our members for their membership, as already highlighted. Notwithstanding this, the Society remains well capitalised. This is enabling us to progress our significant investment programme at the current level of surplus, whilst meeting the Board's requirements for capital sustainability, ensuring a strong independent future for the Society and its members.

Market and outlook

The current economic and political picture remains very uncertain, dictating that we must remain vigilant in how we manage the Society and protect members' interests but also be cognisant of the significant changes that lie ahead. It remains our intention to continue to grow the membership of the Society and invest in the future as we seek to deliver consistent financial performance in line with what has been achieved in the first half of this year.

We will continue to focus on our four strategic pillars of growing and rewarding membership; delivering strength in financial adequacy; striving to deliver first class service across our operations; and continuing to support our communities through our Doing Good Together initiative.

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

David Marlow
Chief Executive
26 July 2018

Interim business and financial review

for the period ended 30 June 2018

Income statement

	June 2018 £m	June 2017 £m	Dec 2017 £m
Underlying profit before tax	**6.8**	**7.4**	**15.6**
FSCS Costs	-	(0.4)	(0.2)
(Losses)/gains from derivative financial instruments	(0.3)	0.6	(0.2)
Strategic investment costs	(0.5)	-	(0.7)
Reported profit before tax	**6.0**	**7.6**	**14.5**

Overall, in the context of a period of significant investment for the Society, the Group is pleased to report a pre-tax profit of £6.0m for the first six months of 2018 compared to £7.6m for the same period in 2017. Strategic investment costs of £0.5m, which are excluded from underlying profit, reflect one-off costs incurred in relation to the relocation of our IT data centre and changes the Group needed to make as a result of new data protection legislation.

The Group's net interest margin has fallen marginally from 1.29% at December 2017 to 1.27% for the six months to June 2018 reflecting ongoing competition in the mortgage market as well as the Society's wish to protect savers from low savings rates as much as possible. However, as a result of the growing asset base, the Group's net interest income increased by 4.6% to £25.0m against June 2017.

Group net fee income, including mortgage related product fees, estate agency and lettings fees and whole-of-market mortgage advice fees, totalled £3.1m for the first six months of 2018, which has fallen against the £4.0m reported in the period to June 2017. Net fee income remains under pressure 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 in recent years. Income from the Group's subsidiary businesses has fallen compared with the prior period. Continued growth and development of the mortgage advice service is offset by constrained housing market conditions in the estate agency division, which is impacted by uncertainties in the economy and a lack of supply.

The Group's cost income ratio, at 78.1% for the period to the 30 June 2018, has increased compared to 74.8% for the 2017 full year. The management expense ratio at 1.10% for the period to the 30 June 2018, has remained flat against the 2017 full year. Total administrative expenses for the Group increased by 5.9% to £21.7m at 30 June 2018, which is reflective of increased strategic investment in our systems, locations and people to support the growing business.

On an underlying performance basis, excluding strategic costs and the impacts of derivative movement, which will reverse in future periods, the Group has reported a cost income ratio of 75.4% and a management expense ratio of 1.07%.

Following the adoption of IFRS 9 on 1 January 2018, there is a small impairment charge of £0.1m in the first six months of 2018 (six months to 30 June 2017: £nil), reflecting the continued strong performance of the Society's mortgage book and minimal level of arrears recorded. The Society's reserves have benefitted from a £1.4m net adjustment on transition to IFRS 9 as outlined in note 16 to this report.

There is no charge in respect of provisions for liabilities – FSCS levy and other in the period to 30 June 2018 (30 June 2017: £0.4m). This is reflective of the costs to the business to cover the FSCS levy continuing to fall as the FSCS settles its loans with HM Treasury.

Balance sheet

Overall, at almost £4.0 billion, the Group's total assets have grown by 2.3% from the position at the end of 2017. This has been driven by the 3.7% increase in gross mortgage balances to £3.5 billion, with gross lending in the period totalling £465 million (30 June 2017: £544 million). Mortgage lending remains concentrated in prime high quality mortgage assets with residential mortgages accounting for 74% of the total mortgage book. The current average LTV of the book is 57.3% (31 December 2017: 55.9%).

Retail savings continue to be the cornerstone of our funding strategy and despite the benign interest rate environment, the Society has continued to offer competitive savings products to members. Total savings balances increased by 4.9% to £2.7 billion at 30 June 2018 supported by the Society's strong and growing branch franchise, which continues to attract and retain customers.

Branch based balances have continued to increase, growing by a further 7.4% in the first half of 2018, assisted by the seven new locations in our network. The remainder of the Society's funding requirements is obtained from the wholesale secured and unsecured funding markets. Overall the wholesale funding ratio at 26.9% has decreased slightly against the December 2017 position of 28.6%. With the Bank of England's Term Funding Scheme (TFS) closing during the period, final funding of £103m has been drawn down in the first six months of 2018. The Society also continues to make use of the Bank of England's Funding for Lending (FLS) scheme (30 June 2018: £153m drawn down; 31 December 2017: £297m), which continues to mature, and a secured bilateral facility (30 June 2018: £121.6m; 31 December 2017: £146.5m).

The Group has continued to manage its liquidity position effectively with a liquid assets ratio of 12.3% (31 December 2017: 13.6%) and liquidity coverage ratio (LCR) at 173% (31 December 2017: 154%). The Society is in excess of the current minimum level requirements of LCR. This is enhanced further by access to the Bank of England's contingent liquidity facilities secured against approved mortgage portfolios, which can be exchanged for cash as required.

Our arrears performance remains at sector leading levels with an arrears ratio of 0.20% compared to 0.15% at 31 December 2017. 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.

Regulatory capital

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

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

The Society has a CET1 capital ratio[1] as at 30 June 2018 of 14.7% (31 December 2017: 14.6%). Whilst CET1 resources have increased through the retained profit of the Society and IFRS 9 transition adjustment, this has been offset by an increase in risk weighted assets, reflecting the growth in mortgage assets.

The leverage ratio[1] is 5.2% at 30 June 2018 (31 December 2017: 4.9%).

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

Principal risks and uncertainties

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

The principal risks and uncertainties affecting the Group were reported on page 15 of the Annual Report and Accounts for the year ended 31 December 2017. These risks are categorised as strategy and capital, credit, market and interest rate, liquidity, conduct and regulatory, operational and project and change risk, which are common to most financial services firms in the UK. These risks remain applicable to the Group as at 30 June 2018 and continue to be managed in line with the Group's risk management framework.

