INTERIM FINANCIAL REPORT

30 JUNE 2019

The Nottingham

Contents

03	Chief Executive introduction
05	Interim business and financial review
06	Principal risks and uncertainties
07	Condensed consolidated income statement
08	Condensed consolidated statement of comprehensive income
09	Condensed consolidated statement of financial position
10	Condensed consolidated statement of changes in members' interests
11	Condensed consolidated cash flow statement
12	Notes to the interim financial report
24	Responsibility statement
25	Independent review report to Nottingham Building Society
26	Other information

IFRS results

This Interim Financial Report for the six months ended 30 June 2019 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 2018, 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

In our 2018 Report and Accounts, we were clear that as the Society headed into 2019, we expected market trading conditions to be challenging and difficult. Increasing competition in the face of muted demand for mortgages continued to see new mortgage rates for customers continue to fall, despite their already record low levels. In fact new business rates for mortgages in the market currently average 2.10%.

Even though our expectations of the market have turned to reality and we are now operating in a difficult and uncertain environment, we are pleased to announce our 2019 interim results, which reflect our mutual ownership ethos as we continue to show progress in the delivery of our strategy.

Key performance highlights include:

- Total assets of £4.0bn;
- Gross lending of £182m;
- Arrears levels remain at an historic low level;
- Strong liquidity position with liquid assets ratio of 15.8%;
- Strong retail franchise – branch savings membership continues to increase;
- Sector-leading customer advocacy with a net promoter score of 78%;
- Strong capital ratios with Common Equity Tier 1 ratio of 15.3% and leverage ratio of 5.4%; and
- Group pre-tax profit of £2.7m.

Our primary objective, in running the Society in a sustainable way, is to balance the conflicting needs of our savers and borrowers, helping them to plan, protect and save for their financial futures, whilst making sufficient profit to maintain our capital strength and invest in the Society for the future. Our 2019 first half performance strongly reflects this ethos, which has been achieved in a tough market environment.

As highlighted previously, in the face of falling new mortgage rates, we have moderated our lending plans as we do not believe it is sustainable to grow at the rate we have done in recent years, as this is not in the interest of all our members. Instead, we believe it is better, in market conditions such as these, to optimise the yield we earn on our lending without compromising on our excellent asset quality. We do all that we can to protect the rates we pay to our savers, as high asset growth in these market conditions would inevitably lead to lower rates for our savers.

This has been our key focus in 2019, which we believe we have managed well. Whilst, as anticipated, this has led to lower levels of income and profit reported, this has not prevented us from continuing our significant investment in digital for the future benefit of our members and improving our high level of capital strength – our primary mutual objectives.

Balancing the conflicting needs of our savers and borrowers

As new business rates for mortgages remained subject to intense competition and declining rates, we have been careful to select the lending that meets our requirements. Although this has led to lower levels of lending and a reduction in our total assets, we are pleased with the yield that has been achieved on this lending. This has enabled us to protect the rates we pay to our savers, which has actually increased by a small amount in the first half of 2019 to an average of 1.03% as at June 2019. This reflects our mutual ethos and demonstrates the benefits of not needing to maximise profit, particularly when market conditions are challenging.

Investing in our future

It is essential that we continue to invest in the Society for the future. As we have previously highlighted, consumer behaviour and expectations are undergoing some of the biggest shifts for over 50 years, as new digital capabilities begin to transform the way we interact with all the firms we deal with. This is particularly apparent for key financial service providers.

We are pleased to confirm that we continue to make good progress in the development and implementation of our new digital capability in partnership with Salesforce – a global leader in digital customer relationship management.

In the first half of this year, we have also introduced digital LISA functionality, focused largely on helping the first time buyers of the future save for a home. This is in addition to our newly launched “Beehive Money” online savings portal. Beehive is our home for straight forward self-service digital savings and has already proved popular since its launch.

During the second half of the year, we will launch our new mortgage portal for brokers and intermediaries. This will significantly enhance the speed and ease with which our critically important mortgage partners can deal with us.

In order to broaden our relevance to customers across the UK, we are also developing a completely new digital first savings proposition, which will help savers plan for their own financial future. We expect to launch later in 2020. The Board of The Nottingham firmly believes that it is crucial for the Society to continue to prepare itself for a digital future by enhancing our current proposition, enabling us to deliver to the expectations of the 21st century saver.

Growing and rewarding membership

Underlying our financial performance, it is essential that we have a relevant proposition that members value and that attracts new members to sustain the Society. Despite our deliberate actions in the mortgage market in terms of reducing our own lending, our whole-of-market mortgage advice proposition continues to grow in popularity. In the first half of 2019, we have seen a 24% increase in the number of members and customers taking advice from us and securing a new mortgage through this service compared to the first half of 2018.

We have also continued to grow our Nottingham Building Society savings membership, which is now close to the 200,000 mark for the first time. Our members continue to benefit from our member rewards scheme, which is designed to reward them for doing the right thing to plan, protect and save for their financial futures. Thousands of members have taken advantage of the scheme again in the first half of the year benefiting from over a quarter of a million pounds of rewards.

We remain encouraged that our combination of advice, value and choice remains popular with our members. This is best reflected in the continued growth of our core savings membership as well as customer advocacy in the shape of our Net Promoter Score, which remains at the world class level of 78%.

Our performance

In line with our expectations and plan, we have seen the overall net interest income profile reduce by 7% in the first half of 2019, as we acted to achieve what we believe was the right balance between our saving and borrowing members.

