2016

Members' Newsletter

including our summary financial statement and notice of AGM

The Nottingham

Bringing your finances closer to home

Contents

Executive summary

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

Below are some of the key achievements and financial highlights of 2016:

- Strong retail franchise – total branch balances of £2 billion and more than doubled in the last five years;
- The Society welcomed 24,000 new customers and opened seven new branch locations;
- Net promoter score of 78%;
- Gross mortgage lending of £798m resulting in mortgage book growth of 8%;
- Total assets of £3.6 billion;
- Group pre-tax profit of £14.2m;
- Net interest margin at 1.32%;
- Strong capital ratios with Tier 1 ratio at 15.8% and leverage ratio of 4.6%; and
- Arrears levels remain very low at less than a quarter of industry average.

Summary financial statement

We are pleased to present our summary financial statement for the year ended 31 December 2016

This financial statement is a summary of information in the audited annual accounts, the directors' report and annual business statement, all of which will be available to members and depositors free of charge on our website www.thenottingham.com from 3 March 2017.

Summary directors' report

Market and economic background

At the time of writing the summary directors' report last year we highlighted the challenges and uncertainties that 2016 could bring. Whilst your Board anticipated and was prepared for such uncertainty, 2016 will be remembered for a number of major global geo-political and social shocks.

As the UK began to acknowledge that we face years of uncertainty negotiating our exit and then extracting ourselves from the EU; the US Presidential election probably delivered the greatest electoral shock for 100 years and placed the world into a period of economic and political uncertainty.

These events have resulted in a unique mix of economic conditions. At home the UK economy has performed ahead of expectations with GDP for the year showing growth of 2%; inflation remains low by historical standards with CPI at 1.6% and employment is at historically high levels of 74.5%. However, the depreciation of sterling following the referendum vote has attracted extensive media coverage around the prospect of rising inflation – the battle between Unilever and Tesco over a retail price increase for Marmite provided an illustration of the potential impact of sterling's depreciation on retail prices in a Brexit world.

Another consequence of the Brexit vote was the Bank of England's decision to reduce bank base rate from 0.50% to 0.25%, in order to provide support against the uncertain economic backdrop. As a Society with a ratio of seven savers to every borrower we were disappointed by this move, believing that with the ready availability of credit and mortgage finance in a competitive market place and rates already at an all-time low, a base rate reduction was not necessary.

In terms of the housing market, following a period of strong house price increases, growth has now begun to slow, with the Nationwide reporting a 4.5% increase over the past 12 months. Transaction numbers remain muted by historical standards and are forecast to be 1.1 million; 24% lower than the pre-financial crisis levels. A major influence on the UK housing stock and its value will be decisions made by landlords over the next 2-3 years, as both fiscal and regulatory moves by Government and regulators begin to potentially diminish the returns available in the buy-to-let market.

Demand for housing of all tenures remains high and supply constrained – there may be some movement of stock from the private letting sector to the privately owned residential sector over the next few years, but ultimately Government needs to do all it can to increase the level of new housing starts from the current level of approximately 150,000 to over 200,000 per year for the foreseeable future – the Society stands ready to support such a move and encourages the Government to do so – the recent White Paper being a start.

The writing of this statement coincides with the first few weeks of a Trump presidency and it still remains very unclear what the first year of this tenure will bring. Economically the sense is that policy will be expansionary with fiscal loosening – this will inevitably drive growth, inflation and rising interest rates that will ripple across the globe. This unique combination of the UK entering a period of extraction from the EU and significant regime and political change in America, increases global uncertainty. However, the Society is confident in its strategy, business model, performance and place within the UK economy and our communities. It stands ready to serve and support our growing membership to manage their financial affairs in this increasingly uncertain environment.

Your Society

As we have said consistently, our responsibility is to differentiate ourselves against the big banks using our mutual ethos to deliver a proposition and service that is valued by our members and is also attractive to potential new ones.

One area that truly marks us apart from the big banks today is our approach to branches. As the UK continues to see large scale closures – the UK's largest bank reduced its branch network by 25% in 2016 alone, we have continued to open new branches and increase our network, with great success.