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

Core mortgage lending yield

Between 2013 and 2017 the government and Bank of England introduced a number of initiatives to stimulate the mortgage market. These included the Funding for Lending Scheme (FLS) and the Term Funding Scheme (TFS). The FLS & TFS provided strong stimulus to the mortgage market through the availability of high levels of inexpensive funding. In addition to these central bank facilities, recent legislative changes to the balance sheet structures of the UK's five largest banks (as a requirement of bank ring-fencing legislation) has resulted in surplus, cheaply funded liquidity being available to the UK lending operations of these banks. Although both the FLS and TFS schemes are now closed, they together provided approximately £150 billion of funding to the wider market at relatively low rates.

As a consequence of the above factors, the margin earned on core mortgage lending products has, and will continue to, come under pressure due to increasing market lending capacity and appetite in an already highly competitive marketplace.

Overall, the FLS and TFS have resulted in continued downward pressure on market rates for both retail mortgages and savings. Whilst the Society has robust plans in place to replace the funds that it has drawn from the two schemes, forward-looking risks remain in terms of how the market will adjust to the removal of this stimulus.

The Society has clear risk-adjusted return thresholds which it aims to meet, 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.

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, future increases in interest rates may potentially put borrowers under additional financial pressure, and this is reflected in the UK regulators' concerns regarding current levels of consumer indebtedness. 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 is confident that our customers are well placed to manage rising costs.

Housing market

The Group's business model has very close links to the state of 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 data on house prices for the first half of 2018 has been mixed, with increasing variations in growth rates across different UK regions, with general low volumes of sales and some regions exhibiting negative growth. The future path of house prices remains unclear, fuelled by the ongoing EU exit negotiations and global market volatility.

Regional analysis of the Society's lending portfolio is undertaken regularly to ensure that changes in house prices are appropriately reflected. The Board remains vigilant to monitoring trends in the housing market and 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.

Cyber risk

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

Third party delivery of key services

The Nottingham works closely with key suppliers who provide services to members on our behalf. The Society closely manages such relationships which are supported by rigorous contractual requirements and strict service delivery standards. All suppliers are monitored to ensure that their services meet the Society's high standards at all times, and to ensure that they meet defined financial adequacy requirements. Metrics on service delivery are regularly reviewed at management committees. The Nottingham is committed to ensuring that its trusted suppliers continue to provide the highest level of service to our members.

In addition to the risks identified at the 2017 year end, the following emerging risks and uncertainties (together with the Group's mitigation plans) should be noted:

Project and Change

To enable the Society to continue to grow, remain innovative and improve existing ways of working, a wide-ranging change agenda is being pursued. The volume of activity related to this programme of work will remain high for the foreseeable future with a resultant increase in the amount of change activity taking place across the organisation.

A number of the larger and strategically important projects will 'go-live' in the second half of 2018. To help mitigate the risks associated with a change programme of this size, a number of specialist contractors have been recruited with specific skills and expertise. New and enhanced relationships with (and therefore reliance on) third parties have been developed, as the Society looks to expand capability; with different ways of working being embraced in order to maximise opportunities and efficiencies.

The change activity is underpinned by an evolving project risk management framework, which champions clear attribution of responsibilities, regular and transparent status reporting and a high level of oversight and scrutiny by members of the Executive team and the Board.

Condensed consolidated income statement

for the period ended 30 June 2018

	Notes	Period to 30 June 2018 Unaudited £m	Period to 30 June 2017 Unaudited £m	Year ended 31 December 2017 Audited £m
Interest receivable and similar income	4	41.5	40.9	82.2
Interest payable and similar charges	5	(16.5)	(17.0)	(33.9)
Net interest income		**25.0**	**23.9**	**48.3**
Fees and commissions receivable		3.9	4.8	9.1
Fees and commissions payable		(0.8)	(0.8)	(1.6)
Net (losses)/gains from derivative financial instruments		(0.3)	0.6	(0.2)
Total net income		**27.8**	**28.5**	**55.6**
Administrative expenses	6	(20.1)	(19.0)	(38.3)
Depreciation and amortisation		(1.6)	(1.5)	(3.0)
Finance cost		-	-	(0.3)
Impairment (losses)/release on loans and advances	11	(0.1)	-	1.3
Provisions for liabilities – FSCS levy and other		-	(0.4)	(0.8)
Profit before tax		**6.0**	**7.6**	**14.5**
Tax expense		(1.2)	(1.6)	(3.0)
Profit after tax for financial period		**4.8**	**6.0**	**11.5**

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 2018

	Period to 30 June 2018 Unaudited £m	Period to 30 June 2017 Unaudited £m	Year ended 31 December 2017 Audited £m
Profit for the financial period	4.8	6.0	11.5
Items that will not be re-classified to the income statement			
Remeasurement of defined benefit obligation	-	-	2.1
Tax on items that will not be re-classified	-	-	(0.4)
Items that may subsequently be re-classified to the income statement			
Available-for-sale reserve			
Valuation losses taken to reserves	-	(0.2)	(0.4)
Tax on items that may subsequently be re-classified	-	-	0.1
FVOCI reserve			
Valuation losses taken to reserves	(0.2)	-	-
Tax on items that may subsequently be re-classified	-	-	-
Other comprehensive (expense)/income for the period net of income tax	**(0.2)**	**(0.2)**	**1.4**
Total comprehensive income for the period	**4.6**	**5.8**	**12.9**