However in anticipation of this reduction in income, we are actively managing the administrative expenses of the Society, which have also been reduced by 7% overall when compared to the first half of 2018. We believe this reflects the robust and prudent way in which we manage the Society for the benefit of members, as well as demonstrating our ability to enhance our efficiency as our investment strategy begins to bear fruit. On an underlying basis, excluding the movement in derivatives, the reduction in our level of profit reported, compared to the first half of 2018, is driven by the increase in total investment spend, broadly equivalent to the additional depreciation charge as well as project and strategic costs.

Chief Executive introduction

The historic low level of arrears of more than 3 months remains a de minimis for a book of our size and continues to reflect the excellent quality of our lending. This is evidenced in the minimal impairment movement in the period.

When fully reflecting the mutual ethos of our performance, although our underlying profits for the period are £1.9m lower than in the same period last year, we have acted to protect savers and continue our significant investment in the Society. Our capital strength also remains significantly above our regulatory requirements, with our CET1 and leverage ratios improving further to 15.3% and 5.4% respectively.

Market and outlook

With continued economic and political uncertainty and little change expected in the nature of the mortgage market for the foreseeable future, we expect the trend seen in the first half to continue for the remainder of 2019.

We also expect to continue with the robust and prudent management approach we have adopted in the first half of the year. We will continue to strike the right balance between the conflicting needs of our savers and borrowers; optimise the yield we achieve from our lending, without compromising on its quality. We will continue to grow savings membership and increase the number of members taking advantage of our unique 'all under one roof' proposition. This will be delivered whilst actively managing the costs to run the Society appropriately and continuing to invest in our digital future.

The Board is clear that at times such as these our mutual ownership model comes to the fore as we manage short-term market challenges in the best interests of our members; continue to invest strongly in the Society to enhance and improve the service we offer, whilst maintaining capital strength. Continuing to achieve all of these aims will remain our focus for the remainder of 2019 and beyond.

David Marlow
Chief Executive
24 July 2019

Interim business and financial review

for the period ended 30 June 2019

Income statement

	June 2019 £m	June 2018 £m	Dec 2018 £m
Underlying profit before tax	**4.9**	**6.8**	**13.6**
Losses from derivative financial instruments	(1.7)	(0.3)	(0.7)
Strategic investment costs	(0.5)	(0.5)	(0.6)
Impairment of goodwill	-	-	(0.5)
Reported profit before tax	**2.7**	**6.0**	**11.8**

Overall, in the context of a competitive mortgage market and another period of significant investment for the Society, the Group reports a pre-tax profit of £2.7m for the first six months of 2019. The Board monitors both reported and underlying profit before tax. Reported profit includes a number of items which the Board does not believe fully reflect underlying business performance and therefore underlying profit is also used to measure performance. On an underlying basis, the Group has delivered profit before tax, excluding losses from derivative financial instruments and strategic investment costs, of £4.9m for the period to 30 June 2019. Strategic investment costs of £0.5m reflect one-off costs incurred in relation to the restructure of our Member Services and Estate Agency functions.

The Group's net interest margin has fallen from 1.26% at December 2018 to 1.16% for the six months to June 2019, 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. Despite the lower mortgage asset balance and resulting lower contractual interest income, the Group's interest income has remained broadly flat at £41.9m due to lower offsetting derivative interest costs. Interest payable costs of £18.7m have increased by £2.2m against the first six months of 2018 reflecting repricing following the 2018 base rate rise.

Group net fee income, including mortgage related product fees, estate agency and lettings fees and whole-of-market mortgage advice fees, totalled £2.6m for the first six months of 2019, which has fallen against the £3.1m reported in the period to June 2018. Net fee income remains under pressure in the competitive mortgage market. Income from the Group's subsidiary businesses has fallen overall compared with the prior period. Further growth and development of the mortgage advice service is offset by constrained housing market conditions in the estate agency division, which is impacted by the continuing uncertainties in the economy and a lack of supply.

The Group's cost income ratio, at 88.8% for the period to the 30 June 2019, has increased compared to 78.6% for the 2018 full year as a result of the fall in net interest income outlined above. The Group's management expense ratio at 1.07% for the period to the 30 June 2019 has however fallen marginally against the 2018 full year at 1.09%. Total administrative expenses for the Group, including depreciation and amortisation, reduced marginally by 1.4% to £21.4m at 30 June 2019. As outlined in the Chief Executive introduction, the Society continues to operate with a higher cost base to enable investment in our systems, in particular digital capability. Whilst the adoption of IFRS 16 'Leases' has seen a transfer of costs from administrative expenses to depreciation, the new standard has not resulted in a material overall change to the income statement.

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 81.0% and a management expense ratio of 1.04%, compared to 76.6% and 1.08%, respectively for 2018 financial year.

The continued strong performance of the Society's mortgage book and minimal level of arrears recorded is reflected in the level of mortgage provisioning recognised and limited movement in the provision in the period.

Balance sheet

The Group's total assets have fallen by 2.2% from the position at the end of 2018. This has been driven by the 5.0% fall in gross mortgage balances to £3.3 billion, offset by an increase in liquid asset balances. Gross lending in the period totalled £182m (30 June 2018: £465m). Mortgage lending remains concentrated in prime high quality mortgage assets with residential mortgages accounting for 72% of the total mortgage book. The current average LTV of the book is 57% (31 December 2018: 57%).

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. Whilst total savings balances fell marginally in the first six months of 2019, now standing at £2.8 billion, the Society's strong branch franchise continues to attract and retain customers and support the Society's funding strategy. Branch balances remained stable at £2.4 billion at 30 June 2019.