In 2016 we have opened in a further seven new locations in Belper, Burton upon Trent, Buxton, Scunthorpe, Uttoxeter and two in Sheffield. In fact since the beginning of 2012, we have increased the number of branches we have from 32 to 61, almost double.

Without exception, existing members and new customers have welcomed us to our new locations where we have already built savings balances of more than £300m. However it is not just our new locations that have proved so popular with customers; over the same five year period our total branch balances have more than doubled from £946m at the beginning of 2012 to reach £2bn for the first time in 2016.

We believe that this is clear evidence that the role of branches remains important in the eyes of UK consumers and that new customers are attracted to our unique advice and service proposition. This is further underpinned by the continuing success of our whole-of-market mortgage advice offering; with the number of customers using this service increasing by a further 31% in 2016. In fact we are now helping 73% more people find the right mortgage than in 2013, the last year we advised purely on Nottingham Building Society mortgages, demonstrating the popularity of our unique approach.

All of this activity has been supported by an extensive range of marketing activity designed to build our profile and raise awareness of The Nottingham and what we have to offer.

This has included T.V. advertising, radio, print, online and a number of strategic partnerships. Our growing relationship with Leicester Tigers is a good example of this; with our sponsorship of their new stand and the largest junior rugby club in the country providing an excellent talking point that we now have a dozen branches across Leicestershire, the most of any building society and from none five years ago.

This activity is important in ensuring that we attract new members to continue to strengthen the Society. In fact during the year we have seen our brand recognition and awareness as a result of activity in our heartland grow to 87% and our spontaneous unprompted awareness at 51% places us as the most recognised building society in our heartland. This is an enormous jump from three or four years ago, where recognition was in the low to mid 20's, placing us outside the top 10.

Our performance

In terms of mortgage lending the Society has delivered a performance in line with our plan. Gross lending of £798m has been achieved in the year, an increase of 23% on 2015 and a record for the Society in a single year. We have also processed over £1bn of applications in a year for the first time in the Society's history. This good performance ensures that in addition to record lending in 2016, we enter 2017 with a very healthy pipeline of mortgages.

Once again we have been very pleased with the number of mortgage customers electing to stay with us and take another product at the end of their term – our central mortgage team retained over £500m of business in the year for the first time, an increase of 16%. This excellent performance resulted in our mortgage redemptions falling by 3% in 2016. All this meant that we exceeded £3bn of mortgage balances for the first time and have increased our assets by 8% in the year.

As stated in last year's report, we anticipated that 2016 would bring some challenges and uncertainty; 2016 was an exceptional year of unexpected outcomes. The most significant event of 2016, from our perspective, was the MPC's decision to halve the bank base rate from 0.50% to 0.25% in August. Since March 2009, when base rates were taken to an all-time low of 0.50% we have constantly strived to strike a fair and appropriate balance between the contrasting needs of our borrowers and savers. The decision to reduce rates in August to 0.25% stiffened that difficult challenge even further. We believe that the decision we made in balancing the reductions in mortgage and savings rates was fair and appropriate.

It is vital, however that we maintain an incentive to save. Historically over a 20 year cycle, a building society would typically expect average savings rates to be equivalent to about base rate. We believe that we are doing all we can for savers as reflected by the fact that our average saving rate at the end of 2016 is more than four times base rate; that over 50% of our current savings accounts pay a rate higher than base rate, with some regular savings accounts offering between eight times and twelve times base rate. Customers' response to this approach during 2016 has been positive with our heartland based branch savings balances increasing by 10%.

Another small way that we can protect savers from ultra-low rates is to look at the surplus the Society makes each year. Whilst we need to make sufficient profit to enable us to continue to grow and invest in the future sustainability of the Society, we do not seek to maximise profits but make sufficient to meet our needs. Whilst we were expecting a reduction in profit in 2016, as trailed at the beginning of the year, the Board decided, in response to the base rate cut, that it was acceptable to reduce the profit made by the Society further in 2016. We are therefore reporting a profit before tax of £14.2m, a reduction of 29% on 2015. However our profit after tax ratio of 0.32% per £100 assets is a strong level of profitability in historical terms and is more than sufficient to ensure that we can continue to grow, strengthen and develop the Society.