Condensed consolidated statement of financial position

as at 30 June 2018

	Notes	30 June 2018 Unaudited £m	30 June 2017 Unaudited £m	31 December 2017 Audited £m
Assets				
Cash in hand and balances with the Bank of England		279.0	398.5	352.6
Loans and advances to credit institutions	7	29.9	46.0	33.1
Debt securities	9	147.4	91.6	109.2
Derivative financial instruments		10.1	5.9	7.3
Loans and advances to customers	10	3,489.1	3,239.2	3,368.8
Other assets		10.3	5.1	5.9
Property, plant and equipment		14.1	14.8	14.6
Intangible assets		7.5	7.5	7.2
Deferred tax assets		1.4	2.1	1.7
Total assets		**3,988.8**	**3,810.7**	**3,900.4**
Liabilities				
Shares		2,722.1	2,608.3	2,595.4
Amounts owed to credit institutions		670.5	675.2	703.7
Amounts owed to other customers		194.2	183.3	185.1
Debt securities in issue		136.6	81.7	153.5
Derivative financial instruments		7.2	14.7	9.9
Other liabilities and accruals		5.5	4.2	4.9
Current tax liabilities		1.2	1.5	1.6
Provisions for liabilities		0.9	1.2	1.1
Retirement benefit obligations		6.6	9.1	6.9
Subscribed capital	12	25.3	25.9	25.6
Total liabilities		**3,770.1**	**3,605.1**	**3,687.7**
Reserves				
General reserves		218.9	205.5	212.7
Fair value reserves	13	(0.2)	0.1	-
Total reserves attributable to members of the Society		**218.7**	**205.6**	**212.7**
Total reserves and liabilities		**3,988.8**	**3,810.7**	**3,900.4**

Condensed consolidated statement of changes in members' interests

for the period ended 30 June 2018

	General reserve £m	FVOCI reserve £m	Available-for-sale reserves £m	Total £m
Balance as at 1 January 2018 (Audited)	212.7	-	-	212.7
Change on initial recognition of IFRS 9 (note 16)	1.4	-	-	1.4
Profit for the period	4.8	-	-	4.8
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	6.2	(0.2)	-	6.0
Balance as at 30 June 2018 (Unaudited)	**218.9**	**(0.2)**	**-**	**218.7**
Balance as at 1 January 2017 (Audited)	199.5	-	0.3	199.8
Profit for the period	6.0	-	-	6.0
Other comprehensive expense for the period (net of tax)		-		
Net losses from changes in fair value	-	-	(0.2)	(0.2)
Total other comprehensive expense	-	-	(0.2)	(0.2)
Total comprehensive income/(expense) for the period	6.0	-	(0.2)	5.8
Balance as at 30 June 2017 (Unaudited)	**205.5**	**-**	**0.1**	**205.6**
Balance as at 1 January 2017 (Audited)	199.5	-	0.3	199.8
Profit for the year	11.5	-	-	11.5
Other comprehensive income/(expense) for the period (net of tax)		-		
Net losses from changes in fair value	-	-	(0.3)	(0.3)
Remeasurement of defined benefit obligation	1.7	-	-	1.7
Total other comprehensive income/(expense)	1.7	-	(0.3)	1.4
Total comprehensive income/(expense) for the period	13.2	-	(0.3)	12.9
Balance as at 31 December 2017 (Audited)	**212.7**	**-**	**-**	**212.7**

Condensed consolidated cash flow statement

for the period ended 30 June 2018

	Note	Period to 30 June 2018 Unaudited £m	Period to 30 June 2017 Unaudited £m	Year ended 31 December 2017 Audited £m
Cash flows from operating activities				
Profit before tax		6.0	7.6	14.5
Depreciation and amortisation		1.6	1.5	3.0
Interest on subscribed capital		1.0	1.0	2.0
Net gains on disposal and amortisation of debt securities		0.3	0.3	0.7
(Increase)/decrease in impairment of loans and advances		(0.1)	-	1.3
Total		8.8	10.4	21.5
Changes in operating assets and liabilities				
Increase in prepayments, accrued income and other assets		(7.2)	(1.7)	(3.9)
Decrease in accruals, deferred income and other liabilities		(2.8)	(5.7)	(9.9)
Increase in loans and advances to customers		(118.5)	(206.6)	(337.5)
Increase in shares		126.7	150.9	138.0
(Decrease)/increase in amounts owed to other credit institutions and other customers		(24.1)	85.2	115.5
(Increase)/decrease in loans and advances to credit institutions		(2.1)	(1.1)	10.4
(Decrease)/increase in debt securities in issue		(16.9)	(17.0)	54.8
Decrease in retirement benefit obligation		(0.3)	(0.3)	(0.6)
Taxation paid		(1.6)	(1.4)	(2.6)
Net cash (used in)/ generated by operating activities		**(38.0)**	**12.7**	**(14.3)**
Cash flows from investing activities				
Purchase of debt securities		(60.7)	(13.5)	(50.9)
Disposal of debt securities		22.1	19.0	38.0
Purchase of property, plant and equipment		(0.5)	(3.1)	(3.8)
Purchase of intangible assets		(0.8)	(0.3)	(0.6)
Net cash (used in)/generated by investing activities		**(39.9)**	**2.1**	**(17.3)**
Cash flows from financing activities				
Interest paid on subscribed capital		(1.0)	(1.0)	(1.9)
Net (decrease)/increase in cash and cash equivalents		**(78.9)**	**13.8**	**(33.5)**
Cash and cash equivalents at start of period		360.3	393.8	393.8
Cash and cash equivalents at end of period	8	**281.4**	**407.6**	**360.3**

Notes to the interim financial report

1 Reporting period

These results have been prepared as at 30 June 2018 and show the financial performance for the period from, and including, 1 January 2018 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 2018 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) and with IAS 34 Interim Financial Reporting as adopted by the EU. The interim financial report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Annual Reports and Accounts for the year ended 31 December 2017, 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.

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted by the Group in the preparation of its 2018 Interim Financial Report are consistent with those disclosed in the Annual Report and Accounts for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Society has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

With effect from 1 January 2018, the Society applies, for the first time, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. The Society has therefore changed its accounting policies and made retrospective adjustments, where required, as a result of adopting these new standards.The impacts of IFRS 9 on the Group have been disclosed in note 16 to this Interim Financial Report.

There is no impact to the financial statements of the Group as a result of adopting IFRS 15 and therefore no separate note and change to accounting policy has been presented.

There has been no restatement of comparative periods as a result of adopting the new standards.

Future accounting developments

An overview of the pronouncements that will be relevant to the Group in future periods was provided in the 2017 Annual Report and Accounts. Of these pronouncements, the most significant is IFRS 16 'Leases'. The adoption of this new accounting standard will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The standard will affect primarily the accounting for the Group's operating leases, however it is still to be determined to what extent these commitments will result in the recognition of an asset and liability for future payments. Some of these commitments may be covered by the exception for short-term and low-value leases. The standard is mandatory for accounting periods beginning on or after 1 January 2019 and the Society does not intend to adopt the standard before its effective date.