The remainder of the Society's funding requirements is obtained from the wholesale secured and unsecured funding markets. Overall the wholesale funding ratio at 23.1% has decreased slightly against the December 2018 position of 24.2%. The Bank of England's funding schemes are now closed to new funding and the Society has paid back its Funding for Lending Scheme (FLS) balances in full during the period (31 December 2018: £163m drawn down). Under the Term Funding Scheme (TFS), £588m remains drawn down at 30 June 2019 (31 December 2018: £588m). The Society also has £75.2m outstanding borrowed through a secured bilateral facility (31 December 2018: £101.3m).

The Group has continued to manage its liquidity position effectively with a liquid assets ratio of 15.8% (31 December 2018: 13.4%) and liquidity coverage ratio (LCR) at 194% (31 December 2018: 219%). 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.

The Society's arrears performance remains at sector leading levels with an arrears ratio of 0.17% compared to 0.16% at 31 December 2018. 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. The Society always seeks 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 2019 of 15.3% (31 December 2018: 14.7%). The capital ratio has benefitted from both increased resources through the retained profit of the Society, as well as reduced risk weighted assets in the period.

The leverage ratio[1] is 5.4% at 30 June 2019 (31 December 2018: 5.1%).

[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 16 of the Annual Report and Accounts for the year ended 31 December 2018. These risks are categorised as strategy, 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 2019 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. The risk relating to the impact of government funding has been removed from our principal risks on the basis that the closure of the Bank of England funding schemes has not led to a material increase in savings market rates, even though there has been an increase in the number of competitors in this market.

Core mortgage lending yield

The ring-fenced banks continue to influence mortgage pricing through the availability of low-rate current account funding, combined with restrictions on their lending activities.

Competition for mortgage yield remains at levels not seen since before the financial crisis of 2008. Throughout 2018 and into 2019 the Society has seen a sustained reduction in the rate of interest it has been able to achieve in all lending segments, including prime residential lending and buy-to-let, and across the loan-to-value spectrum.

In order to meet its risk-adjusted return thresholds, the Society has reduced its growth plans to ensure it continues to deliver a long-term, sustainable return on its lending, whilst delivering good value products to savers relative to market conditions.

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. Additionally, a disorderly or unfavourable Brexit could cause economic dislocation resulting in increased unemployment and thus affect our borrowers' ability to repay their loans.

The majority of the Society's mortgage customers are currently on fixed rate products and would therefore not be immediately impacted by changes in interest rates, although many of our borrowers have never experienced significant interest rate rises or periods of economic downturn. Management regularly conducts stress testing on the mortgage book to gauge possible impacts of higher interest rate costs or increased unemployment on our borrowers and, as a result, has confidence 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 changes to house prices during 2019 has been volatile and low levels of transaction volumes continue to impact the earnings of most estate agents, both on the high street and online.

The future path of house prices remains unclear, fuelled by the UK's ongoing EU exit negotiations and wider 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 trends in the housing market and actively monitors performance of the estate agency and lending activity. The Society is therefore well positioned to respond effectively to any impact, volatility or downturn in the market.

Cyber risk

Organisations across both financial and non-financial sectors continue to experience high-profile cyber events attracting significant attention from both media and regulators. Cyber risk is the subject of increased regulatory focus, particularly the relationship between cyber security and operational resilience. Increasingly sophisticated cyber attacks can result in financial crime, services being rendered unavailable or theft of customer data. The Society's exposure to cyber risk is also influenced by an increasing online profile.

Managing cyber risk therefore remains a key focus of Society management to safeguard the business and protect its members' data and savings. The Society continues to invest in technology to prevent and detect cyber-attacks, whilst specialists maintain an awareness of prevailing threats and are able to respond proactively to events. Technical expertise is complemented with education and awareness activities to ensure that our employees are equipped to recognise and manage the risks associated with cyber security. The capability to respond and recover from cyber events is kept under continuous review including contingency planning, crisis management and disaster recovery plans.

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, where applicable, ensuring 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 provide the highest level of service to our members and, on the rare occasions where this doesn't happen, the Society acts in the best interests of our customers to ensure good, regulatory compliant customer outcomes are achieved.

Project and Change

To enable the Society to continue to grow, remain innovative and improve existing ways of working, we are actively pursuing a digital change agenda. The volume of activity and level of financial investment related to this programme of work will remain high for the foreseeable future.

To help mitigate the risks associated with an investment programme of this size, a number of specialist contractors have been recruited with specific skills and expertise. New and enhanced relationships with third parties have been developed, as the Society looks to expand technological capability with a view to embrace new ways of working in order to maximise operational effectiveness and support our members.

The investment activity is underpinned by a 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 2019

	Notes	Period to 30 June 2019 Unaudited £m	Period to 30 June 2018 Unaudited £m	Year ended 31 December 2018 Audited £m
Interest receivable and similar income	4	41.9	41.5	85.4
Interest payable and similar charges	5	(18.7)	(16.5)	(35.2)
Net interest income		**23.2**	**25.0**	**50.2**
Fees and commissions receivable		3.1	3.9	7.5
Fees and commissions payable		(0.5)	(0.8)	(1.4)
Net losses from derivative financial instruments		(1.7)	(0.3)	(0.7)
Total net income		**24.1**	**27.8**	**55.6**
Administrative expenses	6	(18.8)	(20.1)	(40.0)
Depreciation and amortisation		(2.6)	(1.6)	(3.4)
Finance cost		-	-	(0.3)
Impairment (charge)/release - loans and advances	11	-	(0.1)	0.3
Impairment charge - goodwill		-	-	(0.5)
Provisions for liabilities – FSCS levy and other		-	-	0.1
Profit before tax		**2.7**	**6.0**	**11.8**
Tax expense		(0.6)	(1.2)	(2.4)
Profit after tax for financial period		**2.1**	**4.8**	**9.4**

Profit for the financial period arises from continuing operations.