Despite this reduction in profit, which was largely driven by a conscious reduction in net interest income, we have maintained our cost efficiency, so whilst our overall costs have increased in 2016 reflecting our continuing investment in people, technology and branches, our Group management expenses ratio has remained at the same level as 2015 at 1.12%. Management's focus will be to gradually reduce this ratio in the years ahead as the Society continues to grow.

Summary financial statement

Quality and strength

The Society continues to maintain its very high level of financial strength. Our leverage ratio of 4.6% ensures that we have significantly more high quality capital available to us than is required by regulation, providing additional cover and strength in the event of significant losses or unexpected events. The very high quality and availability of liquidity also provides regulators and members with strong assurance of our ability to meet our obligations as they fall due.

Central to the ethos of a building society is the prudence we demonstrate when lending our members' money, to those people we believe have the willingness and capability to repay their loan. Whilst the overall economic conditions remain relatively benign and interest rates low, we are very proud that at present we only have 38 accounts three or more months in arrears out of a total of over 24,000 accounts. Also at the year-end we have no properties in possession, underscoring the quality of our mortgage book and the robustness of our lending policies and procedures. It is reasonable to say that this is almost the lowest achievable level of arrears for a mortgage book of this size.

Whilst it is inevitable that arrears will rise in the future, particularly when rates eventually begin to rise, the vast majority of our customers are protected to some degree by fixed rates. We remain extremely well positioned to deal strongly with any future unexpected events. Our overall asset and credit quality is reflected in the maintenance of our strong overall external credit rating from Moody's.

Serving our growing membership

Due to the success of our branch network and excellent mortgage performance we have continued to grow our membership with approximately 24,000 new customers joining the Group in the year – broadly in line with what we achieved in 2015. An impressive level of consistent growth.

We remain very focussed on delivering excellent service in all that we do; with branches and customer service teams receiving regular personalised service ratings and updates on how our customers rate them. Their hard work and focus on customers' feedback and suggestions for improvement has resulted in a further increase in our Net Promoter Score which in 2016 has risen a further 4 percentage points to a new high of 78%. This places us at the very top of all organisations and sets a standard that we will need to work hard to maintain in 2017.

During 2016, we were very pleased to run a number of member events for the first time. This gave members an opportunity to hear from executive and non-executive directors detailing our approach to running the Society and our emerging plans. It also gave members the opportunity to directly question the directors of the Society on a range of issues – foremost being the current level of savings rates in the record-breaking low interest environment. Feedback from the events overall was very positive and we hope to run more of these in the year ahead.

Board changes

As the Society and its trading environment evolves so does our Board. The Board was disappointed to receive the resignation of our Deputy CEO and Finance Director, Ashraf Piranie, who after 10 years' service is leaving us to take up a new role at the West Bromwich Building Society. Ash has played a significant role in the Society's progress over recent years. He was a key member of the small team that so effectively navigated the Society though the challenges of the financial crisis. We are sorry to see him leave but thank him for his excellent contribution and wish him our best in his future career.

We are delighted, however, to welcome two new non-executive directors who have joined the Board since the beginning of the year. Kerry Spooner joined the Board on 1 September 2016. Kerry is an ex-partner at Allen & Overy LLP and in addition to her extensive and impressive legal experience covering mergers, acquisitions and equity capital markets, has strong experience of building society board membership, gained at the Market Harborough and Leek United Societies where she chaired the remuneration committees and held the role of Senior Independent Director.

We also welcome Kavita Patel to the Board who joined us on 1 January 2017. Kavita is currently a partner at Shakespeare Martineau where she currently leads their investment funds sector, specialising in corporate finance transactions as well as previously having sat on the firm's main board. Kavita has deep experience in her field but also has experience of managing the challenge of a rapidly growing and developing organisation, something which will be invaluable to our Board.

It is also with sadness that I announce that our Senior Independent Director and Vice Chairman, Keith Whitesides, will be retiring from the Board when his period of office expires at the AGM in March.

Keith has been a member of The Nottingham's Board for over 12 years and has been a key instigator in encouraging the development and growth of the Society, which has been significant over the period of his tenure. I know that all Board members will miss his wise counsel and strong customer insights, along with his infectious and endless enthusiasm for the Nottingham Building Society, its members and staff.