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 2017 Annual Report and Accounts. The Group's assessment of going concern and longer term viability are contained on page 22 of the 2017 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 2017, with the exception of the calculation of impairment losses on loans and advances to customers, which are now impacted by the adoption of IFRS 9 (outlined in note 16 to this Interim Financial Report). Details as at 31 December 2017 are provided on page 56 of the 2017 Annual Report and Accounts.

The measurement of impairment losses against loans and advances to customers, both under IFRS 9 and IAS 39, requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values and the assessment of significant increase in credit risk.

The Society's expected credit loss ('ECL') calculations under IFRS 9 are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies, which individually are not possible to isolate. Note 16 to this Interim Financial Report outlines the accounting policies and key definitions for IFRS 9.

Notes to the interim financial report

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

Significant accounting judgement and estimates (continued)

Key elements of the ECL models that are considered accounting judgements and estimates include:

- The internal credit grading model, which assigns PDs to individual accounts;
- The criteria for assessing if there has been a significant increase in credit risk;
- Determination of associations between macroeconomic scenarios, economic inputs and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings to derive economic inputs to the ECL models.

Applying a 100% weighting to the Society's pessimisitic economic scenario results in further impairment losses of £0.4m at 30 June 2018.

3 Segmental reporting

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

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

Six months to 30 June 2018 Unaudited	Retail financial services £m	Estate Agency £m	Mortgage broking £m	Consolidation adjustments £m	Total £m
Net interest income	25.0	-	-	-	25.0
Total net income	25.6	1.4	0.8	-	27.8
Profit/(loss) before tax	6.5	(0.7)	0.2	-	6.0

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

Year to 31 December 2017 Audited	Retail financial services £m	Estate Agency £m	Mortgage broking £m	Consolidation adjustments £m	Total £m
Net interest income	48.3	-	-	-	48.3
Total net income	50.0	4.3	1.6	(0.3)	55.6
Profit/(loss) before tax	15.7	(1.2)	0.4	(0.4)	14.5

4 Interest receivable and similar income

	Period to 30 June 2018 Unaudited £m	Period to 30 June 2017 Unaudited £m	Year ended 31 December 2017 Audited £m
On loans fully secured on residential property	42.0	44.3	89.2
On other loans	1.3	1.2	2.4
On liquid assets	0.8	0.5	1.1
On instruments held at amortised cost	44.1	46.0	92.7
On debt securities	0.5	0.4	0.7
On derivatives hedging of financial assets	(3.1)	(5.5)	(11.2)
	41.5	**40.9**	**82.2**

Notes to the interim financial report

5 Interest payable and similar charges

	Period to 30 June 2018 Unaudited £m	Period to 30 June 2017 Unaudited £m	Year ended 31 December 2017 Audited £m
On shares held by individuals	12.1	12.7	25.1
On deposits and other borrowings	3.8	3.7	7.4
On subscribed capital	1.0	1.0	2.0
On derivatives hedging of financial liabilities	(0.4)	(0.4)	(0.6)
	16.5	**17.0**	**33.9**

6 Administrative expenses

	Period to 30 June 2018 Unaudited £m	Period to 30 June 2017 Unaudited £m	Year ended 31 December 2017 Audited £m
Wages and salaries	10.3	10.1	20.3
Social security costs	1.1	0.9	1.8
Other pension costs	0.4	0.4	0.9
Total staff costs	11.8	11.4	23.0
Operating lease rentals	0.6	0.5	0.9
Other administrative costs	7.7	7.1	14.4
	20.1	**19.0**	**38.3**

7 Loans and advances to credit institutions

	30 June 2018 Unaudited £m	30 June 2017 Unaudited £m	31 December 2017 Audited £m
Repayable on call and short notice	7.8	12.3	11.0
Other loans and advances to credit institutions	22.1	33.7	22.1
	29.9	**46.0**	**33.1**

At 30 June 2018, £20.1 million (30 June 2017: £27.7 million; 31 December 2017: £22.1 million) of cash has been deposited by the Group as collateral against derivative contracts.

8 Cash and cash equivalents

Cash and cash equivalents is made up of cash in hand and balances with the Bank of England of £273.6 million (30 June 2017: £395.3 million; 31 December 2017: £349.3 million) and loans and advances to credit institutions of £7.8 million (30 June 2017: £12.3 million; 31 December 2017 £11.0 million).

9 Debt securities

	30 June 2018 Unaudited £m	30 June 2017 Unaudited £m	31 December 2017 Audited £m
Movement on debt securities during the year may be analysed as follows:			
At 1 January	109.2	97.4	97.4
Additions	60.3	13.9	50.2
Disposals and maturities	(21.9)	(19.5)	(38.1)
Net losses from changes in fair value recognised in other comprehensive income	(0.2)	(0.2)	(0.3)
	147.4	**91.6**	**109.2**

Notes to the interim financial report

10 Loans and advances to customers

	Note	30 June 2018 IFRS 9 Unaudited £m	30 June 2017 IAS 39 Unaudited £m	31 December 2017 IAS 39 Audited £m
Loans fully secured on residential property		3,424.8	3,166.1	3,301.9
Other loans fully secured on land		68.2	67.1	66.6
		3,493.0	3,233.2	3,368.5
Provision for impairment losses on loans and advances	11	(1.6)	(4.5)	(3.2)
		3,491.4	3,228.7	3,365.3
Fair value adjustment for hedged risk		(2.3)	10.5	3.5
		3,489.1	**3,239.2**	**3,368.8**

11 Provision for impairment losses on loans and advances

Impairment provisions have been deducted from the appropriate asset values on the condensed consolidated statement of financial position.

	30 June 2018 IFRS 9 Unaudited £m	30 June 2017 IAS 39 Unaudited £m	31 December 2017 IAS 39 Audited £m
Impairment charge/(credit) for the period:			
Loans fully secured on residential property	-	0.5	0.2
Other loans fully secured on land	0.1	(0.5)	(1.5)
	0.1	**-**	**(1.3)**

	30 June 2018 IFRS 9 Unaudited £m	30 June 2017 IAS 39 Unaudited £m	31 December 2017 IAS 39 Audited £m
Impairment provision at the end of the period:			
Loans fully secured on residential property	0.6	2.0	1.7
Other loans fully secured on land	1.0	2.5	1.5
	1.6	**4.5**	**3.2**

A reconciliation between the closing IAS 39 position at 31 December 2017 and the opening IFRS 9 position at 1 January 2018 is presented in note 16.