Both the profit for the financial period and total comprehensive income for the period are attributable to the members of the Society.

Condensed consolidated statement of comprehensive income

for the period ended 30 June 2019

	Period to 30 June 2019 Unaudited £m	Period to 30 June 2018 Unaudited £m	Year ended 31 December 2018 Audited £m
Profit for the financial period	2.1	4.8	9.4
Items that will not be re-classified to the income statement			
Remeasurement of defined benefit obligation	-	-	0.4
Tax on items that will not be re-classified	(0.1)	-	(0.1)
Items that may subsequently be re-classified to the income statement			
FVOCI reserve			
Valuation gains/(losses) taken to reserves	0.9	(0.2)	(1.2)
Tax on items that may subsequently be re-classified	-	-	0.2
Other comprehensive income/(expense) for the period net of income tax	**0.8**	**(0.2)**	**(0.7)**
Total comprehensive income for the period	**2.9**	**4.6**	**8.7**

Condensed consolidated statement of financial position

as at 30 June 2019

	Notes	30 June 2019 Unaudited £m	30 June 2018 Unaudited £m	31 December 2018 Audited £m
Assets				
Cash in hand and balances with the Bank of England		330.5	279.0	256.3
Loans and advances to credit institutions	7	45.0	29.9	34.5
Debt securities	9	205.4	147.4	216.1
Derivative financial instruments		1.5	10.1	8.2
Loans and advances to customers	10	3,339.3	3,489.1	3,502.9
Other assets		10.9	10.3	10.2
Property, plant and equipment		13.0	14.1	13.8
Right-of-use assets	16	5.5	-	-
Intangible assets		13.2	7.5	10.2
Deferred tax assets		1.3	1.4	1.4
Total assets		**3,965.6**	**3,988.8**	**4,053.6**
Liabilities				
Shares		2,834.4	2,722.1	2,869.2
Amounts owed to credit institutions		636.2	670.5	685.0
Amounts owed to other customers		132.8	194.2	126.2
Debt securities in issue		80.7	136.6	106.8
Derivative financial instruments		14.4	7.2	5.9
Other liabilities and accruals		5.9	5.5	6.2
Lease liabilities	16	5.5	-	-
Current tax liabilities		0.7	1.2	1.0
Provisions for liabilities		0.4	0.9	0.6
Retirement benefit obligations		4.0	6.6	4.8
Subscribed capital	12	24.9	25.3	25.1
Total liabilities		**3,739.9**	**3,770.1**	**3,830.8**
Reserves				
General reserves		225.8	218.9	223.8
Fair value reserves	13	(0.1)	(0.2)	(1.0)
Total reserves attributable to members of the Society		**225.7**	**218.7**	**222.8**
Total reserves and liabilities		**3,965.6**	**3,988.8**	**4,053.6**

Condensed consolidated statement of changes in members' interests

for the period ended 30 June 2019

	General reserve £m	FVOCI reserve £m	Total £m
Balance as at 1 January 2019 (Audited)	223.8	(1.0)	222.8
Profit for the period	2.1	-	2.1
Other comprehensive (expense)/income for the period (net of tax)			
Net gains from changes in fair value	-	0.9	0.9
Remeasurement of defined benefit obligation	(0.1)	-	(0.1)
Total other comprehensive (expense)/income	(0.1)	0.9	0.8
Total comprehensive income for the period	2.0	0.9	2.9
Balance as at 30 June 2019 (Unaudited)	**225.8**	**(0.1)**	**225.7**
Balance as at 1 January 2018 (Audited)	212.7	-	212.7
Change on initial recognition of IFRS 9	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	4.8	(0.2)	4.6
Balance as at 30 June 2018 (Unaudited)	**218.9**	**(0.2)**	**218.7**
Balance as at 1 January 2018 (Audited)	212.7	-	212.7
Change on initial recognition of IFRS 9	1.4	-	1.4
Profit for the year	9.4	-	9.4
Other comprehensive income/(expense) for the period (net of tax)			
Net losses from changes in fair value	-	(1.0)	(1.0)
Remeasurement of defined benefit obligation	0.3	-	0.3
Total other comprehensive income/(expense)	0.3	(1.0)	(0.7)
Total comprehensive income/(expense) for the period	9.7	(1.0)	8.7
Balance as at 31 December 2018 (Audited)	**223.8**	**(1.0)**	**222.8**