From my personal perspective, Keith has been a superb Senior Independent Director and Vice Chairman. From the day I joined the Board and especially since I became Chairman, Keith has been generous in sharing his experience, advice and support. We all wish Keith our very best wishes for a long and happy retirement and we all undertake to continue to demonstrate the same level of enthusiasm and appetite for the development of the mutual model that Keith has demonstrated in every Board meeting for the past 12 years. Thank you Keith.

Finally, I am pleased to advise that during 2016 the Board has overseen a significant project to overhaul and update the entire governance and risk management framework upon which the Society operates.

This has included a review and rewrite of all governance documents, policies, risk appetite statements and the functions/management committees that support them. The Board believes that this important project will ensure that the governance and management of the Society will be fit for purpose for many years into the future and support us in the achievement of our objectives.

Supporting the communities

In 2016 we have continued to support our communities through our Doing Good Together initiative. Our fundraising for local charities has reached £20,000 for over 40 causes ranging from the RNLI in Skegness to the Leicester Food Bank in Wigston.

Staff have also been generous with their time and have donated over 1,000 hours in 2016, providing practical help with their chosen projects and our selected charity partners, doubling what we did in 2015.

Through our Grants for Good, we donated £40,000 to fund 17 local projects to increase employability and financial education and to aid and prevent homelessness.

Our work with charity partners has also continued - 50 rising sports stars have benefitted from support via our partner, SportsAid. Through Young Enterprise we have financially supported ten local schools to complete the Company Programme and helped to deliver employability skills workshops to more than 500 students. Our monetary donations to Framework have continued to support their Skills Plus programme and we are very proud to have sponsored a number of their fundraising initiatives.

Our work in the community has been recognised through two awards during the year – Nottingham Post's 'Contribution to the Community' award and Money Age's Best Charity Partnership (SportsAid).

Summary and outlook

As we move forward we do so from firm foundations as we seek to further grow our membership by continuing to differentiate strongly against the big banks. Over recent years we have consistently invested in the infrastructure and capability of the Society, have reviewed and renewed our governance and risk management framework and during the first quarter of 2017 we will move into our newly extended head office, where we have increased our capacity by over 50% to take account of rising demand.

2017 will bring challenges and uncertainty and along with the ultra-low interest rate environment it will be essential that we focus even more strongly on how we build and reward loyal membership of The Nottingham, through the provision of our unique advice and service proposition, whilst maintaining our financial strength and strong mutual ethos.

We have a unique business model that is becoming increasingly popular, one that seeks to build long-term relationships through the consistent delivery of advice, choice, service and value. In 2017 we expect to continue to grow the Society, continue to invest in improving our offering and seek to maintain our world-class level of service. We will seek to do this whilst continuing to effectively balance the contrasting needs of our savings and mortgage customers, finding further ways to deliver value to our members and to support our communities and the causes which we are so passionate about of homelessness, employability and financial awareness.

As always I would like to thank all our team members and my colleagues on the Board. Their continuing enthusiasm and commitment to serve our customers in the way that they would wish to be served has once again been impressive to behold.

I would also like to thank our business partners, intermediaries and suppliers whose continued support has enabled us to achieve our objectives and serve our members.

John Edwards
Chairman

22 February 2017

Summary financial statement

Results for the year	2016 £m	2015 £m
Net interest receivable	45.6	48.0
Other income and charges	7.8	10.4
Administrative expenses	(38.7)	(36.9)
Impairment losses	-	(0.2)
Provisions	(0.4)	(1.4)
(Loss)/profit on disposal of fixed assets	(0.1)	0.1
Profit for the year before taxation	**14.2**	**20.0**
Taxation	(3.2)	(4.6)
PROFIT FOR THE YEAR	**11.0**	**15.4**

Financial position at end of year	2016 £m	2015 £m
ASSETS		
Liquid assets	527.0	491.6
Mortgages	3,032.6	2,796.5
Derivative financial instruments	4.7	3.8
Fixed and other assets	27.1	26.5
TOTAL ASSETS	**3,591.4**	**3,318.4**
LIABILITIES		
Shares	2,457.4	2,433.2
Borrowings	872.0	643.0
Derivative financial instruments	19.7	9.3
Other liabilities	16.3	14.2
Subscribed capital	26.2	26.2
Reserves	199.8	192.5
TOTAL LIABILITIES & EQUITY	**3,591.4**	**3,318.4**