The gross carrying amounts and impairment provisions at 30 June 2018, on an IFRS 9 basis, are presented in detail below.

	Loans fully secured on residential property Unaudited £m	Other loans fully secured on land Unaudited £m	Total Unaudited £m
Gross carrying amount			
Stage 1	3,139.6	32.6	3,172.2
Stage 2	279.6	34.0	313.6
Stage 3	5.6	1.6	7.2
	3,424.8	**68.2**	**3,493.0**

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

	Loans fully secured on residential property Unaudited £m	Other loans fully secured on land Unaudited £m	Total Unaudited £m
Expected Credit Loss allowance			
Stage 1	0.1	0.1	0.2
Stage 2	0.4	0.4	0.8
Stage 3	0.1	0.5	0.6
	0.6	**1.0**	**1.6**

The movement in the period since adoption of IFRS 9 on 1 January 2018 is immaterial and therefore no movement reconciliation tables have been presented.

12 Subscribed capital

	30 June 2018 Unaudited £m	30 June 2017 Unaudited £m	31 December 2017 Audited £m
7.875% sterling permanent interest bearing shares	23.9	23.9	23.9
Fair value adjustment for hedged risk	1.4	2.0	1.7
	25.3	**25.9**	**25.6**

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

13 Fair value reserves

	30 June 2018 FVOCI Unaudited £m	30 June 2017 Available-for-sale Unaudited £m	31 December 2017 Available-for-sale Audited £m
At 1 January	-	0.3	0.3
Transfer from available-for-sale on adoption of IFRS 9	-	-	-
Net loss from changes in fair value	(0.2)	(0.2)	(0.3)
	(0.2)	**0.1**	**-**

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

Notes to the interim financial report

14 Financial instruments

Classification & Measurement

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

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

Carrying values by category (IFRS 9)	**Held at amortised cost**		**Held at fair value**		
As at 30 June 2018 Unaudited	**Financial assets and liabilities at amortised cost £m**	**Fair value through other comprehensive income £m**	**Derivatives designated as fair value hedges £m**	**Unmatched derivatives £m**	**Total £m**
Financial assets					
Cash in hand and balances with the Bank of England	279.0	-	-	-	279.0
Loans and advances to credit institutions	29.9	-	-	-	29.9
Debt securities	-	147.4	-	-	147.4
Derivative financial instruments	-	-	9.6	0.5	10.1
Loans and advances to customers	3,489.1	-	-	-	3,489.1
Other assets	33.3	-	-	-	33.3
	3,831.3	**147.4**	**9.6**	**0.5**	**3,988.8**
Financial liabilities					
Shares	2,722.1	-	-	-	2,722.1
Amounts owed to credit institutions	670.5	-	-	-	670.5
Amounts owed to other customers	194.2	-	-	-	194.2
Debt securities in issue	136.6	-	-	-	136.6
Derivative financial instruments	-	-	6.0	1.2	7.2
Subscribed capital	25.3	-	-	-	25.3
Other liabilities	14.2	-	-	-	14.2
	3,762.9	**-**	**6.0**	**1.2**	**3,770.1**

Carrying values by category (IAS 39)	**Held at amortised cost**		**Held at fair value**			
As at 30 June 2017 Unaudited	**Loans and receivables £m**	**Financial assets and liabilities at amortised cost £m**	**Available-for-sale £m**	**Derivatives designated as fair value hedges £m**	**Unmatched derivatives £m**	**Total £m**
Financial assets						
Cash in hand and balances with the Bank of England	-	398.5	-	-	-	398.5
Loans and advances to credit institutions	46.0	-	-	-	-	46.0
Debt securities	-	-	91.6	-	-	91.6
Derivative financial instruments	-	-	-	4.7	1.2	5.9
Loans and advances to customers	3,239.2	-	-	-	-	3,239.2
Other assets	-	29.5	-	-	-	29.5
	3,285.2	**428.0**	**91.6**	**4.7**	**1.2**	**3,810.7**
Financial liabilities						
Shares	-	2,608.3	-	-	-	2,608.3
Amounts owed to credit institutions	-	675.2	-	-	-	675.2
Amounts owed to other customers	-	183.3	-	-	-	183.3
Debt securities in issue	-	81.7	-	-	-	81.7
Derivative financial instruments	-	-	-	14.3	0.4	14.7
Subscribed capital	-	25.9	-	-	-	25.9
Other liabilities	-	16.0	-	-	-	16.0
	-	**3,590.4**	**-**	**14.3**	**0.4**	**3,605.1**

Notes to the interim financial report

14 Financial instruments (continued)

Classification & Measurement (continued)

Carrying values by category (IAS 39)	Held at amortised cost		Held at fair value			
As at 31 December 2017 Audited	**Loans and receivables £m**	**Financial assets and liabilities at amortised cost £m**	**Available-for-sale £m**	**Derivatives designated as fair value hedges £m**	**Unmatched derivatives £m**	**Total £m**
Financial assets						
Cash in hand and balances with the Bank of England	-	352.6	-	-	-	352.6
Loans and advances to credit institutions	33.1	-	-	-	-	33.1
Debt securities	-	-	109.2	-	-	109.2
Derivative financial instruments	-	-	-	7.1	0.2	7.3
Loans and advances to customers	3,368.8	-	-	-	-	3,368.8
Other assets	-	29.4	-	-	-	29.4
	3,401.9	**382.0**	**109.2**	**7.1**	**0.2**	**3,900.4**
Financial liabilities						
Shares	-	2,595.4	-	-	-	2,595.4
Amounts owed to credit institutions	-	703.7	-	-	-	703.7
Amounts owed to other customers	-	185.1	-	-	-	185.1
Debt securities in issue	-	153.5	-	-	-	153.5
Derivative financial instruments	-	-	-	9.4	0.5	9.9
Subscribed capital	-	25.6	-	-	-	25.6
Other liabilities	-	14.5	-	-	-	14.5
	-	**3,677.8**	**-**	**9.4**	**0.5**	**3,687.7**