Condensed consolidated cash flow statement

for the period ended 30 June 2019

	Notes	Period to 30 June 2019 Unaudited £m	Period to 30 June 2018 Unaudited £m	Year ended 31 December 2018 Audited £m
Cash flows from operating activities				
Profit before tax		2.7	6.0	11.8
Depreciation and amortisation		2.6	1.6	3.4
Interest on subscribed capital		1.0	1.0	2.0
Net gains on disposal and amortisation of debt securities		0.2	0.3	0.6
(Decrease)/increase in impairment		-	(0.1)	0.2
Total		6.5	8.8	18.0
Changes in operating assets and liabilities				
Decrease/(increase) in prepayments, accrued income and other assets		6.0	(7.2)	(5.2)
Increase/(decrease) in accruals, deferred income and other liabilities		7.7	(2.8)	(3.4)
Decrease/(increase) in loans and advances to customers		163.6	(118.5)	(132.1)
(Decrease)/increase in shares		(34.8)	126.7	273.8
Decrease in amounts owed to other credit institutions and other customers		(42.2)	(24.1)	(77.6)
(Increase)/decrease in loans and advances to credit institutions		(12.7)	(2.1)	0.7
Decrease in debt securities in issue		(26.1)	(16.9)	(46.7)
Decrease in retirement benefit obligation		(0.8)	(0.3)	(2.1)
Taxation paid		(0.9)	(1.6)	(2.9)
Net cash generated by/(used in) operating activities		**66.3**	**(38.0)**	**22.5**
Cash flows from investing activities				
Purchase of debt securities		(61.3)	(60.7)	(135.7)
Disposal of debt securities		72.7	22.1	27.0
Purchase of property, plant and equipment		(0.3)	(0.5)	(1.4)
Purchase of intangible assets		(4.0)	(0.8)	(4.7)
Net cash generated by/(used in) investing activities		**7.1**	**(39.9)**	**(114.8)**
Cash flows from financing activities				
Interest paid on subscribed capital		(1.0)	(1.0)	(1.9)
Principal element of lease payments		(0.4)	-	-
Net increase/(decrease) in cash and cash equivalents		**72.0**	**(78.9)**	**(94.2)**
Cash and cash equivalents at start of period		266.1	360.3	360.3
Cash and cash equivalents at end of period	8	**338.1**	**281.4**	**266.1**

Notes to the interim financial report

1 Reporting period

These results have been prepared as at 30 June 2019 and show the financial performance for the period from, and including, 1 January 2019 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 2019 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 2018, 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 2019 Interim Financial Report are consistent with those disclosed in the Annual Report and Accounts for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. 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 2019, the Society applies, for the first time, IFRS 16 'Leases'. The impacts of IFRS 16 on the Group have been disclosed in note 16 to this Interim Financial Report.

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

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 2018 Annual Report and Accounts. The Group's assessment of going concern and longer term viability are contained on page 24 of the 2018 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 2018. Details as at 31 December 2018 are provided on page 60 of the 2018 Annual Report and Accounts.

Notes to the interim financial report

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 2019 Unaudited	Retail financial services £m	Estate Agency £m	Mortgage Broking £m	Consolidation adjustments £m	Total £m
Net interest income	23.2	-	-	-	23.2
Total net income	22.1	1.0	1.0	-	24.1
Profit/(loss) before tax	3.5	(0.9)	0.1	-	2.7

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

Year ended 31 December 2018 Audited	Retail financial services £m	Estate Agency £m	Mortgage Broking £m	Consolidation adjustments £m	Total £m
Net interest income	50.2	-	-	-	50.2
Total net income	51.3	2.8	1.8	(0.3)	55.6
Profit/(loss) before tax	13.5	(1.8)	0.4	(0.3)	11.8

4 Interest receivable and similar income

	Period to 30 June 2019 Unaudited £m	Period to 30 June 2018 Unaudited £m	Year ended 31 December 2018 Audited £m
On loans fully secured on residential property	40.0	42.0	84.6
On other loans	1.7	1.3	2.8
On liquid assets	1.0	0.8	1.7
On instruments held at amortised cost	42.7	44.1	89.1
On debt securities	1.1	0.5	1.3
On derivatives hedging of financial assets	(1.9)	(2.6)	(5.6)
On instruments calculated on an EIR basis	41.9	42.0	84.8
On derivatives not in a hedge accounting relationship	-	(0.5)	0.6
	41.9	**41.5**	**85.4**

Notes to the interim financial report

5 Interest payable and similar charges

	Period to 30 June 2019 Unaudited £m	Period to 30 June 2018 Unaudited £m	Year ended 31 December 2018 Audited £m
On shares held by individuals	14.3	12.1	25.9
On deposits and other borrowings	3.7	3.8	8.1
On subscribed capital	1.0	1.0	2.0
On derivatives hedging of financial liabilities	(0.3)	(0.4)	(0.8)
	18.7	**16.5**	**35.2**

6 Administrative expenses

	Period to 30 June 2019 Unaudited £m	Period to 30 June 2018 Unaudited £m	Year ended 31 December 2018 Audited £m
Wages and salaries	9.7	10.3	19.4
Social security costs	1.0	1.1	2.2
Other pension costs	0.5	0.4	1.0
Total staff costs	**11.2**	**11.8**	**22.6**
Premises and facilities	1.6	1.4	3.2
IT	2.0	2.2	4.3
Marketing and advertising	0.7	0.8	1.5
Lease costs	0.2	0.6	1.2
Other administrative costs	3.1	3.3	7.2
	18.8	**20.1**	**40.0**

Included in wages and salaries is £0.3 million of restructuring costs (31 December 2018: £0.4 million). A further £0.2 million (31 December 2018: £0.2 million) of strategic investment costs are included in other administrative costs. There were no such comparatives for June 2018.

7 Loans and advances to credit institutions

	30 June 2019 Unaudited £m	30 June 2018 Unaudited £m	31 December 2018 Audited £m
Repayable on call and short notice	13.5	7.8	15.5
Other loans and advances to credit institutions	31.5	22.1	19.0
	45.0	**29.9**	**34.5**

At 30 June 2019, £31.5 million (30 June 2018: £20.1 million; 31 December 2018: £17.9 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 £324.6 million (30 June 2018: £273.6 million; 31 December 2018: £250.6 million) and loans and advances to credit institutions of £13.5 million (30 June 2018: £7.8 million; 31 December 2018 £15.5 million).