Summary of key financial ratios	2016 %	2015 %
Gross capital as a percentage of shares & borrowings (Note 2)	6.79	7.11
Liquid assets as a percentage of shares & borrowings (Note 3)	15.83	15.98
Profit for the year as a percentage of mean total assets (Note 4)	0.32	0.47
Management expenses as a percentage of mean total assets (Note 5)	1.12	1.12
Management expenses as a percentage of mean total assets (Society only) (Note 5)	0.91	0.90

NOTES

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

Approved by the Board of directors on 22 February 2017 and signed on its behalf by:

John Edwards
Chairman

David Marlow
Chief Executive

Ashraf Piranie
Deputy Chief Executive and Finance Director

Independent auditor's statement

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

We have examined the summary financial statement of Nottingham Building Society for the year ended 31 December 2016 which comprises the 'Results for the year', 'Financial position at end of year' and 'Key financial ratios', comprising page 6, and the directors' emoluments disclosures on pages 10 and 11.

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

Respective responsibilities of directors and auditor

The directors are responsible for preparing the summary financial statement, within the Members' Newsletter, in accordance with the Building Societies Act 1986, which includes information extracted from the annual report and accounts and the auditable part of the Directors' Remuneration Report of Nottingham Building Society for the year ended 31 December 2016. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Summary Financial Statement with the full annual financial statements, the Directors' Remuneration Report and the Directors' Report, and its compliance with the relevant requirements of Section 76 of the Building Societies Act 1986 and the regulations made thereunder.

Basis of opinion

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

Opinion

In our opinion the Summary Financial Statement is consistent with the full annual financial statements, the Summary Directors' Report and the Directors' Remuneration Report of Nottingham Building Society for the year ended 31 December 2016 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986, and the regulations made thereunder.

Ernst & Young LLP
Registered Auditors
Leeds

22 February 2017

Summary directors' remuneration report

Nottingham Building Society is committed to best practice in its remuneration of directors. This report summarises the pay, benefits, bonuses and incentive plans for the directors for 2016.

There are three sections to the report – a statement by the Chairman of the Remuneration Committee, a remuneration policy report, which explains the Society's approach to pay and reward and the annual remuneration report, which outlines how the policy was implemented during 2016.

A full version of the directors' remuneration report is contained in the 2016 annual report and accounts.

Statement by the Chairman of the Remuneration Committee

Context for remuneration in 2016

The summary financial statement on pages 2 to 6 describe 2016 as a year of good strategic progress with the footprint of the Society extended further with seven new locations opened; excellent trading performance with regard to mortgage lending and increased assets. There has been very strong growth in the area of branch savings. The bank base rate reduction in August led the Board to reduce some savings rates but also agree on a lower profit profile for the Society to partially mitigate the reduction in income.

During the 2016 performance year there has been continued focus on sustainability for The Nottingham and its members. The asset size has grown by 8% and savings balances by 1%, and an additional seven new locations were opened bringing the total number of branches to 61.

It is in this context that the payments to Executive Directors have been determined and are detailed in this report.

The Directors Annual Bonus Plan – the Directors received 40% of the total bonus payment for 2016 following the end of the performance year with 60% being deferred for 3 years and subject to malus[1] and clawback rules in line with Regulatory best practice.

The 2013 -2015 LTI payments made to directors during 2016 reflect the significant progress made over the period with regard to the key measures of cost income ratio, profit after tax ratio against the comparator peer group and delivery of strategic objectives.

Remuneration policy

The Nottingham's Remuneration Policy reflects its objectives for good governance, appropriate risk management and acting in the long-term best interests of members.

The policy is there to ensure that:

- Remuneration should be sufficient to attract, reward, retain and motivate high quality leaders and employees to run The Nottingham successfully, delivering value for our members whilst avoiding paying more than is necessary for this purpose in line with our mutual ethos; and
- Remuneration is structured to strike the right balance between fixed and variable pay. Variable pay schemes are designed to incentivise and reward appropriate behaviour and performance, aligned with The Nottingham's position on risk; rewards are only attributed to the delivery of success and achievement of objectives.