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 2018 Unaudited Book value £m	**30 June 2018 Unaudited Fair value £m**	**30 June 2017 Unaudited Book value £m**	**30 June 2017 Unaudited Fair value £m**	**31 December 2017 Audited Book value £m**	**31 December 2017 Audited Fair value £m**
Financial assets							
Cash in hand & balances with the Bank of England	a	279.0	279.0	398.5	398.5	352.6	352.6
Loans & advances to credit institutions	b	29.9	29.9	46.0	46.0	33.1	33.1
Loans & advances to customers	c	3,489.1	3,501.5	3,239.2	3,251.7	3,368.8	3,375.9
Financial liabilities							
Shares	d	2,722.1	2,728.6	2,608.3	2,611.0	2,595.4	2,600.6
Amounts owed to credit institutions	d	670.5	670.5	675.2	676.0	703.7	704.0
Amounts owed to other customers	d	194.2	194.3	183.3	183.6	185.1	185.2
Debt securities in issue	e	136.6	136.6	81.7	81.7	153.5	153.5
Subscribed capital	f	25.3	30.6	25.9	29.1	23.9	30.6

14 Financial instruments (continued)

Fair values of financial assets and liabilities carried at amortised cost (continued)

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

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

b) Loans and advances to credit institutions – Level 2
The fair value of overnight deposits is the amount repayable on demand. The estimated fair value of loans and advances to credit institutions is calculated based on its market price as at the period end.

c) Loans and advances to customers – Level 3
Loans and advances are recorded net of provisions for impairment together with the fair value adjustment for hedged items as required by IFRS 9 and 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.

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 2018 Unaudited	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total Fair Value £m**
Financial assets				
FVOCI - Debt securities	147.4	-	-	147.4
Derivative financial instruments - Interest rate swaps	-	10.1	-	10.1
	147.4	**10.1**	**-**	**157.5**
Financial liabilities				
Derivative financial instruments - Interest rate swaps	-	(7.2)	-	(7.2)
	-	**(7.2)**	**-**	**(7.2)**

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

Notes to the interim financial report

14 Financial instruments (continued)

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

31 December 2017 Audited	Level 1 £m	Level 2 £m	Level 3 £m	Total Fair Value £m
Financial assets				
Available-for-sale - Debt securities	109.2	-	-	109.2
Derivative financial instruments - Interest rate swaps	-	7.3	-	7.3
	109.2	**7.3**	**-**	**116.5**
Financial liabilities				
Derivative financial instruments - Interest rate swaps	-	(9.9)	-	(9.9)
	-	**(9.9)**	**-**	**(9.9)**

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.

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.

Notes to the interim financial report

14 Financial instruments (continued)

Credit risk

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

	30 June 2018 Unaudited £m	30 June 2017 Unaudited £m	31 December 2017 Audited £m
Credit risk exposure			
Cash in hand and balances with the Bank of England	279.0	398.5	352.6
Loans and advances to credit institutions	29.9	46.0	33.1
Debt securities	147.2	91.8	109.2
Derivative financial instruments	10.1	5.9	7.3
Loans and advances to customers	3,489.1	3,239.2	3,365.3
Total statement of financial position exposure	**3,955.3**	**3,781.4**	**3,867.5**
Off balance sheet exposure – mortgage commitments	150.1	195.5	190.6
	4,105.4	**3,976.9**	**4,058.1**

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 2018 is 99.6% (30 June 2017: 99%; 31 December 2017: 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.

Following the adoption of IFRS 9 during 2018, the Group has recognised an impairment provision of £0.01 million at 30 June 2018 against its treasury assets. There were no impairment charges against any of the Group's treasury assets at 30 June 2017 or 31 December 2017.

b) Loans and advances to customers

Loans and advances to customers are predominately made up of retail loans fully secured against UK residential property of £3,424.8 million, split between residential and buy-to-let loans with the remaining £68.2 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 2018, the average LTV of retail mortgages is 57% (30 June 2017: 55%; 31 December 2017: 55%). The table below provides information on retail loans by payment due status:

Arrears analysis	30 June 2018 Unaudited £m	30 June 2018 Unaudited %	30 June 2017 Unaudited £m	30 June 2017 Unaudited %	31 December 2017 Audited £m	31 December 2017 Audited %
Not past due	3,414.4	99.70	3,165.0	99.96	3,301.1	99.98
Past due up to 3 months	7.7	0.22	-	-	0.6	0.02
Past due over 3 months	1.9	0.06	0.6	0.02	0.2	-
Possessions	0.8	0.02	0.5	0.02	-	-
	3,424.8		**3,166.1**		**3,301.9**	

Notes to the interim financial report

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 51.8% (30 June 2017: 61.2%; 31 December 2017: 60.4%).

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

Arrears analysis	30 June 2018 Unaudited £m	30 June 2018 Unaudited %	30 June 2017 Unaudited £m	30 June 2017 Unaudited %	31 December 2017 Audited £m	31 December 2017 Audited %
Not past due	65.9	96.63	66.6	99.25	65.9	98.95
Past due up to 3 months	1.8	2.64	0.3	0.45	0.7	1.05
Past due over 3 months	0.5	0.73	0.2	0.30	-	-
Possessions	-	-	-	-	-	-
	68.2		**67.1**		**66.6**	

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 2018, there were 102 forbearance cases within the retail loans category (30 June 2017: 123; 31 December 2017: 105) and 8 cases within the SBL loans category (30 June 2017: 3; 31 December 2017: 9).

15 Notes to the cash flow statements

Group and Society	Period to 30 June 2018 Unaudited £m	Period to 30 June 2017 Unaudited £m	Year ended 31 December 2017 Audited £m
Changes in liabilities arising from financing activities			
Subscribed capital at 1 January	23.9	23.9	23.9
Accrued interest	1.0	1.0	1.9
Interest paid	(1.0)	(1.0)	(1.9)
Subscribed capital at end of period	23.9	**23.9**	**23.9**

Notes to the interim financial report

16 Changes to accounting policies

This note explains the impact on the financial statements as a result of adopting the new accounting standard IFRS 9 'Financial Instruments' and also discloses the new accounting policies, that have been applied with effect from 1 January 2018, where they differ to those applied in prior periods.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has not adopted the hedge accounting module of the standard and has elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

As permitted by the transitional provisions of IFRS 9, the standard was adopted without restating comparative information and therefore any adjustments to the carrying value of financial instruments at the date of transition were recognised in the opening retained earnings of the reported period.