Notes to the interim financial report

9 Debt securities

	Note	30 June 2019 Unaudited £m	30 June 2018 Unaudited £m	31 December 2018 Audited £m
Movement on debt securities during the period may be analysed as follows:				
At 1 January		216.1	109.2	109.2
Additions		61.0	60.3	135.0
Disposals and maturities		(72.6)	(21.9)	(27.1)
Net gains/(losses) from changes in fair value recognised in other comprehensive income	13	0.9	(0.2)	(1.0)
		205.4	**147.4**	**216.1**

10 Loans and advances to customers

	Note	30 June 2019 Unaudited £m	30 June 2018 Unaudited £m	31 December 2018 Audited £m
Loans fully secured on residential property (FSRP)		3,247.3	3,424.8	3,434.3
Other loans fully secured on land (FSOL)		82.1	68.2	71.9
		3,329.4	3,493.0	3,506.2
Provision for impairment losses on loans and advances	11	(1.2)	(1.6)	(1.2)
		3,328.2	3,491.4	3,505.0
Fair value adjustment for hedged risk		11.1	(2.3)	(2.1)
		3,339.3	**3,489.1**	**3,502.9**

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. The gross carrying amounts and impairment provisions are presented in detail below.

			30 June 2019 Unaudited			30 June 2018 Unaudited			31 December 2018 Audited
	FSRP £m	FSOL £m	Total £m	FSRP £m	FSOL £m	Total £m	FSRP £m	FSOL £m	Total £m
Gross carrying amount									
Stage 1	2,891.2	40.7	2,931.9	3,139.6	32.6	3,172.2	3,170.3	30.0	3,200.3
Stage 2	351.8	40.4	392.2	279.6	34.0	313.6	258.3	40.3	298.6
Stage 3	4.3	1.0	5.3	5.6	1.6	7.2	5.7	1.6	7.3
	3,247.3	**82.1**	**3,329.4**	**3,424.8**	**68.2**	**3,493.0**	**3,434.3**	**71.9**	**3,506.2**

			30 June 2019 Unaudited			30 June 2018 Unaudited			31 December 2018 Audited
	FSRP £m	FSOL £m	Total £m	FSRP £m	FSOL £m	Total £m	FSRP £m	FSOL £m	Total £m
Expected Credit Loss allowance									
Stage 1	0.1	0.1	0.2	0.1	0.1	0.2	0.1	0.1	0.2
Stage 2	0.2	0.4	0.6	0.4	0.4	0.8	0.1	0.5	0.6
Stage 3	-	0.4	0.4	0.1	0.5	0.6	-	0.4	0.4
	0.3	**0.9**	**1.2**	**0.6**	**1.0**	**1.6**	**0.2**	**1.0**	**1.2**

Notes to the interim financial report

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

The credit/(charge) to the income statement is comprised of the below.

	30 June 2019 Unaudited £m	30 June 2018 Unaudited £m	31 December 2018 Audited £m
Release/(charge) of provision for impairment			
Loans fully secured on residential property	0.1	-	0.2
Other loans fully secured on land	(0.1)	(0.1)	0.1
	-	**(0.1)**	**0.3**

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. Key economic variables have been determined by management, but expert judgement is also applied. Forecasts of these economic variables are provided by a reputable third party, providing a best estimate view of the economy over the next five years. After five years 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, weighted 30% upside, 43% base and 27% downside.

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

		30 June 2019 Unaudited	30 June 2018 Unaudited	31 December 2018 Audited
Inflation	Base	2.0%	2.5%	2.2%
	Low to high	(1.0)% - 3.1%	(0.8)% - 3.4%	(0.5)% – 3.4%
Unemployment rate	Base	3.9%	4.3%	4.2%
	Low to high	3.1% - 8.4%	3.5% - 8.6%	3.4% - 8.5%
House price index	Base	1.7%	4.2%	3.3%
	Low to high	(12.9)% - 7.4%	(11.6)% - 7.7%	(12.0)% - 6.9%
Gross Domestic Product	Base	1.5%	1.3%	1.4%
	Low to high	(3.5)% - 3.8%	(3.5)% - 4.1%	(3.2)% - 3.7%

Applying a 100% weighting to the pessimistic economic scenario would result in further impairment losses of £0.7 million as at 30 June 2019 (31 December 2018 £0.5 million).

12 Subscribed capital

	30 June 2019 Unaudited £m	30 June 2018 Unaudited £m	31 December 2018 Audited £m
7.875% sterling permanent interest bearing shares	23.9	23.9	23.9
Fair value adjustment for hedged risk	1.0	1.4	1.2
	24.9	**25.3**	**25.1**

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 2019 Unaudited £m	30 June 2018 Unaudited £m	31 December 2018 Audited £m
FVOCI reserve			
At 1 January	(1.0)	-	-
Net gain/(loss) from changes in fair value	0.9	(0.2)	(1.0)
	(0.1)	**(0.2)**	**(1.0)**

Amounts within the FVOCI reserve are transferred to the income statement upon the disposal of debt securities.