Recruitment policy for Executive Directors

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

Service contracts

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

Payment for loss of office of Executive Directors

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

Other directorships

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

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

Executive Director’s total remuneration

The total remuneration received by Executive Directors is detailed on page 10. The information has been audited and shows remuneration for the years ending 31 December 2015 and 31 December 2016 as required under the Building Society’s (Accounts and Related Provisions) Regulations 1998.

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

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

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

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

Non-executive directors

The Chairman and other non-executive directors each receive an annual fee reflective of the time commitment and responsibilities of the role. Fees for non-executive directors are set by reference to benchmark information from a building society comparator group, agreed with the Board and taking into consideration the principles underpinning the annual Society salary review.

The non-executive directors’ fees are reviewed by the Chairman together with the executive directors before recommendations are referred to the Board. Remuneration of the Chairman is considered by the Remuneration Committee together with the Society’s Chief Executive without the Chairman being present.

Non-Executive Directors do not receive variable pay or pensions in order to encourage their independence.

Non-Executive Directors are reimbursed for reasonable expenses incurred during the course of their work on the Society’s business.

Summary directors' remuneration report

Annual report on remuneration

Executive Director remuneration

Audited Society	2016 D J Marlow £000	2016 M A Piranie £000	2016 S J Taylor £000	2016 Total £000	2015 D J Marlow £000	2015 M A Piranie £000	2015 S J Taylor £000	2015 Total £000
Fixed remuneration								
Salary	290	239	218	**747**	273	228	207	**708**
Benefits	10	10	9	**29**	10	9	9	**28**
Variable remuneration								
Annual Bonus[1]	31	-	22	**53**	35	28	25	**88**
Long term incentive plans	71	65	56	**192**	68	63	54	**185**
	402	314	305	**1,021**	386	328	295	**1,009**
Pension contribution	43	36	33	**112**	40	36	31	**107**
	445	**350**	**338**	**1,133**	**426**	**364**	**326**	**1,116**

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

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

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

Executive Directors	Performance Year	Due 2019 £000	Due 2020 £000	Total Deferred £000
D J Marlow	2015	53	-	53
	2016	-	47	47
		53	47	100
S J Taylor	2015	38	-	38
	2016	-	33	33
		38	33	71
		91	80	171

M.A. Piranie tendered his resignation as Deputy CEO and Finance Director during 2016 and as a consequence forfeited rights to any entitlements under the 2016 Executive Annual Bonus Scheme and rights to previously deferred elements of the annual bonus scheme.

Non-executive director remuneration

Audited Society		2016 £000	2015 £000
J. Edwards (Chairman)		67	66
J. C. Kibbey		42	39
A. F. J. Neden		46	43
M. C. Phibbs	(retired 22 March 2016)	9	37
K M Spooner	(appointed 1 September 2016)	12	-
W. G. Thomas		46	37
K. R. Whitesides (Vice-Chairman)		41	42
Total emoluments for services as directors		**263**	**264**

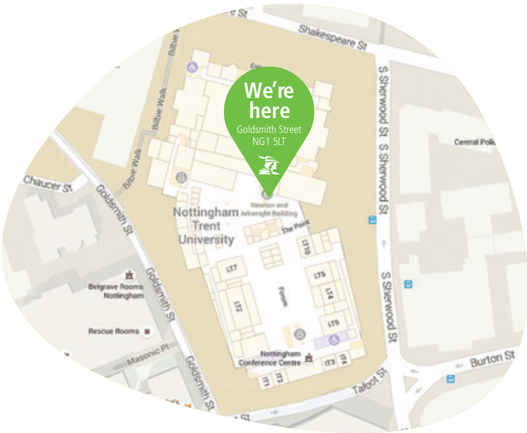
On behalf of the Board of directors,

Jane Kibbey
Chairman of the Remuneration Committee

22 February 2017

Notice of annual general meeting 2017

The annual general meeting of Nottingham Building Society will be held at The Old Chemistry Theatre, Arkwright Building, Nottingham Trent University, City Site, Goldsmith Street, Nottingham, NG1 5LT on Tuesday, 28 March 2017 at 6.30 p.m. for the following purposes:



1. To receive the auditor's report.

Ordinary Resolutions

2. To receive the directors' report, annual accounts and annual business statement for the year ended 31 December 2016.

3. To consider and, if thought fit, pass an ordinary resolution to re-appoint Ernst & Young LLP as auditors until the conclusion of the next annual general meeting.