The adoption of IFRS 9 has resulted in changes in the Society's accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

(a) IFRS 9 'Financial Instruments' – Impact on the financial statements

The adoption of IFRS 9 'Financial Instruments', has had the following overall impact on the financial statements of the Society:

Balance sheet	Notes	31 December 2017 As originally presented IAS 39 Audited £m	IFRS 9 adjustment Unaudited £m	1 January 2018 Restated IFRS 9 Unaudited £m
Assets				
Cash in hand and balances with the Bank of England		352.6	-	352.6
Loans and advances to credit institutions		33.1	-	33.1
Debt securities		109.2	-	109.2
Derivative financial instruments		7.3	-	7.3
Loans and advances to customers	(c)	3,368.8	1.7	3,370.5
Other assets		5.9	-	5.9
Property, plant and equipment		14.6	-	14.6
Intangible assets		7.2	-	7.2
Deferred tax assets	(c)	1.7	(0.3)	1.4
Total assets		**3,900.4**	**1.4**	**3,901.8**
Liabilities				
Shares		2,595.4	-	2,595.4
Amounts owed to credit institutions		703.7	-	703.7
Amounts owed to other customers		185.1	-	185.1
Debt securities in issue		153.5	-	153.5
Derivative financial instruments		9.9	-	9.9
Other liabilities and accruals		4.9	-	4.9
Current tax liabilities		1.6	-	1.6
Provisions for liabilities		1.1	-	1.1
Retirement benefit obligations		6.9	-	6.9
Subscribed capital		25.6	-	25.6
Total liabilities		3,687.7	**-**	**3,687.7**
Reserves				
General reserves	(c)	212.7	1.4	214.1
Fair value reserves		-	-	-
Total reserves attributable to members of the Society		212.7	**1.4**	**214.1**
Total reserves and liabilities		**3,900.4**	**1.4**	**3,901.8**

Notes to the interim financial report

16 Changes to accounting policies (continued)

(a) IFRS 9 'Financial Instruments' – Impact on the financial statements (continued)

The total impact on the Group's retained earnings as at 1 January 2018 is as follows:

	Notes	Unaudited £m
Closing retained earnings 31 December – IAS 39		212.7
Decrease in provision for loans and advances to customers	(c)	1.7
Reduction in deferred tax asset relating to impairment provisions	(c)	(0.3)
Opening retained earnings 1 January – IFRS 9		**214.1**

(b) Classification & Measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Society has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories.

IFRS 9 introduces changes in the classification and measurement of financial instruments, based on the cash flow attributes of the financial asset and the business model that underly the assets. Financial assets may be classified as amortised cost; fair value through other comprehensive income ('FVOCI'); or fair value through profit or loss ('FVTPL').

The Society first determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. Its business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios, based on the performance of the business model and how the financial assets held within that business model are evaluated. Then the Society assesses the cash flows of the business model to determine whether they are solely payments of principal and interest (SPPI) or not.

Amortised cost
Financial assets whose business model is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI) are measured at amortised cost. Interest income from these financial assets is included in net interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. The carrying value of these assets is adjusted by any any expected credit loss allowance recognised.

Fair value through other comprehensive income (FVOCI)
Financial assets whose business model is to hold for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent soley payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from reserves to the income statement. Interest income from these financial assets is included in net interest income using the effective interest rate method. The expected credit loss for these assets does not reduce the carrying amount in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were at amortised cost, is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

Fair value through profit or loss (FVPL)
Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. Interest income from these financial assets is included in net interest income using the effective interest rate method.

The Society has assessed the business model applicable to its financial assets, and has allocated the instruments to the following categories:

	Balance at 31 December 2017 £m	IAS 39 accounting classification	IFRS 9 accounting classification
Financial assets			
Cash in hand and balances with the Bank of England	352.6	Loans & receivables at amortised cost	Amortised cost
Loans and advances to credit institutions	33.1	Loans & receivables at amortised cost	Amortised cost
Debt securities	109.2	Available-for-sale at fair value	FVOCI
Derivative financial instruments	7.3	Fair value through profit and loss	FVPL
Loans and advances to customers	3,368.8	Loans & receivables at amortised cost	Amortised cost

Notes to the interim financial report

16 Changes to accounting policies (continued)

(b) Classification and Measurement (continued)

There is no overall impact to the financial statements as result of adoption of the 'classification & measurement' module of IFRS 9 and the transfer of the closing available-for-sale reserve balance to the opening FVOCI reserve has no impact on the financial statements. IFRS 9 has not altered the classification and measurement of financial liabilities for the Society.

(c) Impairment

From 1 January 2018, the Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its financial assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments. The allowance is based on the ECLs associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination and the measurement of ECL reflects:

- An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial asset is moved to 'Stage 2' but is not yet deemed to be credit impaired. The definition of a significant increase in credit risk is disclosed below.
- If the financial asset is credit-impaired, it is moved to 'Stage 3'. The definition of credit-impaired and default is outlined below.

Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Assets in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

Forward-looking information is taken into account in the measurement of ECL with its use of economic assumptions such as inflation, unemployment rates, house price indices and Gross Domestic Product.

The Group has no purchased or originated credit impaired assets and has not applied any simplified approaches.

The key judgements and assumptions adopted by the Group in meeting the requirements of the standard are outlined below:

Significant increase in credit risk (SICR)

The Group considers a financial instrument to have experienced a significant increase in credit risk when one of more of the following criteria has been met:

Financial instrument	Definition of significant increase in credit risk
Loans and advances to customers – Retail	• Over 30 days past due on contractual repayments; • Lifetime probability of default doubled since origination; • Lifetime probability of default greater than 1%; or • In forbearance.
Loans and advances to customers - SBL	• Over 30 days past due on contractual repayments; • On management watchlist; • Lifetime probability of default doubled since origination; or • In forbearance.
Wholesale liquidity instruments	• Over 30 days past due on contractual repayments;

Definiton of default and credit-impaired

The Group defines a financial asset as in default, which is fully aligned with the definition of credit-impaired, when it is more than 90 days past due on contractual repayments.