14 Financial instruments

Classification & Measurement

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

Financial assets and liabilities are measured on an 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	Held at amortised cost	Held at fair value			
As at 30 June 2019 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	330.5	-	-	-	330.5
Loans and advances to credit institutions	45.0	-	-	-	45.0
Debt securities	-	205.4	-	-	205.4
Derivative financial instruments	-	-	1.5	-	1.5
Loans and advances to customers	3,339.3	-	-	-	3,339.3
Other assets	43.9	-	-	-	43.9
	3,758.7	**205.4**	**1.5**	**-**	**3,965.6**
Financial liabilities					
Shares	2,834.4	-	-	-	2,834.4
Amounts owed to credit institutions	636.2	-	-	-	636.2
Amounts owed to other customers	132.8	-	-	-	132.8
Debt securities in issue	80.7	-	-	-	80.7
Derivative financial instruments	-	-	13.3	1.1	14.4
Subscribed capital	24.9	-	-	-	24.9
Other liabilities	16.5	-	-	-	16.5
	3,725.5	**-**	**13.3**	**1.1**	**3,739.9**

Carrying values by category	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**

Notes to the interim financial report

14 Financial instruments (continued)

Classification & Measurement (continued)

Carrying values by category	Held at amortised cost	Held at fair value			
As at 31 December 2018 Audited	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	256.3	-	-	-	256.3
Loans and advances to credit institutions	34.5	-	-	-	34.5
Debt securities	-	216.1	-	-	216.1
Derivative financial instruments	-	-	7.8	0.4	8.2
Loans and advances to customers	3,502.9	-	-	-	3,502.9
Other assets	35.6	-	-	-	35.6
	3,829.3	**216.1**	**7.8**	**0.4**	**4,053.6**
Financial liabilities					
Shares	2,869.2	-	-	-	2,869.2
Amounts owed to credit institutions	685.0	-	-	-	685.0
Amounts owed to other customers	126.2	-	-	-	126.2
Debt securities in issue	106.8	-	-	-	106.8
Derivative financial instruments	-	-	4.9	1.0	5.9
Subscribed capital	25.1	-	-	-	25.1
Other liabilities	12.6	-	-	-	12.6
	3,824.9	**-**	**4.9**	**1.0**	**3,830.8**

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 2019 Unaudited Book value £m	30 June 2019 Unaudited Fair value £m	30 June 2018 Unaudited Book value £m	30 June 2018 Unaudited Fair value £m	31 December 2018 Audited Book value £m	31 December 2018 Audited Fair value £m
Financial assets							
Cash in hand & balances with the Bank of England	a	330.5	330.5	279.0	279.0	256.3	256.3
Loans & advances to credit institutions	b	45.0	45.0	29.9	29.9	34.5	34.5
Loans & advances to customers	c	3,339.3	3,346.0	3,489.1	3,501.5	3,502.9	3,507.6
Financial liabilities							
Shares	d	2,834.4	2,840.7	2,722.1	2,728.6	2,869.2	2,876.5
Amounts owed to credit institutions	d	636.2	636.2	670.5	670.5	685.0	685.0
Amounts owed to other customers	d	132.8	132.9	194.2	194.3	126.2	126.2
Debt securities in issue	e	80.7	80.7	136.6	136.6	106.8	106.8
Subscribed capital	f	24.9	31.0	25.3	30.6	23.9	29.0

Notes to the interim financial report

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 collateral 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. 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 2019 Unaudited	Level 1 £m	Level 2 £m	Total Fair Value £m
Financial assets			
Debt securities	205.4	-	205.4
Derivative financial instruments - Interest rate swaps	-	1.5	1.5
	205.4	**1.5**	**206.9**
Financial liabilities			
Derivative financial instruments - Interest rate swaps	-	(14.4)	(14.4)
	-	**(14.4)**	**(14.4)**

30 June 2018 Unaudited	Level 1 £m	Level 2 £m	Total Fair Value £m
Financial assets			
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)**

Notes to the interim financial report

14 Financial instruments (continued)

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

31 December 2018 Audited	Level 1 £m	Level 2 £m	Total Fair Value £m
Financial assets			
Debt securities	216.1	-	216.1
Derivative financial instruments - Interest rate swaps	-	8.2	8.2
	216.1	**8.2**	**224.3**
Financial liabilities			
Derivative financial instruments - Interest rate swaps	-	(5.9)	(5.9)
	-	**(5.9)**	**(5.9)**

There are no level 3 financial instruments carried at fair value.

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 relevant yield curves. The 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 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 2019 Unaudited £m	30 June 2018 Unaudited £m	31 December 2018 Audited £m
Credit risk exposure			
Cash in hand and balances with the Bank of England	330.5	279.0	256.3
Loans and advances to credit institutions	45.0	29.9	34.5
Debt securities	205.1	147.2	217.3
Derivative financial instruments	1.5	10.1	8.2
Loans and advances to customers	3,339.3	3,489.1	3,502.9
Total statement of financial position exposure	**3,921.4**	**3,955.3**	**4,019.2**
Off balance sheet exposure – mortgage commitments	79.7	150.1	79.2
	4,001.1	**4,105.4**	**4,098.4**

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 2019 is 100% (30 June 2018: 99.6%; 31 December 2018: 100%). 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.

All of the Group's treasury assets are classified as Stage 1 for ECL calculation purposes under IFRS 9 and there are no impairment charges against any of the Group's treasury assets at 30 June 2019 (30 June 2018: £nil; 31 December 2018: £nil).

b) Loans and advances to customers

Loans and advances to customers are predominately made up of retail loans fully secured against UK residential property of £3,247.3 million, split between residential and buy-to-let loans with the remaining £82.1 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 2019, the average LTV of retail mortgages is 57% (30 June 2018: 57%; 31 December 2018: 56%). The table below provides information on retail gross loans and Expected Credit Loss stages split by the number of days past due ('DPD'):

	30 June 2019 Unaudited		30 June 2018 Unaudited		30 December 2018 Audited	
	Gross loans £m	Expected Credit Loss £m	Gross loans £m	Expected Credit Loss £m	Gross loans £m	Expected Credit Loss £m
Stage 1: *12 month expected credit losses*						
< 30 days past due	2,891.2	0.1	3,139.6	0.1	3,170.3	0.1
Stage 2: *Lifetime expected credit losses*						
< 30 days past due	340.9	0.2	269.1	0.4	245.0	0.1
> 30 days past due	10.9	-	10.5	-	13.3	-
Stage 3: *Lifetime expected credit losses*						
< 90 days past due	2.2	-	2.1	0.1	2.9	-
> 90 days past due	2.1	-	3.5	-	2.8	-
	3,247.3	**0.3**	**3,424.8**	**0.6**	**3,434.3**	**0.2**

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 50.0% (30 June 2018: 51.8%; 31 December 2018: 50.7%).