4. To consider and, if thought fit, approve the report of the directors on remuneration.

Election of Directors

5. To consider and if thought fit:
   a. to re-elect John Stephen Edwards
   b. to re-elect Jane Celia Kibbey
   c. to re-elect David John Marlow
   d. to elect Kavita Patel
   e. to elect Kerry Madeline Spooner

as directors of the Society.

By order of the Board

A C D Holmes, Secretary
22 February 2017

Notes

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

2. Re-election/Election of Directors

The Board is committed to complying with best practice in corporate governance but where it believes that there is a justifiable reason to depart from the UK Corporate Governance Code then it will do so. The key consideration being that such a departure is believed to be in the best interests of members and that the governance of the Society is not compromised.

The Board does not comply with the Code provision that all directors should be subject to annual election by shareholders (i.e. the Society's members). The Board is concerned that in extreme circumstances that requirement could have implications for the financial stability of the Society which would not be in the best interests of members.

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

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

Five of the directors of the Society are therefore seeking election and re-election at the AGM. John Edwards (Chairman) and David Marlow (Chief Executive) are seeking re-election at the AGM. Jane Kibbey has completed more than nine years as a non-executive director and in line with corporate governance practice will now seek annual re-election. The Board considers that her experience and contribution continue to be extremely valuable and recommends her re-election to members.

Keith Whitesides, a non-executive director, is retiring at the end of the AGM and is not seeking re-election and it is intended that Jane Kibbey will succeed Keith as Vice-Chairman and Senior Independent Director of the Society.

In accordance with the Society's overall non-executive director succession planning, the Society has recruited two new non-executive directors, Kerry Spooner and Kavita Patel who were, respectively, appointed to the Board on 1 September 2016 and 1 January 2017. The Board believes that both Kerry and Kavita bring skills and experience that will ensure the Board continues to operate effectively now, and in the future, and recommend their election to members. The Board has considered (in the absence of each relevant director) that the performance of the five directors seeking election and re-election at the AGM continues to be effective and they demonstrate the necessary commitment to the role.

3. Rules

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

4. Proxies

If you are unable to attend and vote at the meeting, you may appoint a proxy to attend and vote for you either by using the enclosed proxy voting form or by completing it online. You may appoint the chairman of the meeting or anyone else as your proxy. Your proxy does not have to be a member of the Society. Your proxy may vote for you at the meeting but only on a poll. A poll is a formal written vote; for example, the election of directors will be by poll. Your proxy may speak at the meeting and may demand or join in demanding a poll.

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

To be valid, proxy voting forms must be signed and returned (or submitted electronically) so as to reach Communisis no later than midnight on 24 March 2017.

5. Voting qualifications

You can vote if you:

a) are at least 18 years old on 28 March 2017; and

b) (i) held shares to the value of not less than £100 in the Society on 31 December 2016 and have continued to hold shares at all times between 31 December 2016 and the voting date; or

(ii) owed the Society not less than £100 in respect of a mortgage debt on 31 December 2016 and owe the Society not less than £100 in respect of a mortgage debt on the voting date; and

c) are the only or the first named account holder in our records for the relevant share or mortgage account.

The 'voting date' referred to above is:

a) 24 March 2017 if you are voting by proxy (whether using the enclosed form or completing it online); or

b) 28 March 2017 if voting in person at the meeting.

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

7. Identification

a) We ask shareholding members attending the meeting to produce their passbooks or other evidence of membership.

b) We ask borrowing members attending the meeting to have their account number available as evidence of membership.

c) If you are appointing a proxy, other than the Chairman of the meeting, to attend the meeting and vote on your behalf, please make sure that your proxy brings an appropriate form of identification to the meeting.