It is the Society's policy to consider a financial instrument as 'cured' and therefore reclassified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated position, at the time of the cure, and whether there has been a significant increase in credit risk compared to initial recognition.

Notes to the interim financial report

16 Changes to accounting policies (continued)

(c) Impairment (continued)

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information.The key economic variables impacting credit risk and expected credit loss for the portfolios have been determined by management, as outlined below, but expect judgement is also applied in the process. Forecasts of these economic variables are provided by a reputable third party on a quarterly basis and provide the best estimate view of the economy over the next five years. After five years, to project the economic variables out for the full remaining lifetime, a mean reversion approach is used, i.e. long-run averages.

In addition to the base economic scenario forecast, other possible scenarios along with scenario weightings are obtained, of which management have applied three scenarios in the model calculations.

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

The summary below outlines the most significant forward-looking assumptions on adoption of IFRS 9, over the five year planning period and their low and high points across the optimistic, base and pessimistic scenarios.

	Low	High
Inflation	(0.5)%	3.8%
Unemployment rate	4.09%	8.62%
House price index	(14.2)%	9.0%
Gross Domestic Product	(3.6)%	3.6%

Applying a 100% weighting to the pessimistic economic scenario would result in further impairment losses of £0.6m at 1 January 2018.

The ECL models are driven by three key components:

- **Probability of Default ('PD'):** The PD model takes attributes of the mortgage accounts on the portfolio (for example, origination vintage and time on book) and adjusts for the impacts of a range of independently sourced forward-looking macroeconomic scenarios to produce a vector detailing the likelihood of an account defaulting in a given month within the expected behavioural lifetime. The model outputs are scaled against a number of internal risk grades which are determined using the Society's behavioural scoring models. These behavioural scoring models contain a combination of internal and externally derived data to rank the mortgage accounts by risk and pool the accounts into groups of comparable expected performance.
- **Exposure at Default ('EAD'):** The EAD model predicts the loan exposure of each mortgage account at a future default date. The model takes into account balance amortisation and accrued interest from missed payments given expected changes in the repayment terms of the mortgage; for example interest rates may move in a manner consistent with the macroeconomic scenarios. The calculation produces a vector to represent 'expected' EAD at each potential point of default along the vector from the reporting date up to the expected behavioural lifetime; and
- **Loss Given Default ('LGD'):** The LGD model calculates the likely loss on asset disposal that the Society would suffer if a default were to occur in any given month over the expected behavioural lifetime of the mortgage account. LGD takes into account the EAD in comparison to the value expected to be recovered through the sale of an asset, given the macroeconomic scenario specific trend in property price indices. The expectation of loss is then scaled to reflect the likelihood of a mortgage account reaching default, progressing on to sale of the asset.

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows have expired or where substantially all the risks and rewards of ownership have been transferred. Financial liabilities are derecognised only when the obligation is discharged, cancelled or has expired.

Notes to the interim financial report

16 Changes to accounting policies (continued)

(c) Impairment (continued)

Loans and advances to customers

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018.

	Loans fully secured on residential property Unaudited £m	Other loans fully secured on land Unaudited £m	Total Unaudited £m
Closing impairment provision 31 December – IAS 39	1.7	1.5	3.2
Adjustment on transition to IFRS 9	(1.1)	(0.6)	(1.7)
	0.6	**0.9**	**1.5**

The Society has reported a net release on the adoption of IFRS 9. The Society has only secured portfolios with low average LTV ratios and limited losses experienced historically. The release recognised is also reflective of the creation of a less-subjective, forward-looking scenario model that utilises externally provided forecast economic data.

The gross carrying amounts and impairment provisions at 1 January 2018, on adoption of IFRS 9, are presented in detail below.

	Loans fully secured on residential property Unaudited £m	Other loans fully secured on land Unaudited £m	Total Unaudited £m
Gross carrying amount			
Stage 1	2,982.3	31.0	3,013.3
Stage 2	314.3	34.4	348.7
Stage 3	5.3	1.2	6.5
	3,301.9	**66.6**	**3,368.5**

	Loans fully secured on residential property Unaudited £m	Other loans fully secured on land Unaudited £m	Total Unaudited £m
Expected credit loss			
Stage 1	0.2	0.1	0.3
Stage 2	0.4	0.4	0.8
Stage 3	-	0.4	0.4
	0.6	**0.9**	**1.5**

The ECL allowance recognised against the Society's loan commitment balance on 1 January 2018 is immaterial to the financial statements and therefore has not been separately disclosed.

16 Changes to accounting policies (continued)

(c) Impairment (continued)

Cash in hand and balances with the Bank of England, Loans and advances to credit institutions and Debt securities

The Society's debt security portfolio is all of 'investment grade' or higher and the Society has therefore assessed that the credit risk on its debt security exposures has not increased significantly since initial recognition. The Society's policy to allow only high quality, senior secured exposures to Residential Mortgage Backed Securities ('RMBS') ensures continued Society receipt of contractual cash flows in stressed scenarios. For all other wholesale liquidity balances, a simple model calculates the ECL allowance, based on externally provided 12 month PD rates for individual counterparties.

Therefore, whilst the Group's liquidity portfolio held at amortised cost and FVOCI are subject to the impairment requirements of IFRS 9, the recognition of a loss allowance on transition as a result of applying the expected credit risk model was immaterial, with the Group recognising a loss allowance of £0.02m on 1 January 2018.

Responsibility statement

The directors confirm that this Interim Financial Report has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The interim management report includes a fair review of the important events that have occurred during the first six months of the financial year and their impact on the Interim Financial Report, as required by the Disclosure and Transparency Rules (DTR 4.2.7). The principal risks and uncertainties continue to be those reported within the Strategic Report on page 15 and within the Risk Management Report starting on page 23 of the 2017 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 2017 Annual Reports and Accounts. Simon Baum was appointed to the Board as a Non-executive Director on 18 June 2018.

Signed on behalf of the Board by

David Marlow
Chief Executive

Daniel Mundy
Finance Director

26 July 2018

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 2018, 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 16. 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 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
Leeds

26 July 2018

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 2017 has been extracted from the Annual Report and Accounts for that year. The Annual Report and Accounts for the year ended 31 December 2017 have been filed with the Financial Conduct Authority. The Auditors' report on these Annual Report and Accounts was unqualified.

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

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