The table below provides information on SBL gross loans and Expected Credit Loss stages split by the number of days past due ('DPD'):

	Gross loans £m	30 June 2019 Unaudited Expected Credit Loss £m	Gross loans £m	30 June 2018 Unaudited Expected Credit Loss £m	Gross loans £m	30 December 2018 Audited Expected Credit Loss £m
Stage 1: *12 month expected credit losses*						
< 30 days past due	40.8	0.1	32.6	0.1	30.0	0.1
Stage 2: *Lifetime expected credit losses*						
< 30 days past due	38.8	0.4	32.0	0.4	39.1	0.5
> 30 days past due	1.5	-	1.9	-	1.2	-
Stage 3: *Lifetime expected credit losses*						
< 90 days past due	0.2	0.1	1.1	0.4	1.3	0.3
> 90 days past due	0.8	0.3	0.6	0.1	0.3	0.1
	82.1	**0.9**	**68.2**	**1.0**	**71.9**	**1.0**

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 2019, there were 97 forbearance cases within the retail loans category (30 June 2018: 102; 31 December 2018: 95) and 8 cases within the SBL loans category (30 June 2018: 8; 31 December 2018: 9).

15 Notes to the cash flow statements

	Period to 30 June 2019 Subscribed capital Unaudited £m	Period to 30 June 2019 Lease liabilities Unaudited £m	Period to 30 June 2019 Total Unaudited £m	Period to 30 June 2018 Subscribed capital Unaudited £m	Year ended 31 December 2018 Subscribed capital Audited £m
Changes in liabilities arising from financing activities					
Balance at 1 January	23.9	5.4	29.3	23.9	23.9
Accrued interest	1.0	-	1.0	1.0	1.9
Lease additions	-	0.5	0.5	-	-
Cash flows	(1.0)	(0.4)	(1.4)	(1.0)	(1.9)
Balance at end of period	**23.9**	**5.5**	**29.4**	**23.9**	**23.9**

IFRS 16 is effective from 1 January 2019; hence there are no prior period comparatives for lease liabilities in liabilities arising from financing activities.

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 16 'Leases' and also discloses the new accounting policies, that have been applied with effect from 1 January 2019, where they differ to those applied in prior periods. This policy affects the Group as a lessee.

The Group has lease contracts for various branches, and a small number of vehicles and IT equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as a lessee) at the inception date as either a finance lease or an operating lease. Under IAS 17, all of the Group's leased assets at 31 December 2018 were classified as operating leases, as substantially all of the risks and rewards incidental to ownership of the leased assets were not transferred to the Group. Therefore, all lease payments were recognised as an expense in the income statement. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except short-term leases and low value leased assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

From 1 January 2019, the Group recognises right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and low value leased assets. The Group has applied the modified approach of the standard, so for all leases already in place at 1 January 2019, it has applied IFRS 16 as if the lease started on this date, with the asset and liability being equal on day one and therefore there is no impact on opening reserves or prior year comparatives.

The lease liability is initially measured at the present value of future lease payments, discounted using the incremental borrowing rate.

The Group has applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemption to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The financial impact of adopting this accounting standard has resulted in the recognition of a £5.4m asset and corresponding liability at 1 January 2019.

A reconciliation from the future operating lease commitments disclosed in the 2018 Annual Report and Accounts to the lease liability recognised on 1 January 2019 is shown below.

	1 January 2019 Unaudited £m
Operating lease commitments disclosed as at 31 December 2018	6.5
Weighted average incremental borrowing rate as at 1 January 2019	1.75%
Discounted operating lease commitments at 1 January 2019	5.7
Less leases recognised as short-term under the practical expedient under IFRS 16	(0.1)
Less contracts reassessed as service agreements	(0.2)
Lease liability recognised at 1 January 2019	**5.4**

The recognised right-of-use assets relate to the following types of assets.

	30 June 2019 Unaudited £m	**1 January 2019 Unaudited £m**
Properties	5.0	4.8
Equipment	0.3	0.3
Motor vehicles	0.2	0.3
Total right-of-use assets	**5.5**	**5.4**

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 16 and within the Risk Management Report starting on page 25 of the 2018 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 2018 Annual Reports and Accounts. Charles Roe was appointed to the Board as an Executive Director in January 2019. Jane Kibbey retired at the AGM in April 2019. Following Jane's retirement, Andrew Neden was appointed as Senior Independent Director and Vice Chairman.

Signed on behalf of the Board by

David Marlow
Chief Executive

Daniel Mundy
Finance Director

24 July 2019

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 2019 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 and Equity, 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 company 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 half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Society are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly 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 (UK and Ireland) 2410, "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 consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be 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 condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
Leeds

24 July 2019

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 2018 has been extracted from the Annual Report and Accounts for that year. The Annual Report and Accounts for the year ended 31 December 2018 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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