Your Board of directors at 31 December 2016

Andrew Neden MA, FCA

Age 54 Date of appointment 17.09.14

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

Mahomed Ashraf Piranie* FCCA, MBA — **Deputy CEO and Finance Director**

Age 53 Date of appointment 16.04.07

Ashraf joined the Board in 2007 as Finance Director and since 2011 he has held a broader role as Deputy CEO and Finance Director. Previously, he held the positions of Finance Director and Joint Managing Director at the Islamic Bank of Britain and Director of Finance at Alliance & Leicester Plc. He is a director of Nottingham Property Services Ltd, Nottingham Mortgage Services Ltd, Harrison Murray Ltd and HM Lettings Ltd. Ashraf is also a member of the PRA Practitioner Panel.

Simon Taylor* ACIB, MBA — **Chief Operating Officer**

Age 46 Date of appointment 01.02.11

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

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

Age 61 Date of appointment 01.12.14

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

Keith Whitesides MBE, LL.D, M Phil, LL.B.

Age 73 Date of appointment 18.08.04

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

*Executive Director

Directors up for election/re-election

John Edwards

Chairman

Age 61 Date of appointment 01.02.12

John joined the Board in February 2012 and was appointed Chairman in May 2014. In his executive career, he held a number of roles at a CEO level in the insurance and investment sector, retiring in 2009 from Lloyds Banking Group where he was CEO of their International Financial Services Division. He was the senior independent non-executive director of the LV Group until September 2015 and is currently a non-executive director of Saga Services Ltd.

"Last year, I stated how privileged I feel to serve as Chairman and also referred to The Nottingham's deeply rooted customer-focused culture. During 2016, the Society has attracted more savers, particularly in our branches, advised more customers than ever before regarding their mortgages and other financial needs and has continued to open new branches. If re-elected, I would be proud to continue to serve as your Chairman ensuring that the Society continues to deliver value to its growing membership base in a safe and secure way."

David Marlow* ACIB

Chief Executive

Age 51 Date of appointment 16.01.06

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

"I am proud to lead the team at The Nottingham who work hard every day to deliver our unique mutual brand of advice, choice, service and value to more members across our growing heartland. It is very satisfying to see how all our members continue to rate our service so highly as we develop what we offer and take it to new high streets. If re-elected, I undertake to continue to strive to deliver excellent service to all members and to focus on how we can build and reward loyal membership of The Nottingham through our unique proposition even further."

Jane Kibbey BSc, MCIPD

Age 66 Date of appointment 01.05.06

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

"I consider it a great privilege to be a director of The Nottingham; we are a successful and trusted mutual with strong roots in our heartland consistently delivering high levels of individual attention and service to our members. If re-elected I remain committed to continuing this focus and ensuring our members' interests are at the heart of everything we do."

*Executive Director

Directors up for election/re-election

Kavita Patel

Age 40 Date of appointment 01.01.17

Kavita joined the Board at the beginning of 2017. She is a partner and Head of Investment Funds at the law firm, Shakespeare Martineau. Kavita has a wealth of experience advising clients in the financial services arena both in the retail and institutional space on corporate, regulatory and governance matters.

"I am delighted to be joining the Board of The Nottingham; a mutual which truly has the interests of its members at the heart of everything it does. If elected I look forward to working with the Society to build on the success it has already achieved, with the continued focus on financial stability, expanded coverage across our heartland and delivery of exceptional services and products to our members."

Kerry Spooner LLB (Hons)

Age 55 Date of appointment 01.09.16

Kerry joined the Board in September 2016. Kerry had 10 years of financial services experience in the building society sector before joining the Board. She acted as a Non-Executive Director at two other building societies and has experience of acting as Vice Chair, Senior Independent Director and Chair of Remuneration Committee. Prior to that Kerry worked as a solicitor for 20 years, the last nine years as a corporate finance partner of the international law firm Allen & Overy LLP. Kerry is also a member of the Lord Chancellor's Advisory Committee (Magistrates) and a Non-Executive Director of Scotiabank Europe plc.

"I was delighted to be asked to join The Nottingham as a Non-Executive Director. I live in the expanding heartland of our Society and have observed it going from strength to strength in recent years. Our Society is a strong, prudent mutual firmly rooted in its expanding heartland. We put our members at the forefront of everything we do. If elected I look forward to continuing this focus and to contributing to the future success of our Society."

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

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